



# **Central Bank of Nigeria**

## **Rule Book**

**(A Compendium of Policies and  
Regulations)**

# **Volume Three**

## Foreword

This second Volume of the Central Bank of Nigeria (CBN) Rule Book, representing a **compendium of CBN Policies and Regulations**, complements the content in the first edition, to cover other areas of the Banks operations to enhance usability by all stakeholders. I am therefore, delighted to once again, present it in continuation of our commitment to making all banking and other financial institutions policies, rules, circulars, guidelines and regulations, to advance transparency in the communication of monetary measures and actions to influence the direction of economic activities at various times.

The policies of the Bank usually combine with fiscal measures of government to effectively impact the broad macro-economic objectives within a short, medium or long-term horizon. Thus, under the various phases of economic development, the Bank's operations, oversight and policy formulation and implementation had evolved as well, from its formative years through control by the fiscal authorities to the present level of monetary policy independence.

The Policies and Regulations contained here, therefore, reflect those measures taken at the various times in the history of the Bank, from its inception to end-December 2018, in respect of those activities not covered in Volume One.

I expect these publications to remain invaluable reference materials for posterity.

**Godwin I. Emefiele, CON**

Governor,

Central Bank of Nigeria

September 2019

## Preface

In furtherance of the first Volume of CBN Policies and Regulations, this second Volume provides for the remainder of banks and other financial institutions policies not covered in the former.

This Volume II therefore, has **four Sections providing policy directives on (a) financial policy and regulation; (b) monetary policy; (c) other financial institutions supervision; and (d) trade and exchange.**

The first Volume covered six Sections: A, B, C, D, E and F. Section A enlisted already published policy documents in circulation for reference as: "Trade and Exchange Circulars" from 1986 (Volume 1) to 2011 (Volume 10); "Handbook of Rules and Regulations for Banks and Discount Houses in Nigeria (1997 – 2012)"; "Compendium of Monetary, Credit, Foreign Trade and Exchange Policy Guidelines: Monetary Policy Circulars, Numbers 1 to 40 (1959 – 2015)"; "Compendium of Monetary Policy Communiques, Numbers 1 to 104 (2001 – 2015)"; and, the "Monetary, Credit, Foreign Trade and Exchange Policy Guidelines for Fiscal Years 2016/2017", and "2018/2019". Section B, on the other hand, provided the Bank's policies on banking and payment system, while Sections C, D, E and F presented guiding policies on banking supervision, consumer protection, development finance and financial markets, respectively.

This second Volume of CBN Policies and Regulations, therefore, when combined with the first Volume presents the first comprehensive compendium of financial markets related policies and regulations by the Bank, from its inception (July 1, 1959) to the end-year 2018.

**Dr. Okwu J. Nnanna**

Deputy Governor, Economic Policy

September 2019

## **Acknowledgements**

I wish to strongly acknowledge the favourable disposition of both the Governor, Central Bank of Nigeria, Mr. Godwin I. Emefiele, CON, and the Deputy Governor, Economic Policy, Dr. Okwu Joseph Nnanna, who have demonstrated immeasurable commitment to actualizing the publication of a comprehensive compendium of CBN Policies and Regulations, evidenced by this edition of Volume II. I am grateful to you both, for the support and sponsorship.

I also commend my colleagues who have relentlessly devoted considerable time in ensuring the quality of this publication. In particular, I wish to mention the Directors of Banking Services, Mr. Dipo Fatokun, Banking Supervision, Mr. Abdullahi Ahmed, Consumer Protection, Mr. Kofo Salam-Alada, Development Finance, Dr. Mudashir Olaitan, Financial Policy and regulations, Mr. Kelvin Amugo, Monetary Policy, Mr. Moses K. Tule, Other Financial Institutions Supervision, Mrs. Tokunbo A. Martins, Payments System Management, Mr. Samuel C. Okojere and Trade and Exchange, Mr. Ahmed B. Umar, for their contributions.

It is my profound pleasure to also acknowledge members of the Secretariat for the Committee, comprising Mr. Demenongu J. Yanfa, Deputy Director, as the Team-lead, Mrs. Pauline C. Obikaonu, Mrs. Fatimah Sani Bala, Ms. Amina M. Adamu, Abubakar, Aliyu, Mr. Nnamdi Anyene and Ms. Nkiruka Okwubodu for tirelessly ensuring that the second Volume of the Publication was delivered in record time. More so, I appreciate the various roles by other members of the Committee from the stakeholder Departments of the Bank, who participated in the exercise.

**Dr. (Mrs.) Angela A. Sere-Ejembi**

Director, Financial Markets Department

September 2019

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137	TED/FEM/FPC/GE N/01/005	Re: Guidelines For The Operation Of The Foreign Exchange Market - Retail Dutch Auction System (RDAS)	31-Jan-2014	Review	1,141
138	TED/FEM/FPC/GE N/01/004	Developments in the Foreign Exchange Market: Foreign Exchange sales to Bureau De Change (BDC) Operators by Banks	24-Jan-2014	New	1,142

139	TED/FEM/FPC/GE N/01/003	Re: Fiscal Policy Measures For Automotive Industry	20-Jan-2014	Review	1,143
140	TED/FEM/FPC/GE N/01/20	Developments in the Foreign Exchange Market	28-Nov-2013	New	1,145
141	TED/FEM/FPC/GE N/01/016	Re: Transactions in "Free Funds" by Authorised Dealers	14-Nov-2013	Review	1,149
142	TED/FEM/FPC/GE N/01/009	Developments in the Foreign Exchange Market	26-Sept-2013	New	1,150
143	TED/FEM/FPC/GE N/01/008	New Standards Organisation of Nigeria Conformity Assessment Programme (SONCAP)	30-Jul-2013	New	1,157
144	TED/FEM/FPC/GE N/01/007	Re: Extension of Contract for Pre-shipment Inspection of Oil & Gas and Monitoring Agents	25-Jul-2013	Review	1,159
145	TED/FEM/FPC/01/ 006	Re: Extension of Destination Inspection Scheme for Imports and Appointment of Inspection Agents	17-Jun-2013	Review	1,161
146	TED/FEM/FPC/GE N/01/004	Uncollected Risk Assessment Report (RAR)	19-Apr-2013	New	1,164
147	TED/FEM/FPC/GE N/01/003	Self-Submission of e-Form 'M' by Importers/Traders	22-Mar-2013	Review	1,166
148	TED/PFO/FPC/GE N/01/002	Introduction of Fee Charge on e-Form 'M'	21-Mar-2013	New	1,167
149	TED/FEM/FPC/GE N/01/42	Re: European Investment Bank's (EIB) Investments In Nigerian Banks For Period January 2008 To December	28-Jan-2013	Review	1,168

		2012			
150	TED/FEM/FPC/GE N/01/041	Revocation of Operating License of 236 BDCs	15-Jan-2013	New	1,169
151	TED/FEM/FPC/GE N/01/34	Automation of FOREX Forms on the Trade Monitoring System (Single Window System for Trade)	07-Dec-2012	New	1,176
152	TED/FEM/FPC/GE N/01/031	Automation of FOREX Forms on the Trade Monitoring System (Single Window System for Trade)	21-Nov-2012	New	1,178
153	TED/FEM/FPC/GE N/01/023	Re: Revised Specification for Galvanised Corrugated Steel Sheets - NIS 180:2012 and Profile Aluminum Roofing Sheets - NIS 488:2012	12-Oct-2012	Review	1,180
154	TED/FEM/FPC/GE N/01/022	Request For Source Of Foreign Exchange For Transactions On Naira Cards For The Period 2010 To 2011	26-Sep-2012	New	1,181
155	TED/FEM/FPC/GE N/01/019	Request for Data on Wheat Importation for the Year 2011	26-Jul-2012	New	1,183
156	TED/FEM/FPC/GE N/01/018	Reduction of Foreign Exchange Net Open Position (NOP) Limit of Banks	24-Jul-2012	New	1,185
157	TED/FEM/FPC/GE N/01/016	Utilization of Funds Purchased From CBN (WDAS) Window	05-Jul-2012	New	1,186
158	TED/FEM/FPC/GE N/01/017	Foreign Exchange Cash Sales to Licensed Bureaux de Change by the CBN	04-Jul-2012	New	1,187
159	TED/FEM/FPC/GE M/01/014	Certificate of Capital Importation (CCI) Issuing Process for Inflow in Respect	22-Jun-2012	New	1,188

		of Securities Lending			
160	TED/FEM/FPC/GE M/01/013	Foreign Loan Repayment From The Nigerian Foreign Exchange Market	18-May-2012	New	1,192
161	TED/FEM/FPC/GE N/01/012	Re: Appointment of Pre- Shipment Inspection Agents and Monitoring Agents for Nigerian Export Supervision Scheme (NESS) and the Review of NESS Levy for Oil and Gas Export	04-May-2012	Review	1,193
162	TED/FEM/FPC/GE N/01/011	Request for Information on Foreign Airlines Remittances for the Period 1999 to 2011	26-Apr-2012	New	1,195
163	TED/FEM/FPC/GE N/01/010	Request for Information on Wheat Importation for the Period 2009 to Date	10-Apr-2012	New	1,197
164	TED/FEM/FPC/GE N/01/009	Re: Liberalization of Unconfirmed Letters of Credit	02-Apr-2012	Review	1,199
165	TED/FEM/FPC/GE N/01/007	Foreign Exchange Cash Sales to Licenced BDCs By the CBN	15-Mar-2012	New	1,200
166	TED/FEM/FPC/GE N/01/006	Request for Information/Data on Letters of Credit-Petroleum Products Importation for the Period 2006-2011	15-Mar-2012	New	1,201
167	TED/FEM/FPC/GE N/01/005	Fiscal Policy Measures 2012	20-Feb-2012	New	1,204
168	TED/FEM/FPC/GE N/01/003	Connectivity Between CBN and External Stakeholders	20-Jan-2012	New	1,206
169	TED/FEM/FPC/GE N/01/004	RE: Request for Information on Petroleum Products Importation for the Period 2006 and 2007	20-Jan-2012	Review	1,216







**CENTRAL BANK OF NIGERIA'S ANTI-MONEY LAUNDERING/  
COMBATING THE FINANCING OF TERRORISM (AML/CFT)  
RISK BASED SUPERVISION (RBS) FRAMEWORK, 2011**

List of	<b>1.0.</b>	ACH	Automated Clearing House
Abbreviation		ACSRT	African Centre for the Study and Research on Terrorism
s.		AML	Anti-Money Laundering
		APT	Asset Protection Trust
		ATM	Automated Teller Machine
		BCBS	Basel Committee on Banking Supervision
		BHC	Bank Holding Company
		BIS	Bank for International Settlements
		CAC	Corporate Affairs Commission
		CBN	Central Bank of Nigeria
		CCO	Chief Compliance Officer
		CDD	Customer Due Diligence
		CEMA	Customs and Excise Management Act
		CHIPS	Clearing House Interbank Payments System
		CIF CIP	Customer Information File Customer Identification Program
		CTR	Currency Transaction Report
		DCN	Document Control Number
		DNFBPs	Designated Non-Financial Institutions, Businesses and Professions
		DNFI	Designated Non-Financial Institutions
		DSS	Department of State Security Services
		E-banking	Electronic Banking
		E-cash	Electronic Cash
		EDD	Enhanced Due Diligence
		EFCC	Economic and Financial Crimes Commission
		EFT	Electronic Funds Transfer
		EIC	Examiner in charge
		EIN	Employer Identification Number
		EPN FAQ	Electronic Payments Network Frequently Asked Question
		FATF	Financial Action Task Force
		FI	Financial Institution
		FIHC	Financial Institution's Holding Companies
		FIL	Financial Institution Letter
		FinCEN	Financial Crimes Enforcement Network

FIRS	Federal Inland Revenue Service
FMTI	Federal Ministry of Trade and Investment
GO	Gateway Operator
HIFCA	High Intensity Financial Crime Area
IAIS	International Association of Insurance Supervisors
IACHT	International Automated Clearing House
IBC	Transaction
ICPC	International Business Corporation
IMF	Independent Corrupt Practices Commission
INCSR	International Monetary Fund
IOLTA	International Narcotics Control Strategy Report
	Interest on Lawyers' Trust Account
IP	Internet Protocol
IRA	Individual Retirement Account
ISO	Independent Sales Organization
ITIN	Individual Tax Identification Number
IVTS	Informal Value Transfer System
KYC	Know Your Customer
LEAs	Law Enforcement Agencies
LFN	Laws of the Federation of Nigeria
MIS	Management Information Systems
ML/FT	Money Laundering and Financing of Terrorism
MLPA	Money Laundering (Prohibition) Act of 2011
MSBs	Money Services Businesses
NACHA	Nigerian Automated Clearing House Association
NEPA	Nigerian Electronic Payments Association
NAICOM	National Insurance Commission
NBFI	Non-Bank Financial Institutions
NCCT	Non-Cooperative Countries and Territories
NCS	Nigeria Customs Service
NDIC	Nigeria Deposit Insurance Corporation
NDIP	Non-Deposit Investment Products
NDLEA	National Drug Law Enforcement Agency
NFIU	Nigerian Financial Intelligence Unit
NFP	National Focal Point
NFPT	National Focal Point on Terrorism

NGO	Non-Governmental Organization
NIBSS	Nigerian Inter-Bank Settlement System
NSF	Non-Sufficient Funds
ODFI	Originating Depository Financial Institution
OFAC	Office Of Foreign Assets Control
OFCs	Offshore Financial Centres
PEP	Politically Exposed Person
PIC	Private Investment Company
POS	Point-of-Sale
PTA	Payable Through Account
PUPID	Payable Upon Proper Identification
RA	Regulatory Alerts
RBS	Risk Based Supervision
RCC	Remotely Created Cheque
RCCs	Remotely Created Cheques
RDC	Remote Deposit Capture
RDFI	Receiving Depository Financial Institution
RTGS	Real Time Gross Settlement System
SCUML	Special Control Unit on Money Laundering
SDN	Specially Designated Nationals
SEC	Securities and Exchange Commission
SOD	Summary of Deposits
STR	Suspicious Transaction Report
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TIN	Tax Identification Number
TPSP	Third-Party Service Provider
UBPR	Uniform Bank Performance Report
USA PATRIOT	Uniting and Strengthening America by Providing Appropriate Act Tools Required to Intercept and Obstruct Terrorism Act of 2001
VIS	Voluntary Information Sharing
Web CBRS	Web Currency and Banking Retrieval System

**2.0.** The Money Laundering (Prohibition) Act, 2011 (MLPA), Terrorism (Prevention) Act, 2011, Central Bank of Nigeria Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) Regulation, 2009 (as amended) and other AML/CFT Guidelines provide guidance to Bank Examiners to carry out AML/CFT risk-based supervision (RBS), regulation and examination of banks and other financial institutions under the regulatory purview of the CBN. As effective AML/CFT Compliance Program requires sound risk management, this AML/CFT RBS Framework provides guidance on identifying and controlling risks associated with money laundering and terrorist financing.

Introduction.  
Structure of  
Framework

The Framework therefore contains an overview of AML/CFT compliance program requirements, money laundering and terrorist financing risks, risk management expectations, industry sound practices and examination procedures. The purpose of developing this Framework is to ensure consistency in the application of the AML/CFT requirements.

In order to effectively apply resources and ensure compliance with the requirements of the relevant laws and regulations, the Framework is structured to allow Bank Examiners to tailor the scope of their AML/CFT examination and procedures to the specific risk profile of the financial institution. The Framework consists of AML/CFT RBS Manual for Bank Examiners' Procedures and AML/ CFT RBS Regulation for Financial Institutions to guide AML/CFT operations in financial institutions under the CBN supervision. It complements the CBN AML/ CFT Regulation, 2009 (as amended). The Framework contains the following sections :

- (i) List of Abbreviations ;
- (ii) Introduction ;
- (iii) Bank Examiners' AML/CFT RBS Manual ;
- (iv) Risk Rating Methodology ;

- (v) AML/CFT RBS Regulation for Financial Institutions ;(vi) List of Abbreviations and Glossary ; and
- (vi) Appendices.

At a minimum, Bank Examiners are required to use the following examination procedures to ensure that the financial institution has an adequate AML/CFT Compliance Program which is commensurate with its risk profile :

- (i) Scoping and Planning ;
- (ii) ML/FT Risk Assessment ;
- (iii) AML/CFT Compliance Program ; and
- (iv) Developing Conclusions and Finalizing the Examination.

The Bank Examiner is required to have a good overview of the examination procedures to assist him examine a financial institution's policies, procedures and processes in order to ensure compliance with sanctions imposed by CBN, Nigeria Deposit Insurance Corporation (NDIC), Nigerian Financial Intelligence Unit (NFIU) and other regulatory bodies. As part of the scoping and planning procedures, Bank Examiners are also required to review the financial institution's risk assessment and independent testing in order to determine the extent to which a review of the institution's compliance program should be carried out during the examination.

The expanded sections address specific lines of business, products, customers or entities that may present unique challenges and exposures for which the institution should institute appropriate policies, procedures and processes. It should be noted here that the absence of appropriate controls in these lines of business, products, customers or entities could elevate money laundering risks. Such sections also provide guidance on AML/CFT Compliance Program structures and management.

Bank Examiner should be aware that all the examination procedures contained in this Framework may not be applicable to every financial institution. The specific examination procedures that need to be performed will therefore depend on the money laundering risk profile of the institution, the quality & history of compliance with MLPA 2011, CBN AML/CFT Regulation, 2009 (as amended) and quantity of independent testing and other relevant factors.

Background. MLPA, 2011 and CBN AML/CFT Regulation, 2009 (as amended) establish the requirements for record-keeping and reporting by designated non-financial institutions, businesses and professions, banks and other financial

institutions. Relevant provisions of the law and regulation above were designed to help identify the source, volume and movement of currency and other monetary instruments transported or transmitted into or out of Nigeria, or deposited in financial institutions in the country.

The enabling Act and Regulation under reference seek to achieve the above objective by requiring individuals, banks and other financial institutions to render suspicious transaction reports (STRs) to Nigerian Financial Intelligence Unit (NFIU) only, properly identify persons conducting transactions and maintain a paper trail by keeping appropriate records of their financial transactions. Should the need arise, these records will enable law enforcement and regulatory agencies to pursue investigations of criminal, tax & regulatory violations, and provide useful evidence in prosecuting money laundering and other financial crimes.

The MLPA, 2011 and CBN AML/CFT Regulation, 2009 (as amended) apply equally to all banks, other financial institutions and persons that are under the regulatory purview of the CBN. The law also imposes criminal liability on a person or financial institution that knowingly assists in the laundering of money or fails to report suspicious transactions conducted through it. The CBN Regulation also directs financial institutions to establish and maintain procedures reasonably designed to ensure and monitor compliance with the reporting and record-keeping requirements of the MLPA, 2011.

<p>A financial institution is required to render a Suspicious Transaction Report (STR) to NFIU only and inform the Unit of same whenever it detects a known or suspected criminal violation of MLPA or a suspicious transaction related to money laundering and terrorism financing activities or a violation of other laws and regulations.</p>	<p>Suspicious Transaction Report. Provisions of MLPA and CBN</p>
<p>The EFCC Act 2004 and Terrorism (Prevention) Act, 2011 criminalize the financing of terrorism. CBN AML/CFT Regulation, 2009 (as amended) has also augmented the existing AML/CFT legal framework by strengthening customer identification procedures, prohibiting financial institutions from engaging in business with foreign shell banks, requiring financial institutions to have due diligence procedures, (in some cases) have Enhanced Due Diligence (EDD) Procedures for foreign correspondent and private banking accounts</p>	<p>AML/CFT Regulation. Role of Government Agencies in the MLPA 2011 and AML/CFT</p>



and improve information sharing between financial institutions on one hand, and the law enforcement agencies (LEAs) and regulators on the other.

Regulation,  
2009 (as  
amended).  
Central Bank  
of Nigeria.

Provisions of MLPA and CBN AML/CFT Regulation :

- (i) Require financial institutions to have AML/CFT Program ;
- (ii) Provide for civil and criminal penalties for money laundering ;
- (iii) Provide the CBN with the authority to impose sanctions for AML/CFT infractions committed by institutions and persons in the course of transactions ;
- (iv) Facilitate access to records and require financial institutions to give prompt response to regulatory requests for information ; and
- (v) Require financial institutions to consider their AML/CFT records when reviewing mergers, acquisitions and other applications for business combinations.

Certain government agencies play a critical role in implementing AML/ CFT Regulations, developing examination guidance, ensuring compliance with and enforcement of the MLPA in the country. These agencies include the CBN/ NDIC, EFCC/NFIU, Federal Ministry of Trade and Investment, Nigeria Custom Service, etc.

There is no financial institution in Nigeria that is currently and temporarily exempted from the requirements of the law and regulation to establish an AML/ CFT Program. All government bodies in the country are therefore required to support the fight against money laundering and terrorist financing.

The law and regulation on AML/CFT authorize the CBN to require financial institutions to establish AML Programs, file certain reports and keep certain records of transactions. The relevant provisions have been extended to cover not only traditional deposit money banks but other financial institutions such as discount houses, micro-finance banks, finance houses, bureau de change, operators of credit card systems, etc. under regulatory purview of the CBN, including their foreign branches, affiliates and subsidiaries.

The CBN, NFIU, SEC and NAICOM are required to collaborate among themselves to carry out consolidated AML/CFT supervision/examination, carry out oversight and enforcement functions of regulated institutions in order to eliminate any arbitrages. These regulatory agencies are empowered to use their authority to enforce compliance with appropriate banking rules and regulations, including compliance with the MLPA, 2011.

Nigerian Financial Intelligence Unit. Federal Ministry of Trade and Investment. Special Control Unit against Money Laundering (SCUML). The NFIU was established by sections 1(2) and 12(2) of the EFCC Act, 2004. The Unit is responsible for the receipt, analysis and dissemination of Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs). NFIU is an autonomous body residing in Economic and Financial Crimes Commission (EFCC). It interprets AML/CFT guidance issued, provides outreach to regulated institutions on rendition of returns, supports (by way of collaboration) the AML/CFT examination functions performed by regulatory agencies such as CBN, SEC, NAICOM, etc. NFIU's other significant responsibilities include providing intelligence information to support cases investigated by the Law Enforcement Agencies (LEAs), identifying and communicating financial crime trends and patterns to the stakeholders and fostering international cooperation with its counterparts worldwide.

The Federal Ministry of Trade and Investment is the competent supervisory authority for designated non-financial institutions (DNFIs), which include casinos, real estate agents, dealers in precious stones, and the legal and accounting professions. The DNFIs were not regulated for AML/CFT measures before the enactment of the MLPA, 2011. Sections 3,4,5,7,9 and 25 of the MLPA, 2011 have, however, expanded the definition of reporting entities to include DNFIs.

Sections 4 and 5 of MLPA, 2011 empower the Ministry to monitor all DNFIs in Nigeria and ensure appropriate compliance with AML/CFT requirements. Under section 5(6) of the MLPA, the Ministry can impose sanctions on defaulting DNFIs. The supervisory functions of the Ministry are conducted through the Special Control Unit on Money Laundering (SCUML). Section 7(2) of the EFCC Act, 2004 empowers the commission to prosecute any designated non-financial institution for any breach of the MLPA.

SCUML was established in September, 2005 by Decision No EC (2005) 286 of the Federal Executive Council (FEC) as a specialized Unit of the then Federal Ministry of Commerce (FMC) with the responsibility to supervise DNFI in Nigeria. Consequently, SCUML was mandated to monitor, supervise and regulate the activities of all DNFI. The Federal Ministry of Trade and Investment in implementation of the relevant sections of MLPA, 2011 has developed the Ministry/SCUML Register for all casinos in Nigeria. The number of officially known casinos is not significant in size as compared with the number of small 'underground' ones.

In addition to measures taken to prevent criminals or their associates from holding controlling interests in casinos business, the Nigerian authorities have also ensured that beneficiary owners of casinos are 'fit and proper' by the regulation and monitoring framework put in place by the Ministry/SCUML.

The Commission is responsible for providing regulatory/supervisory oversight in the Nigerian insurance industry. It regulates, supervises, controls and ensures effective administration of regulated entities in the insurance sector. NAICOM is guided in its supervisory responsibilities by the National Insurance Commission Act (as amended), the Insurance Industry Policy Guidelines, 2005, Know Your Customer Guidelines for Insurance Institutions. Institutions operating in the Nigerian insurance sector are registered by NAICOM by Sections 3, 4, 36 and 45 of the Insurance Act 2003.

The National Insurance Commission (NAICOM).

The Securities and Exchange Commission (SEC).

SEC is the apex regulatory and supervisory authority of the Nigerian capital market. The Investment and Securities Act (ISA) 2007, in section 15, grants the SEC powers to regulate investments and securities in Nigeria, protect the integrity of the securities market against abuses arising from activities of the operators and prevent fraudulent and unfair trade practices in the securities industry. SEC applies ISA 13A, 2007 and SEC Rules and Regulations, 2000 (as amended) in the performance of its regulatory and supervisory functions.

The Nigeria Customs Service (NCS).

The Customs and Excise Management Act (CEMA), CAP 84 (LFN 1990) established the Nigeria Customs Service (NCS). The Nigeria Customs

The Nigeria Deposit Insurance

Service is charged with the duty of controlling and managing the administration of the Customs and Excise laws. The NCS collects the revenue of Customs and Excise and accounts for same in such manner as provided for by the relevant legislation. Section 2 of MLPA, 2011 empowers NSC to report declaration in respect of information on the cross border transportation of cash or negotiable instrument in excess of US\$10,000 or its equivalent by individuals in and out of the country to the CBN and EFCC.

Corporation (NDIC).

The National Focal Point (NFP).

The NDIC was established in 1989 with the promulgation of Decree No. 22 of 1988. The Corporation insures all deposit liabilities of licensed banks and other relevant financial institutions to engender confidence in the Nigerian banking system. It gives assistance to insured deposit-taking financial institutions in the interest of depositors in case of imminent or actual financial difficulties, particularly where suspension of payments is threatened, thereby avoiding damage to public confidence in the banking system.

It guarantees payments to depositors, in case of imminent or actual suspension of payments by insured institutions up to the maximum amount provided for in the enabling law. The Corporation assists monetary authorities in the formulation and implementation of policies to ensure sound banking practice and fair competition among insured institutions in the country. It also pursues any other measures necessary to achieve its functions, provided such measures and actions are not repugnant to its objects.

NDIC Examiners have powers to examine periodically, and under conditions of secrecy, the books and affairs of every insured institution, a right of access at all times to the books, accounts and vouchers of the insured institution, among other things.

In realization of the African Union's Plan of Action made in 2002 in Algiers, the 53 (fifty-three) member nations of the Union were required to establish a forum to facilitate timely exchange and sharing of ideas and intelligence in combating terrorism within the continent. This led to the establishment of the African Centre for the Study and Research on Terrorism (ACSRT).

Member countries were also mandated to establish National Focal Points on Terrorism (NFPT). In compliance, the Nigerian government established the National Focal Point (NFP) coordinated by the Department of State Services (DSS). The National Focal Point membership is drawn from several stakeholder government ministries, departments and agencies.

The activities of the National Focal Point include :

- (i) Conducting research and analysis on terrorism-related matters in order to provide prompt and proactive response to terrorist threats ;
- (ii) Collation, integration and preparation of input provided by intelligence services with a view to advising the relevant authorities on counter terrorism policies ;
- (iii) Identifying, penetrating and monitoring of extremist/ fundamentalist groups and suspected NGOs with a view to intercepting the recruitment process of terrorists ;
- (iv) Implementation of all policies on counter terrorism and its financing by monitoring the activities of financial institutions ;
- (v) Developing and maintenance of a national repository data-base on terrorist groups ;
- (vi) Maintaining and updating of data-base on the movement and activities of passengers from risk countries ;
- (vii) Maintenance of security watch-list on individuals and groups ; and
- (viii) Maintenance of close watch and regulation of the use of explosives in liaison with relevant government agencies or parastatals.

Overview of AML/CFT Regime of the Regulatory/Supervisory Agencies in the Financial Sector. The regulatory and supervisory agencies are responsible for the oversight of the various financial institutions operating in Nigeria, including foreign-owned subsidiaries of Nigerian banks and other financial institutions. The Corporate Affairs Commission (CAC) is charged with the registration of banks and other financial institutions while the CBN is responsible for licensing them. The licensed institutions are jointly supervised by the CBN and NDIC. SEC and the Financial NAICOM license the capital market operators and insurance businesses respectively. The enabling statutes of these regulators require them to review the AML/CFT Compliance Program at each examination of the regulated institutions.

They are also required to use the authority granted them under their Acts to enforce compliance with appropriate rules and regulations, including compliance with AML/CFT regulations.

These agencies require each institution under their supervisory purview to establish and maintain AML/CFT Compliance Program. The program guards against money laundering and terrorist financing transactions and ensures compliance with and implementation of money laundering laws and regulations.

Financial institutions are required to take reasonable and prudent steps to combat money laundering and terrorist financing and minimize their vulnerability to the risk associated with such activities.

Some financial institutions have damaged their reputations and have been required to pay civil financial penalties for failing to implement adequate controls within their institutions as a result of non-compliance with the MLPA 2011 and AML/CFT Regulation, 2009 (as amended). In addition, AML/CFT assessment is also required as part of application process, since such AML/CFT concerns will have an impact on the financial institution's strategic plan. For this reason, it is the regulatory agencies' high supervisory priority to provide guidance that assists the regulated institutions in complying with the MLPA 2011 and AML/CFT Regulation (as amended).

The regulatory agencies are required to ensure that the institutions they supervise understand the importance of having an effective AML/CFT Compliance Program in place. Managements of the regulated institutions are also required to be vigilant and ensure that they have AML/CFT Compliance Program, especially as business grows and new products and services are introduced. To this end, an evaluation of the institution's AML/CFT Compliance Program and its compliance with the regulatory requirements of the AML/CFT Regulation must be made an integral part of the supervisory process.

As part of a strong AML/CFT compliance program, the regulatory agencies are required to ensure that a financial institution has policies, procedures and processes to identify and report suspicious transactions to NFIU only. The Bank Examiners' supervisory processes are required to assess whether the financial institution has established the appropriate policies, procedures and processes

based on its money laundering risk in order to identify and report suspicious transaction and that the AML/CFT reports produced provide sufficient details to the law enforcement agencies to make such reports useful for further investigation. The regulatory authorities have specific powers to impose controls on transactions and freeze assets held within Nigerian jurisdiction. Many of such sanctions are based on United Nations and other international mandates. They are multilateral in scope and involve close cooperation with allied governments and the financial institutions concerned.

The MLPA 2011, TPA, 2011 and AML/CFT Regulation, 2009 (as amended) are intended to safeguard Nigerian financial system and the financial institutions that make up the system from the abuses of financial crime, including money laundering, terrorist financing and other illicit financial transactions. Money laundering and terrorist financing are financial crimes with potentially devastating social and financial effects to the Nigerian and world economy.

Money  
Laundering  
and Terrorist  
Financing.

From the profits of the narcotics-trafficker to the assets looted from government coffers by dishonest foreign and local officials, criminal proceeds have the power to corrupt and ultimately destabilize communities or entire economy. Terrorist networks are able to facilitate their activities if they have financial means and access to the financial system. In both money laundering and terrorist financing, criminals can exploit loopholes and other weaknesses in the legitimate financial system to launder criminal proceeds, finance terrorism or conduct other illegal activities in order to ultimately hide the actual purpose of their activity.

Financial institutions are therefore required to develop, implement and maintain effective AML/ CFT Programs that address the ever-changing strategies of money launderers and terrorists who attempt to gain access to the Nigerian financial system. A sound AML/CFT Compliance Program is critical in deterring and preventing these types of activities at or through banks and other financial institutions.

Money Money laundering is the criminal practice of processing ill-gotten gains or Laundering. dirty money through series of transactions. In this way, the funds are cleaned so that they appear to be proceeds from legal activities. Money laundering generally does not involve currency at every stage of the laundering

process. Although money laundering is a diverse and often complex process, it basically involves the following three independent steps that can occur simultaneously :

### **Placement**

The first and most vulnerable stage of laundering money is placement. The goal is to introduce the unlawful proceeds into the financial system without attracting attention of the financial institution or law enforcement agencies. Placement techniques include structuring currency deposits in small amounts in order to evade reporting requirements or commingling currency deposits of legal and illegal enterprises. An example may include: dividing large amounts of currency into less-conspicuous smaller sums that are deposited directly into a bank account, depositing a refund cheque from a cancelled vacation package, insurance policy or purchasing a series of monetary instruments (e.g. cashier's cheques or money orders) that are then collected and deposited into accounts at another location or financial institution.

### **Layering**

The second stage of the money laundering process is layering and this involves moving funds around the financial system, often in a complex series of transactions to create confusion and complicate the paper trail. Examples of layering include exchanging monetary instruments for larger or smaller amounts, or wiring or transferring funds to and through numerous accounts in one or more financial institutions.

### **Integration**

The ultimate goal of the money laundering process is integration. Once the funds are in the financial system, they are insulated through the layering stage. The integration stage is used to create the appearance of legality through additional transactions. These transactions further shield the criminal from a recorded connection to the funds by providing a plausible explanation for the source of the funds. Examples include the purchase and resale of real estate, investment securities, foreign trusts or other assets.



Nigeria enacted a stand-alone law called Terrorism (Prevention) Act, 2011 that criminalises the act of terrorism and its financing.

The motivation behind terrorist financing is ideological as opposed to profitseeking. The latter is generally the motivation for most crimes associated with money laundering. Terrorism is intended to intimidate a population or to compel a government or an international organization to do or abstain from doing any specific act through the threat of violence. An ineffective AML/CFT controls in financial infrastructure could be readily exploited to the advantage of the terrorist financier(s).

Terrorist groups develop sources of funding that are relatively mobile to ensure that funds can be used to obtain material and other logistical items needed to commit terrorist acts. Thus, money laundering is often a vital component of terrorist financing. Funding for terrorist attacks does not always require large sums of money and the associated transactions may not be complex.

Terrorists generally finance their activities through both unlawful and legitimate sources. Unlawful activities such as extortion, kidnapping and narcotics trafficking have been found to be a major source of funding. Other observed activities include smuggling, fraud, theft, robbery, identity theft, use of conflict diamonds and improper use of charitable or relief funds.

In the case of charitable or relief funds, donors may have no knowledge that their donations have been diverted to support terrorist causes. Other legitimate sources found to provide terrorist organizations with funding include foreign government sponsors, business ownership and personal employment. These legitimate funding sources make the key difference between the financiers of terrorists and traditional money launderers.

Although the motivation differs between traditional money launderers and terrorist financiers, the actual methods used to fund terrorist operations can be the same as or similar to those methods used by

Terrorist Financing. Criminal Penalties for Money Laundering/ Terrorist Financing, and Violations of the MLPA and AML/ CFT Regulation.

other criminals that launder funds. For example, terrorist financiers can use currency smuggling, structured deposits or withdrawals from bank accounts; purchase various types of monetary instruments such as credit, debit, or prepaid cards and make funds transfers.

There is also evidence that some forms of informal banking (e.g. hawala) have played a role in moving terrorist funds. Transactions through hawalas are difficult to detect given the lack of documentation, size and nature of the transactions involved.

Penalties for money laundering and terrorist financing can be severe. A person convicted of money laundering will serve certain terms of imprisonment as provided for in the relevant sections of the MLPA 2011 and pay financial penalties as provided for in the law and AML/CFT Regulation, 2009 (as amended). Any property involved in a transaction or traceable to the proceeds of the criminal activity, including property such as loan collateral, personal property (under certain conditions) entire bank accounts (even if some of the money in the account is legitimate) may be subject to forfeiture as provided for in the EFCC Act.

Pursuant to various statutes, banks, other financial institutions and individuals may incur criminal and civil liability for violating AML/CFT laws. For instance, the EFCC may bring criminal actions for money laundering that may include fines, imprisonment and forfeiture actions. In addition, banks and other financial institutions risk losing their licences, and their employees risk being removed and barred from further employment in the financial industry.

Moreover, there are penalties for wilful violations of the MLPA 2011 and AML/CFT Regulation, 2009 (as amended) for structuring transactions to evade the reporting threshold. For example, a person, including a bank employee, wilfully violating the MLPA or the AML/CFT Regulation is subject to a financial sanction or some term of imprisonment or both as provided for in the MLPA, 2011. A financial institution that violates certain provisions of MLPA and AML/CFT Regulation, 2009 (as amended) is subject to financial sanctions that must be published in its financial statements in line with section 27(2) of Banks and Other Financial Institutions Act (as amended) [BOFIA 2004].

Also, section 14 (1) of TPA, 2011 requires financial institutions or DNFI to, within a period of not more than 72 hours after transaction, forward STRs relating to terrorism to the NFIU which will analyse such information. The NFIU shall consequently forward the information to the LEA, where it has sufficient reasons to suspect that the funds: (a) are derived from legal or illegal sources but are intended to be used for any act of terrorism; (b) are proceeds of a crime related to terrorist financing and; (c) belong to a person, entity or organization considered as terrorist. Section 14 (3) of TPA, 2011 requires that the details of the STRs (relating to terrorism) forwarded to NFIU shall not be disclosed by the financial institutions, DNFI or any of their officers to any person. Section 14 (4) of TPA, 2011 stipulates that a person who violates section 14 (3) of TPA, 2011 is liable on conviction to a minimum fine of N5, 000, 000 or a term of imprisonment not exceeding 5 years. Furthermore, section 14 (5) of TPA, 2011 provides that where a violation of section 14 (1) occurs and it is shown that the violation is not deliberate, the NFIU shall impose such administrative sanctions as it may deem necessary and section 14 (6) of TPA, 2011 provides that where the institution continues with the violation, it shall, on conviction, be liable to a minimum fine of N5, 000, 000 or imprisonment for a maximum term of 5 years for the principal officers of the institution or the defaulting officer.

Civil Penalties for Violations of the MLPA, 2011 and AML/CFT Regulation, 2009 (as amended).

Pursuant to the relevant sections of their enabling statutes, the various regulatory agencies are empowered to bring administrative financial sanctions for violations of the MLPA, 2011. In addition to criminal and civil financial penalties imposed, individuals' appointments may be terminated in pursuant of section 1.18.1.4(b) of AML/CFT Regulation, MLPA, 2011 2009 (as amended) as long as the violation was intentional.

No financial institution or its officers shall benefit from violation of extant AML/CFT laws and regulations. Accordingly, incidence of false declaration, or false disclosure or non-declaration or non-disclosure in the returns rendered under the AML/CFT Regulation, 2009 (as amended) by a financial institution or its officers shall be subject to administrative review, criminal prosecution and sanction. While criminal cases will be referred to EFCC or other law enforcement agencies for prosecution, the offender will forfeit to the CBN any pecuniary benefit obtained as a result of the violation or breach.

The failure of any officer to follow his/her institution's internal procedure will be considered a serious misconduct, which will attract termination of appointment in line with section 48 (4) (5) and (6) of the Banks and Other Financial Institutions Act (BOFIA), 2004, and the offender shall be blacklisted from further employment in the financial services industry. In addition, the defaulting institutions will be made to bear the financial loss suffered by any victim of a financial crime. However, the amount of civil financial penalties for infraction still remains a maximum limit of N2 million per infraction until the provisions of sections 64 (1) and 65 (1) of the BOFIA, 2004 are amended, accordingly. The above sanctions are also applicable to violation of any provisions of this AML/CFT Risk-Based Supervision Framework.

### **3.0. AML/CFT RBS EXAMINATION PROCEDURES FOR BANK EXAMINERS**

#### **3.1. OBJECTIVE**

The objective of this exercise is to identify the financial institution's ML/FT Examination risks, develop the examination scope and document the plan. This process includes determining the number of staff required for the examination (staffing needs) and technical expertise and selecting examination procedures to adopt.

Procedure for Scoping and Planning.

#### **ACTIVITY**

In order to facilitate the Examiner's understanding of the financial institution's risk profile and to adequately establish the scope of AML/CFT examination, the Bank Examiner is required to carry out the following steps in conjunction with the review of the financial institution's ML/FT risk assessment:

Review prior examination or inspection reports or related section notes and management's responses to any previously identified MLPA 2011 and CBN AML Regulations issued. Identify the procedures adopted during a completed AML/CFT examination of the institution; identify, in the reports, the processes that the financial institution uses to detect suspicious transactions; identify previously noted higher-risk in the institution's operations. Review the previous recommendations for the next examination.

In addition, contact the appropriate management of the financial institution to discuss its :

- (i) AML/CFT Compliance Program ;
- (ii) ML/FT Risk Assessment ;
- (iii) Suspicious transaction monitoring and reporting systems ; and (iv) Level and extent of its AML/CFT systems and automation.

Bank Examiners are required to refer to the above topics in the appropriate sections on Overview and Examination Procedures in this Framework for guidance. Develop a list of MLPA and CBN AML/CFT Regulation items to be incorporated into the Integrated Examination Request Letter. Bank Examiners are required to send their request letter to the financial institution where the AML/ CFT examination is a stand-alone and to review the documents provided by the financial institution.

The Examiner should review the correspondence between the financial institution and its primary regulator, if not already completed by the Bank Examiner in charge or other dedicated examination personnel. In addition the examiner should review the correspondence that the financial institution or the primary regulators have received from or sent to outside regulatory and law enforcement agencies relating to AML/CFT compliance.

The Examiner should also review the STRs, PEPs and CTRs information obtained from AML/CFT reporting database. The number of STRs, PEPs and CTRs rendered should be obtained for a defined time period (cut off date) that covers the duration of the AML/CFT examination as determined by the Bank Examiner. Consider the above information and analyze the data for unusual patterns, considering the following :

- (i) Volume of activity and whether it is commensurate with the customer's occupation or type of business ;
- (ii) Number and Naira volume of transactions involving higher-risk customers ; and
- (iii) Volume of STRs and CTRs in relation to the financial institution's size, asset or deposit growth and geographic location. Bank Examiners should not criticize a financial institution solely because the number of STRs, PEPs or CTRs rendered is lower than STRs, PEPs or CTRs filed by peer institutions. However, as part of the examination, Bank Examiners must review

significant changes in the volume or nature of STRs, PEPs and CTRs rendered and assess potential/possible reasons for these changes.

Review internal and external audit reports and Examiner's previous section notes on the institution's AML/CFT compliance as necessary in order to determine the comprehensiveness and quality of audits, findings and management responses and corrective action. A review of the scope, procedures and qualifications of the independent audit report will provide valuable information on the adequacy of the AML/CFT Compliance Program.

Though the CBN AML/CFT Regulation, 2009 (as amended) is not part of the MLPA, 2011, evaluation of compliance with its provisions must be included in AML/CFT examinations. It is the primary role of the Bank Examiner to identify the violations of the various provisions of MLPA, 2011 and CBN AML/CFT Regulation 2009 (as amended) and to evaluate the sufficiency of the institution's implementation of policies, procedures and processes to ensure compliance with AML/CFT laws and regulations.

In order to facilitate the Examiner's understanding of the financial institution's risk profile and to adequately establish the scope of the AML/CFT examination, the Examiner is required to :

- (i) Review the reports of the financial institution's ML/FT risk assessment. The risk assessment should consider the various types of products, services, customers, entities, transactions and geographic locations in which the financial institution is engaged, including those that are processed by, through, or to the financial institution in order to identify potential ML/FT exposures.
- (ii) Review the institution's independent testing of its AML/CFT Compliance Program.
- (iii) Review correspondence received from supervisory authorities in order to determine whether or not the financial institution had any warning letters, fines or penalties imposed by them after the most recent AML/CFT examination.
- (iv) Review correspondence between the financial institutions and NFIU (e.g. periodic reporting of suspicious and currency transactions and where applicable, the NFIU Annual reports on blocked property (if any)).

The Bank Examiner should develop an initial examination plan based on the above examination procedures and findings made from the review of the financial institution's ML/FT risk assessment. Bank Examiners are required to adequately document the examination plan as well as any changes to it that occur during the examination period. The scoping and planning process are designed to ensure that the Examiner is aware of the institution's AML/CFT compliance program, compliance history and risk profile of the institution's products, services, customers, entities, transactions and geographic locations.

Additional core and expanded examination procedures may be conducted, where necessary. While the examination plan may change at any time as a result of on-site findings, the initial risk assessment will enable the Bank Examiner to establish a reasonable scope for the AML/CFT regime. In order for the examination process to be successful, the Bank Examiner is required to maintain an open communication line with the financial institution's management and discuss relevant concerns as they arise.

3.2. OBJECTIVE

Assess the adequacy of the financial institution's AML/CFT Compliance Program.

Examination Procedures of AML/CFT Compliance Program.

Determine whether the institution has developed, administered and maintained an effective program for compliance with the MLPA, AML/CFT Regulation & all other related Requirements.

ACTIVITY

Review the financial institution's board approved- written AML/CFT Compliance Program to ensure it contains the following required elements :

- (i) A system of internal controls that ensures on-going compliance ;
- (ii) Independent testing of MLPA, 2011, AML/CFT Regulation 2009 (as amended) and related guidelines for compliance ;
- (iii) A specifically designated person or persons responsible for managing
- (iv) MLPA and related regulations compliance (Chief Compliance Officer) ;
- (v) Training for appropriate personnel ; and
- (vi) AML/CFT Compliance Programs which are commensurate with their respective ML/FT risk profiles.

- (vii) A Customer Identification Program (CIP) must also be included as part of the AML/CFT Compliance Program.

Assess whether or not the board of directors and senior management receive adequate reports on AML/CFT compliance.

#### DEVELOPMENT OF ML/FT RISK ASSESSMENT BY BANK EXAMINERS

In some situations, financial institutions may not have performed or completed an adequate ML/FT risk assessment and it becomes necessary for the Bank Examiners to complete one based on available information. When doing so, the Examiners do not have to use any particular format. In such instances, documented section notes should include the financial institution's risk assessment, the deficiencies noted in the financial institution's risk assessment and the Examiner-prepared risk assessment. The Examiners should ensure that they have a general understanding of the financial institution's ML/FT risks and (at a minimum) document these risks within the examination scoping process.

This section provides some general guidance that Bank Examiners can use when they are required to conduct ML/FT risk assessment. In addition, Examiners may share this information with the financial institution to assist it develop or improve its own ML/FT risk assessment.

The risk assessment developed by Examiners generally will not be as comprehensive as one developed by a financial institution. Similar to what is expected in a financial institution's risk assessment, the Examiners are required to obtain information on the financial institution's products, services, customers, entities and geographic locations to determine the volume and trend for potentially higher-risk areas. This process can begin with an analysis of:

#### PRIOR EXAMINATION OR INSPECTION REPORTS AND SECTION NOTES

- (i) Response to request letter-items ; and
  - (ii) Discussions with financial institution management and the appropriate regulatory agency personnel.
- The Examiners should complete the above analysis by reviewing the level and trend of information pertaining to the institution's activities identified in :



- (i) Funds Transfers ;
- (ii) Private banking ;
- (iii) Monetary instrument sales ;
- (iv) Foreign correspondent accounts and PTAs ;
- (v) Branch locations ; and
- (vi) Domestic and international geographic locations of the institution's business area.

This information should be evaluated relative to such factors as the financial institution's total asset size, customer base, entities, products, services and geographic locations.

- Examiners are required to exercise caution in comparing information between financial institutions and to use their experience and insight when performing their analysis.
- Examiners should avoid comparing the number of STRs filed by a financial institution to those filed by another financial institution in the same geographic location.
- Examiners can and should use their knowledge of the risks associated with products, services, customers, entities and geographic locations to help them determine the institution's ML/FT risk profile.
- After identifying the potential higher-risk operations, Examiners should be able to form a preliminary ML/FT risk profile of the financial institution.
- The preliminary risk profile will provide the Examiner with the basis for the initial AML/CFT examination scope and the ability to determine the adequacy of the financial institution's AML/CFT Compliance Program.

A Financial institution may have an appetite for higher-risk activities. These risks should, however, be appropriately mitigated by an effective AML/CFT Compliance Program tailored to those specific risks. The Examiner should develop an initial examination scoping and planning document commensurate with the preliminary ML/FT risk profile. As necessary, the Examiner should identify additional examination procedures beyond the minimum procedures that must be completed during the examination. While the initial scope may change during the

examination, the preliminary risk profile will enable the Examiner to establish a reasonable scope for the AML/CFT review.

DETERMINATION OF THE FINANCIAL INSTITUTION'S ML/FT AGGREGATE RISK PROFILE BY BANK EXAMINER

The Examiner, during the phase of Developing Conclusions and Examination Finalizing the Examination of the AML/CFT examination should assess Procedure whether the controls of the financial institution's AML/CFT Compliance of ML/FT Program are appropriate to manage and mitigate its ML/FT risks. Risk Through this process, the Examiner should determine an aggregate risk Assessment. profile for the financial institution. This aggregate risk profile should take into consideration the risk assessment developed either by the financial institution or by the Examiner and should factor in the adequacy of the AML/CFT Compliance Program.

Examiners should determine whether the financial institution's AML/CFT Compliance Program is adequate to appropriately mitigate the ML/FT risks based on the risk assessment. The existence of ML/FT risk within the aggregate risk profile should not be criticized as long as the financial institution's AML/CFT Compliance Program adequately identifies, measures, monitors and controls this risk as part of a deliberate risk strategy.

When the risks are not appropriately controlled, Examiners are required to communicate to management and the board of directors the need to mitigate ML/ FT risk and should document deficiencies.

Examination 3.3. OBJECTIVE

Procedures Assess the ML/FT risk profile of the institution and evaluate the of ML/FT Risk adequacy of its ML/FT risk assessment process. Assessment.

ACTIVITY

Overview of Review the financial institution's ML/FT risk assessment. Determine AML/CFT whether the institution has included all its risk areas, including any new Compliance products, services or targeted customers, entities and geographic Programme. locations. Determine whether the financial institution's process for periodically reviewing and updating its ML/FT risk assessment is

adequate.

If the financial institution has not developed a risk assessment or if the risk assessment is inadequate, the Examiner must complete a risk assessment.

Examiners should document and discuss the financial institution's ML/FT risk profile and any identified deficiencies in the risk assessment process with the institution's management.

#### 3.4. OBJECTIVE

Assess the adequacy of the financial institution's AML/CFT Compliance Programme. Determine whether the financial institution has developed, administered and maintained an effective program for compliance with the MLPA and CBN AML/CFT Regulation, 2009.

#### ACTIVITY

The review of the financial institution's written policies, procedures and processes is a first step in determining the overall adequacy of the AML/CFT Compliance Program.

The completion of applicable core and (if warranted) expanded examination procedures is necessary to support the overall conclusions regarding the adequacy of the AML/CFT Compliance Program.

Examination findings should be discussed with the financial institution's management and significant findings are required to be included in the report of examination or supervisory correspondence. The AML/CFT Compliance Program must be in a written form, approved by the board of directors and noted in the board minutes.

An institution must have AML/CFT Compliance Program commensurate with its respective ML/FT risk profile. Furthermore, the AML/CFT Compliance Program must be fully implemented and reasonably designed to meet the relevant AML/CFT laws and Regulatory requirements.

Policy statements alone are not sufficient. Practices must coincide with the financial institution's written policies, procedures and processes.

## RISK ASSESSMENT IN AML/CFT COMPLIANCE PROGRAM

On the basis of examination procedures completed in the scoping and planning process, including the review of the risk assessment, determine whether the financial institution has adequately identified the risk within its operations (products, services, customers, entities and geographic locations) and incorporated the risk into its AML/CFT Compliance Program.

## INTERNAL CONTROLS

Determine whether the AML/CFT Compliance Program includes policies, procedures and processes that :

- (i) Identify higher-risk operations (products, services, customers, entities and geographic locations); provide for periodic updates to the institution's risk profile and AML/CFT Compliance Program tailored to manage risks ;
- (ii) Inform the board of directors or its committee and senior management of compliance initiatives, identified compliance deficiencies, STRs rendered and corrective action taken ;
- (iii) Identify a person or persons responsible for AML/CFT compliance ;
- (iv) Provide for program-continuity (in the form of back-up, storage and retrieval of information) despite changes in management or employee composition or structure ;
- (v) Meet all regulatory requirements, enforce the recommendations for AML/CFT compliance and provide for timely updates to implement changes in regulations ;
- (vi) Implement risk-based CDD policies, procedures and processes ;
- (vii) Identify reportable transactions and accurately render promptly all the required returns including STRs, PEPs and CTRs. Ensure that the financial institution has centralized its review and return rendition functions within a unit/office at the branches and head office ;
- (viii) Provide for dual controls and the segregation of duties as much as possible, e.g. employees that complete the return formats (such as STRs, PEPs and CTRs) generally should not also be responsible for the decision to render the reports ;
- (ix) Provide sufficient controls and monitoring systems for the timely detection and reporting of suspicious transaction ;
- (x) Provide for adequate supervision of employees that handle currency transactions, complete reports and render the returns, grant

- exemptions, monitor for suspicious activity or engage in any other activity covered by the MLPA, AML/CFT Regulation and other related requirements ;
- (xi) Train employees to be aware of their responsibilities under the MLPA, AML/CFT Regulation, other related and internal policy guidelines ; and
  - (xii) Incorporate MLPA and AML/CFT Regulation compliance into job descriptions and performance evaluations of appropriate personnel.

#### INDEPENDENT TESTING

Determine whether the AML/CFT testing (audit) is independent (i.e. performed by a person (or persons) not involved with the institution's AML/CFT compliance) and whether persons conducting the testing report directly to the board of directors or to a designated board committee consisting primarily or completely of outside directors.

Evaluate the qualifications of the person (or persons) performing the independent testing to assess whether the financial institution can rely upon his or their findings and conclusions.

Validate the auditor's reports and work-papers to determine whether the financial institution's independent testing is comprehensive, accurate, adequate and timely.

- The independent test should address the following :

The overall adequacy and effectiveness of the AML/CFT Compliance Program including policies, procedures and processes should be evaluated. The evaluation will include an explicit statement about the AML/CFT Compliance Program's overall adequacy and effectiveness and compliance with applicable regulatory requirements. At the very least, the audit should contain sufficient information for the reviewer (e.g. the Examiner, review auditor) to reach the following conclusion about the overall quality of the AML/CFT Compliance Program :

- (i) ML/FT risk assessment ;
- (ii) MLPA and AML/CFT Regulation reporting and record-keeping requirements ;
- (iii) CIP implementation ;
- (iv) CDD policies, procedures and processes and whether they comply with internal requirements ;
- (v) Personnel adherence to the institution's AML/CFT policies, procedures and processes ;

- (vi) Appropriate transaction testing with particular emphasis on higher-risk operations (products, services, customers and geographic locations) ;
  - (vii) Training, including its comprehensiveness, accuracy of materials, the training schedule and attendance tracking ;
  - (viii) The integrity and accuracy of MIS used in the AML/CFT Compliance Program. MIS includes reports used to identify large currency transactions, aggregate daily currency transactions, funds transfer transactions, monetary instrument sales transactions, and analytical and trend reports ;
  - (ix) Tracking of previously identified issues and deficiencies and verification that they have been corrected by management ; and
  - (x) If an automated system is not used to identify or aggregate large transactions, determine whether the audit or independent review includes a sample test check of tellers' cash proof sheets, tapes or other documentation to determine whether large currency transactions are accurately identified and reported.
- Determine whether the audit's review of suspicious transaction monitoring systems includes an evaluation of the system's ability to identify unusual transaction. Ensure through a validation of the auditor's reports and work-papers that the institution's independent testing :
    - (i) Reviews policies, procedures and processes for suspicious transaction monitoring.
    - (ii) Evaluates the system's methodology for establishing and applying expected activity or filtering criteria.
    - (iii) Evaluates the system's ability to generate monitoring reports.
    - (iv) Determines whether the system filtering criteria are reasonable and include (at a minimum) cash, monetary instruments, funds transfers and other higher-risk products, services, customers or geographies as appropriate.
  - Determine whether the audit's review of suspicious transaction reporting systems includes an evaluation of the research and referral of unusual transaction. Ensure through a validation of the auditor's reports and work-papers that the institution's independent testing includes a review of policies, procedures and processes for referring unusual transaction from all business lines (e.g. legal, private banking,

foreign correspondent banking) to the personnel or department responsible for evaluating unusual activity.

- Review the audit scope, procedures and work-papers to determine adequacy of the audit based on the following :
  - (i) Overall audit coverage and frequency in relation to the risk profile of the institution ;
  - (ii) Board reporting and supervision and its responsiveness to audit findings ;
  - (iii) Adequacy of transaction testing, particularly for higher-risk operations and suspicious transaction monitoring systems ; and
  - (iv) Competency of the auditors or independent reviewers regarding AML/CFT requirements.

#### CHIEF COMPLIANCE OFFICER (CCO)

Determine whether the board of directors has designated a person or persons responsible for the overall AML/CFT Compliance Program. Determine whether the CCO has the necessary authority and resources to effectively execute all the duties assigned to him as the CCO.

Assess the competency of the CCO and his/her staff. Determine whether the AML/CFT compliance area is sufficiently staffed for the institution's overall risk level based on products, services, customers, entities and geographic locations, size and compliance needs. In addition, ensure that no conflict of interest exists and that staff is given adequate time to execute all his/her duties.

#### TRAINING

Determine whether the following elements are adequately addressed in the training program and materials :

- (i) The importance placed by the board of directors and senior management on on-going education, training and compliance ;
- (ii) Employees' accountability for ensuring compliance with MLPA, 2011 and AML/CFT Regulation, 2009 (as amended) and related requirements ;
- (iii) Comprehensiveness of the training, considering the specific risks of individual business lines ;
- (iv) Training of personnel from all applicable areas of the financial institution ;
- (v) Frequency of training ;
- (vi) Documentation of attendance records and training materials ;

- (vii) Coverage of the institution's policies, procedures, processes and new rules and regulations ;
- (viii) Coverage of different forms of money laundering and terrorist financing as it relates to identification and examples of suspicious transaction ;
- (ix) Penalties for non-compliance with internal policies and regulatory requirements ; and
- (x) AML/CFT training should be extended to all staff of financial institutions.

#### TRANSACTION TESTING

Transaction testing must include (at a minimum) independent testing examination procedures. While there are many ways of conducting transaction testing, the Examiners have the discretion to decide the testing to conduct.

Examiners should document their decision regarding the extent of transaction testing to conduct and the transactions to be performed, as well as the rationale for any changes to the scope of transaction testing that occur during the examination. Examiners should consider the following when determining how to proceed with transaction testing :

- (i) Accounts or customers identified in the review of information obtained from returns rendered to the CBN ;
- (ii) Higher-risk products and services, customer and entities, and geographic locations for which it appears from the scoping and planning process that the institution may not have appropriate internal controls ; and
- (iii) New products and services, customers and entities, and geographies introduced into the bank's portfolio since the previous AML/CFT examination.

#### INDEPENDENT TESTING

- Select a judgmental sample that includes transactions other than those tested by the independent auditor and determine whether the independent testing carried out :

- (i) Is comprehensive, adequate and timely ;
- (ii) Has reviewed the accuracy of MIS used in the AML/CFT Compliance Program
- (iii) Has reviewed suspicious transaction monitoring systems to include the identification of unusual transaction ; and



- (iv) Has reviewed suspicious transaction reporting systems including the research and referral of unusual transaction.
- Results obtained should be interpreted and recorded.

#### PRELIMINARY EVALUATION

After the Bank Examiner has completed the review of all the four required elements of the institution's AML/CFT Compliance Program, the Examiner is required to document a preliminary evaluation of the institution's program.

At this point, the Examiner should revisit the initial examination plan, in order to determine whether any strengths or weaknesses identified during the review of the institution's AML/CFT Compliance Program warrant adjustments to the initial planned scope.

The Examiner should document and support any changes to the examination scope, then proceed to the applicable core and (if warranted) expanded examination procedures.

If there are no changes to the examination scope, the Examiner should proceed to the core examination procedures of developing conclusions and finalizing the examination.

#### 3.5. Objective

Formulate conclusions, communicate findings to management, prepare report and comments, develop an appropriate supervisory response and close the examination.

Examination  
Procedures of  
How to  
Develop  
Conclusions  
and Finalize  
AML/CFT  
Examination.

#### ACTIVITY

Formulating Conclusions

- Accumulate all pertinent findings from the AML/CFT examination procedures performed. Evaluate the thoroughness and reliability of any risk assessment conducted by the institution. Reach a preliminary conclusion as to whether the following requirements are met :

- (i) The AML/CFT Compliance Program is effectively monitored and supervised in relation to the institution's risk profile as determined by the risk assessment. The Examiner should ascertain if the AML/CFT Compliance Program is effective in mitigating the institution's overall risk.

- (ii) The board of directors and senior management are aware of AML/CFT regulatory requirements, effectively oversee AML/CFT compliance and are committed to (as necessary) corrective actions in respect of audit and regulatory examination recommendations.
- (iii) AML/CFT policies, procedures and processes are adequate to ensure compliance with applicable laws and regulations and appropriately address higher-risk operations in products, services, customers, entities and geographic locations.
- (iv) Internal controls ensure compliance with the MLPA and AML/CFT Regulation and provide sufficient risk management, especially for higher-risk operations in products, services, customers, entities and geographic locations.
- (v) Independent testing (audit) is appropriate and adequately tested for compliance with required laws, regulations and policies. Overall audit coverage and frequency should be appropriate in relation to the risk profile of the institution. Transaction testing should also be adequate, particularly for high risk operations and suspicious transaction monitoring systems.
- (vi) The designated person responsible for coordinating and monitoring day-to-day compliance is competent and has the necessary resources.
- (vii) Personnel are sufficiently trained to adhere to legal, regulatory and policy requirements.
- (viii) Information and communication policies, procedures and processes are adequate and accurate.
  - All relevant determinations should be documented and explained.
  - Determine the underlying cause of policy, procedure or process deficiencies (if identified). These deficiencies can be as a result of a number of factors, including but not limited to the following :
    - (i) Management has not assessed or has not accurately assessed the financial institution's AML/CFT risks ;
    - (ii) Management is unaware of the relevant issues ;
    - (iii) Management is unwilling to create or enhance policies, procedures and processes ;
    - (iv) Management or employees disregard established policies, procedures and processes ;
    - (v) Management or employees are unaware of or misunderstand the regulatory requirements, policies, procedures or processes ;

- (vi) Higher-risk operations in products, services, customers, entities and geographic locations have grown faster than the capabilities of the AML/CFT Compliance Program ; and
- (vii) Changes in internal policies, procedures and processes are poorly communicated.
  - Determine whether deficiencies or violations were previously identified by management, audit or were only identified as a result of this examination.
  - Discuss Findings with Lead Examiner and identify necessary action
  - Discuss preliminary findings with the Examiner in charge (EIC) or Examiner responsible for reviewing the institution's overall AML/CFT compliance. The Examiner should document his work-papers appropriately with the following information :
    - (i) A conclusion regarding the adequacy of the AML/CFT Compliance Program and whether it meets all the regulatory requirements by providing the following :
      - (a) A system of internal controls ;
      - (b) Independent testing for compliance ;
      - (c) A specific person to coordinate and monitor the AML/CFT Compliance Program ;
      - (d) Training of appropriate personnel ;
    - (ii) Conclusion as to whether the written CIP is appropriate for the institution's size, location and type of business ;
    - (iii) Any identified violations and assessment of the severity of those violations ;
    - (iv) Identification of actions needed to correct deficiencies or violations and (as appropriate) the possibility of, among other things, requiring the institution to conduct more detailed risk assessments or take formal enforcement action ;
    - (v) Recommendations for supervisory actions. Issues to confer with the institution's supervisory management and its legal staff ;
    - (vi) An appropriate rating based on overall findings and conclusions ; and
    - (vii) Findings that have been or will be discussed with institution management and, if applicable, any institution commitment for improvements or corrective action.

## PREPARING THE AML/CFT COMMENTS FOR THE EXAMINATION REPORT

Document your conclusion regarding the adequacy of the institution's AML/ CFT Compliance Program. Discuss the effectiveness of each of these elements of the institution's AML/CFT Compliance Program. Indicate whether the AML/ CFT Compliance Program meets all the regulatory requirements by providing the following :

- (i) A system of internal controls ;
- (ii) Independent testing for compliance ;
- (iii) A specific person to coordinate and monitor the AML/CFT Compliance Program ; and
- (iv) Training of appropriate personnel.

The AML/CFT Compliance Program must also include a written Customer Identification Program (CIP) appropriate for the institution's size, location and type of business.

The Examiner does not need to provide a written comment on every one of the items. Written comments should cover only areas or subjects pertinent to the Examiner's findings and conclusions. All significant findings must be included in the examination report. The Examiner should ensure that work-papers are prepared in sufficient detail to support issues to be included in the examination report.

To this extent, there are items included in the work-papers for discussion that may not be in the examination report. Bank Examiner should ensure that his work-papers thoroughly and adequately document each review, as well as any other aspects of the institution's AML/CFT Compliance Program that merits attention though they may not rise to the level of being included in the examination report. The Examiner should organize and reference his work-papers and document conclusions and supporting information within the internal databases, as appropriate.

As applicable, the Examiner should prepare to discuss on the following items :

- To describe the board of directors' and senior management's commitment to AML/CFT compliance, consider whether management has the following :
  - (i) A strong AML/CFT Compliance Program that is fully supported by the board of directors ; and

- (ii) A requirement that the board of directors and senior management must be kept informed of AML/CFT compliance efforts, audit reports, compliance failures and the status of corrective actions.
- Describe whether the institution's policies, procedures and processes for STR, CTRs and PEPs filings meet the regulatory requirements and are effective.
  - Briefly discuss whether the policies, procedures and processes include effective internal controls on separation of duties, proper authorization for sending, receiving and posting to accounts, and provide a means to monitor transfers for CTR reporting purposes.
  - Describe the financial institution's record-keeping policies, procedures and processes. Indicate whether they meet the requirements of MLPA, 2011 and AML/CFT Regulation, 2009 (as amended).

#### Examination 3.6. OBJECTIVE

Procedures in Assess the appropriateness and comprehensiveness of the financial respect of institution's customer due diligence (CDD) policies, procedures and Customer processes for obtaining customer information and assess the value of Due Diligence this information in detecting, monitoring and reporting suspicious transaction.

#### ACTIVITY

Determine whether the financial institution's CDD policies, procedures and processes are commensurate with the financial institution's risk profile. Determine whether the financial institution has processes in place for obtaining information at account opening, in addition to ensuring current customer information is maintained.

Determine whether policies, procedures and processes allow for changes to a customer's risk rating or profile. Determine who is responsible for reviewing or approving such changes.

Review the enhanced due diligence procedures and processes, the financial institution uses to identify customers that may pose higher risk for money laundering or terrorist financing.

Determine whether the financial institution provides guidance for documenting analysis associated with the due diligence process, including guidance for resolving issues when insufficient information or inaccurate information is obtained.

TRANSACTION TESTING

On the basis of a risk assessment, prior AML/CFT Bank Examination Reports and a review of the financial institution's audit findings, sample CDD information for higher-risk customers. Determine whether the financial institution collects appropriate information and effectively incorporates this information into the suspicious transaction monitoring process. This sample can be performed when testing the financial institution's compliance with its policies, procedures and processes as well as when reviewing transactions or accounts for possible suspicious transaction.

On the basis of examination procedures completed, including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with CDD.

3.7. OBJECTIVE

Assess the financial institution's policies, procedures, processes and overall compliance with statutory and regulatory requirements for monitoring, detecting and reporting suspicious activities.

Examination  
Procedures of  
Suspicious  
Transaction  
Reporting

ACTIVITY

Examiners may elect to map out the process followed by the financial institution to monitor, identify research and report suspicious activities. Once the Examiner has an understanding of the process, he should go through and query the entire process alone.

IDENTIFICATION OF UNUSUAL ACTIVITY

Review the financial institution's policies, procedures and processes for identifying, researching and reporting suspicious transaction. Determine whether they include the following :

- (i) Lines of communication for the referral of unusual activity to appropriate personnel ;
- (ii) Designation of individual(s) responsible for identifying, researching and reporting suspicious activities ;

- (iii) Monitoring systems used to identify unusual activity ; and
- (iv) Procedures for reviewing and evaluating transaction activity reported to law enforcement agencies. Examiners should also evaluate the policies, procedures and processes for :
  - (a) Responding to LEA's requests ;
  - (b) Evaluating the account of the target for suspicious transaction ;
  - (c) Filing of STRs, if necessary ; and
  - (d) Handling account closures.

Review the financial institution's monitoring systems and how the system(s) fits into the institution's overall suspicious transaction monitoring and reporting process. When evaluating the effectiveness of the financial institution's monitoring systems, Examiners should consider the financial institution's overall risk profile (higher-risk products, services, customers, entities and geographic locations), volume of transactions and adequacy of staffing.

#### TRANSACTION (MANUAL TRANSACTION) MONITORING

Review the financial institution's transaction monitoring reports. Determine whether the reports capture all areas that pose money laundering and terrorist financing risks. Examples of these reports include: CTRs, PEPs and STRs returns.

Determine whether the financial institution's transaction monitoring systems use reasonable filtering criteria whose programming has been independently verified. Determine whether the monitoring systems generate accurate reports at a reasonable frequency.

#### SURVEILLANCE (AUTOMATED ACCOUNT) MONITORING Examiners should :

- (i) Identify the types of customers, products and services that are included within the surveillance monitoring system ;
- (ii) Identify the system's methodology for establishing and applying expected activity or profile filtering criteria and for generating monitoring reports. Determine whether the system's filtering criteria are reasonable, adequate and effective ;
- (iii) Determine whether the programming of the methodology has been independently validated ; and
- (iv) Determine that controls ensure limited access to the monitoring system and sufficient oversight of assumption changes.

## MANAGING ALERTS

Determine whether the financial institution has policies, procedures and processes to ensure the timely generation and review of and response to reports used to identify unusual activities.

Determine whether policies, procedures and processes require appropriate research for the monitoring of reports of unusual activity identified.

Evaluate the financial institution's policies, procedures and processes for referring unusual activity from all business lines to the CCO or department responsible for evaluating unusual activity.

Verify that staffing levels are sufficient to review reports, alerts and investigate items, and that staff possess the requisite experience level and proper investigatory tools. The volume of system-alerts and investigations should not be tailored solely to meet existing staffing levels.

Determine whether the financial institution's STR decision process appropriately considers all available CDD and EDD information.

## STR DECISION MAKING

Determine whether the financial institution's policies, procedures and processes include procedures for :

- (i) Documenting decisions not to file a STR ;
- (ii) Escalating issues identified as the result of repeat STR filings on accounts ; and
- (iii) Considering closing accounts as a result of continuous suspicious transaction.

## STR COMPLETION AND FILING

Determine whether the financial institution's policies, procedures and processes provide for :

- (i) Completing, filing and retaining STRs and their supporting documentation ;
- (ii) Reporting STRs to the board of directors, or a committee thereof and informing senior management ; and
- (iii) Sharing STRs with head offices and controlling companies, as necessary.

## TRANSACTION TESTING

Transaction testing of suspicious transaction monitoring systems and reporting processes is intended to determine whether the financial institution's policies, procedures and processes are adequate and effectively implemented. Examiners



should document the factors they used to select samples and should maintain a list of the accounts sampled. The size and the sample should be based on the following :

- (i) Weaknesses in the account monitoring systems ;
- (ii) The financial institution's overall ML/FT risk profile (e.g., number and type of higher-risk products, services, customers, entities and geographies) ;
- (iii) Quality and extent of review by audit or independent parties ;
- (iv) Prior AML/CFT Bank examination findings ;
- (v) Recent mergers, acquisitions or other significant organizational changes ; and
- (vi) Conclusions or questions from the review of the financial institution's STRs.

On the basis of a risk assessment, prior AML/CFT Bank Examination Reports and a review of the financial institution's audit findings, sample specific customer accounts to review the following :

- (i) Suspicious transaction monitoring reports ;
- (ii) CTR download information ;
- (iii) Higher-risk banking operations (products, services, customers, entities and geographies) ;
- (iv) Customer activity ;
- (v) Subpoenas received by the financial institution ; and
- (vi) Decisions not to file a STR.

For the customers selected previously, obtain the following information, if applicable :

- (i) CIP and account-opening documentation ;
- (ii) CDD documentation ; and
- (iii) Two to three months of account statements covering the total customer relationship and showing all transactions.

Sample the items posted against the account (e.g., copies of cheques deposited and written debit or credit notes, and funds transfer beneficiaries and originators) ; and other relevant information, such as loan files and correspondence. Review the selected accounts for unusual activity.

If the Examiner identifies unusual activity, review customer information for indications that the activity is typical for the customer (i.e. the sort of activity in

which the customer is normally expected to engage). When reviewing for unusual activity, consider the following :

- (i) For individual customers: whether the activity is consistent with CDD information (e.g. occupation, expected account activity and sources of funds and wealth); and
- (ii) For business customers: whether the activity is consistent with CDD information (e.g. type of business, size, location and target market).

Determine whether the transaction or surveillance suspicious transaction monitoring system detected the activity that the Examiner identified as unusual. For transactions identified as unusual, discuss the transactions with the management. Determine whether the account officer demonstrates knowledge of the customer and the unusual transactions. After examining the available facts, determine whether management knows of a reasonable explanation for the transactions.

Determine whether the financial institution has failed to identify any reportable suspicious transaction.

From the results of the sample, determine whether the transaction or surveillance-suspicious-transaction monitoring system effectively detects unusual or suspicious transaction. Identify the underlying cause of any deficiencies in the monitoring systems (e.g. inappropriate filters, insufficient risk assessment or inadequate decision making).

On the basis of a risk assessment, prior AML/CFT Bank Examination Reports and a review of the financial institution's audit findings, select a sample of management's research decisions to determine the following :

- (i) Whether management decisions to file STR or not are supported and reasonable ;
- (ii) Whether documentation is adequate ; and
- (iii) Whether the decision process is completed and STRs are filed in a timely manner.

On the basis of a risk assessment, prior AML/CFT Examination Reports and a review of the financial institution's audit findings, sample the STRs downloaded from the AML/CFT-reporting database or the financial institution's internal STR records. Review the quality of STR content to assess the following :

- (i) STRs contain accurate information ;
- (ii) STR narratives are complete and thorough, and clearly explain why the activity is suspicious ; and
- (iii) If STR narratives from the AML/CFT-reporting database are blank or contain language, such as see attached ensure that the financial institution is not mailing attachments to the database.

On the basis of AML/CFT examination procedures completed, including transaction testing, form a conclusion about the ability of policies, procedures and processes to meet regulatory requirements associated with monitoring, detecting and reporting suspicious transaction.

### 3.8. OBJECTIVE

Assess the financial institution's compliance with the statutory and regulatory requirements for "Special Information Sharing Procedures to Deter Money Laundering and Terrorist Financing".

Examination  
Procedures  
Information  
Sharing.

### ACTIVITY

#### Information Sharing Between LEA and Financial Institutions

Verify that the financial institution is currently receiving in full first Voluntary Information Sharing (VIS) requests from CBN/NFIU or from an affiliated financial institution that serves as the subject financial institution's point of contact. If the financial institution is not receiving information requests or changes in its information contact, the financial institution should update its information point of contact.

Verify that the financial institution has sufficient policies, procedures and processes to document compliance; maintain sufficient internal controls; provide ongoing training; and independently test its compliance with AML/CFT Regulation 2009. The procedures should accomplish the following :

- (i) Designate a point of contact for receiving information requests ;
- (ii) Ensure that the confidentiality of requested information is safeguarded ;
- (iii) Establish a process for responding to CBN/NFIU's requests ; and
- (iv) Establish a process for determining whether STRs are rendered to NFIU within 7 days after the transactions in accordance with section 6(2) of MLPA, 2011.

Determine whether the search policies, procedures and processes that the financial institution uses to respond to VIS requests are comprehensive and cover all records identified in the General Instructions Manual for such requests. The General Instructions Manual includes searching for accounts maintained by the named subject during the preceding 12 months and transactions conducted within the last six months. Financial institutions have seven (7) days from the transmission date of the request to respond to a VIS request.

If the financial institution uses a third-party vendor to perform or facilitate searches, determine whether an agreement or procedures are in place to ensure confidentiality.

Review the financial institution's internal controls and determine whether its documentation to evidence compliance with VIS requests is adequate. This documentation should include :

- (i) Copies of VIS requests ;
- (ii) A log that records the tracking numbers and includes a sign-off column ;and
- (iii) For VIS subject lists received, copies of the cover page of the requests,with a financial institution sign-off that the records were checked, the date of the search and search results (positive or negative) ; and
- (iv) Copies of generated search self-verification documents.

For positive matches, copies of the form returned to CBN/NFIU and the supporting documentation should be retained.

#### VOLUNTARY INFORMATION SHARING

Determine whether the financial institution has decided to share information voluntarily. If so, verify that the financial institution has filed a notification form with CBN/NFIU and provides an effective date for the sharing of information that is within the previous 12 months.

Verify that the financial institution has policies, procedures and processes for sharing information and receiving shared information.

Financial institutions that choose to share information voluntarily should have policies, procedures and processes to document compliance; maintain adequate internal controls; provide ongoing training; and independently test its compliance with the relevant regulatory and statutory provisions.

At a minimum, the procedures should :

- (i) Designate a point of contact for receiving and providing information ;
- (ii) Ensure the safeguarding and confidentiality of information received and information requested ;
- (iii) Establish a process for sending and responding to requests, including ensuring that other parties with whom the financial institution intends to share information (including affiliates) have filed the proper notice ; and
- (iv) Establish procedures for determining whether and when a STR should be filed.

If the financial institution is voluntarily sharing information with other entities and is not following the outlined regulatory procedures, the Examiners are required to review the customer's privacy rules.

The Examiner should review the financial institution's documentation (including account analysis) on a sample of the information shared and received, evaluate how the financial institution determined whether a STR was warranted. They should note that the financial institution is not required to file STRs solely on the basis of information obtained through the voluntary information sharing process. In fact, the information obtained through the voluntary information sharing process may enable the financial institution to determine that no STR is required for transactions that may have initially appeared suspicious. The financial institution should have considered account activity in determining whether or not a STR was warranted.

#### TRANSACTION TESTING

On the basis of a risk assessment, prior examination reports and a review of the financial institution's audit findings, select a sample of positive matches or recent requests to determine whether the following requirements have been met :

- (i) The financial institution's policies, procedures and processes enable it to search all of the records identified in the General Instructions Manual for VIS requests. Such processes may be electronic, manual or both.
- (ii) The financial institution searches appropriate records for each information request received.

For positive matches, verify that a response was provided to CBN/NFIU within the designated time period.

Review the financial institution's documentation (including account analysis) to evaluate how the financial institution determined whether a STR was warranted. Financial institutions are not required to file STRs solely on the basis of a match with a named subject; instead, account activity should be considered in determining whether a STR is warranted.

Determine that the financial institution uses information only in the manner and for the purposes allowed and keeps information secure and confidential.

On the basis of examination procedures completed, including transaction testing, form a conclusion about the ability of policies, procedures and processes to meet regulatory requirements associated with information sharing.

Examination	3.9. OBJECTIVE
Procedures of Purchase and Sale of Monetary Instruments and RecordKeeping.	Assess the financial institution's compliance with statutory and regulatory requirements for the recording of information required for the purchase and sale of monetary instruments for currency in amounts of N5 million and above, N10 million and above for individuals and corporate entities respectively or US \$10,000 and above or its equivalent. This section covers the regulatory requirements as set forth in sections 2 and 10 of the MLPA, 2011 and relevant provisions of the CBN AML/CFT Regulation, 2009 (as amended).

ACTIVITY

Determine whether the financial institution maintains the required records contained in AML/CFT regulation, 2009 (as amended) including telephone numbers and e-mail addresses (in a manual or an automated system) for sales of its cheques or drafts including foreign drafts, cashier's cheques, and traveler's cheques for currency in amounts of US \$1,000 and above (or its equivalent) to purchasers who have deposit accounts with it in compliance with the relevant provisions of AML/CFT Regulation, 2009 (as amended).

Determine whether the financial institution's policies, procedures and processes permit currency sales of monetary instruments to purchasers who do not have deposit accounts with the institution (non-depositors).

If so, determine whether the financial institution maintains the required records for sales of monetary instruments to non-depositors ; and if not permitted, determine whether the financial institution allows sales on an exception basis.

#### TRANSACTION TESTING

On the basis of a risk assessment, prior examination reports and a review of the financial institution's audit findings, select a sample of monetary instruments sold for currency in amounts of US \$1,000 and above, inclusive to determine whether it obtains, verifies and retains the required records to ensure compliance with regulatory requirements.

On the basis of examination procedures completed (including transaction testing) form a conclusion about the ability of policies, procedures and processes in place to meet regulatory requirements associated with the purchase and sale of monetary instruments.

On the basis of the previous conclusion and the risks associated with the financial institution's activity in this area, proceed to expanded-examination procedures, if necessary.

#### 3.10. OBJECTIVE

Assess the financial institution's compliance with statutory and regulatory requirements for funds transfers.

#### ACTIVITY

This section covers the regulatory requirements as set forth in the CBN AML/CFT Regulation, 2009 (as amended) :

- (i) Verify that the financial institution obtains and maintains appropriate records ;
- (ii) Verify that the financial institution transmits payment information as required ;
- (iii) Verify that the financial institution files CTRs when an amount within the prescribed threshold is received or does not file in a funds transfer that exceeds USA \$10,000 ; and

<p>(iv) If the financial institution sends or receives funds transfers to or from institutions in other countries, especially those with strict privacy and secrecy laws, assess whether the financial institution has policies, procedures and processes to determine whether the amounts, the frequency of the transfer and countries of origin or destination are consistent with the nature of the business or occupation of the customer.</p>	<p>Examination Procedures of Foreign Correspondent Account Record Keeping and Due Diligence.</p>
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### TRANSACTION TESTING

On the basis of a risk assessment, prior examination reports and a review of the financial institution's audit findings, select a sample of funds transfers processed as an originator's financial institution, an intermediary financial institution and a beneficiary's financial institution to ensure the institution collects, maintains or transmits the required information, depending on the institution's role in the transfer. On the basis of examination procedures completed, including transaction testing, form a conclusion about the ability of policies, procedures and processes to meet regulatory requirements associated with funds transfers.

#### 3.11. OBJECTIVE

Assess the financial institution's compliance with statutory and regulatory requirements on correspondent accounts, foreign shell banks, foreign correspondent account record-keeping and due diligence programs to detect and report money laundering and suspicious activity.

#### ACTIVITY

Determine whether or not the financial institution engages in foreign correspondent banking maintains foreign shell bank account and keeps foreign correspondent account record.

If so, review the financial institution's policies, procedures and processes. At a minimum, policies, procedures and processes should accomplish the following :

- (i) Prohibit dealings with foreign shell banks and specify the responsible party for obtaining, updating and managing certifications or information for foreign correspondent accounts ;
- (ii) Identify foreign correspondent accounts and address the sending, tracking, receiving and reviewing of certification requests or requests for information ;



- (iii) Evaluate the quality of information received in responses to certification requests or requests for information ;
- (iv) Determine whether and when a STR should be filed ;
- (v) Maintain sufficient internal controls ;
- (vi) Provide for ongoing training ; and
- (vii) Independently test the financial institution's compliance with related regulatory requirements.

Determine whether the financial institution has a file on current certification or current information (that would otherwise include the information contained within a certification) for each foreign correspondent account to determine whether the foreign correspondent is not a foreign shell bank.

If the financial institution has foreign branches, determine whether the financial institution has taken reasonable steps to ensure that any correspondent accounts maintained for its foreign branches are not used to indirectly provide banking services to a foreign shell bank.

#### SPECIAL DUE DILIGENCE PROGRAM FOR FOREIGN CORRESPONDENT ACCOUNTS

Determine whether or not the financial institution has established a general due diligence program that includes appropriate, specific, risk-based and (where necessary) enhanced policies, procedures and controls for correspondent accounts established, maintained, administered or managed in Nigeria for foreign financial institutions (foreign correspondent account). The general due diligence program must be applied to each foreign correspondent account. Verify that due diligence policies, procedures and controls include :

- (i) Determining whether any foreign correspondent account is subject to EDD.
- (ii) Assessing the money laundering risks presented by the foreign correspondent account ; and
- (iii) Applying risk-based procedures and controls to each foreign correspondent account reasonably designed to detect and report known or suspected money laundering activity, including a periodic review of the correspondent account activity sufficient to determine consistency with information obtained about the type, purpose and anticipated activity of the account.

Review the due diligence program's policies, procedures and processes governing the AML risk assessment of foreign correspondent accounts. Verify that the

financial institution's due diligence program considers the following factors (as appropriate) as criteria in the risk assessment :

- (i) The nature of the foreign financial institution's business and the markets it serves ;
- (ii) The type, purpose and anticipated activity of the foreign correspondent account ;
- (iii) The nature and duration of the financial institution's relationship with the foreign financial institution and any of its affiliates ;
- (iv) The AML and supervisory regime of the jurisdiction that issued the charter or license to the foreign financial institution and (to the extent that information regarding such jurisdiction is reasonably available) of the jurisdiction in which any company that is an owner of the foreign financial institution is incorporated or chartered ; and
- (v) Information known or reasonably available to the financial institution about the foreign financial institution's AML record.

Ensure the program is reasonably designed to :

- (i) Detect and report (on an ongoing basis) known or suspected money laundering activity ; and
- (ii) Perform periodic reviews of correspondent account activity to determine consistency with the information obtained about the type, purpose and anticipated activity of the account.

For foreign financial institutions subject to EDD, evaluate the criteria that the Nigerian financial institution uses to guard against money laundering in and report suspicious activity in connection with any correspondent accounts held by such foreign financial institutions. Verify that the EDD procedures are applied to each correspondent account established for foreign financial institutions operating under :

- (i) An offshore banking licence ;
- (ii) A banking licence issued by a foreign country that has been designated as non-cooperative with international AML principles or procedures by an inter-governmental group or organization of which Nigeria is a member, and with which Nigeria representative to the group or organization concurs its decision; and

(iii) A banking licence issued by a foreign country that has been designated by the CBN as warranting special measures due to AML concerns.

(iv) Review the financial institution's policies, procedures and processes and determine whether they include reasonable steps for conducting enhanced scrutiny of foreign correspondent accounts to guard against money laundering and to identify and report any suspicious transactions in accordance with applicable laws and regulations. Verify that this enhanced scrutiny reflects the risk assessment of each foreign correspondent account that is subject to such scrutiny and includes, as appropriate :

(a) Obtain and consider information relating to the foreign financial institution's anti-money laundering program to assess the risk of money laundering presented by the foreign financial institution's correspondent account.

(b) Monitor transactions to, from, or through the correspondent account in a manner reasonably designed to detect money laundering and suspicious activity.

(c) Obtain information from the foreign financial institution about the identity of any person with authority to direct transactions through any correspondent account that is a payable through account, and the sources and beneficial owner of funds or other assets in the payable through account.

Review the financial institution's policies, procedures and processes to determine whether foreign correspondent financial institutions subject to EDD maintain correspondent accounts for other foreign financial institutions. If so, determine whether the financial institution's policies, procedures and processes include reasonable steps to obtain information relevant to assess and mitigate money laundering risks associated with the foreign correspondent financial institution's correspondent accounts for other foreign financial institutions, including (as appropriate) the identity of those foreign financial institutions.

Determine whether policies, procedures and processes require the financial institution to take reasonable steps to identify each of the owners with the power to vote 10 percent or more of any class of securities of a non-public traded foreign correspondent financial institution for which it opens or maintains an account that is subject to EDD. For such accounts, evaluate the financial institution's policies, procedures and processes to determine each of such owner's interest.

## TRANSACTION TESTING

## Foreign Shell Bank Prohibition and Foreign Correspondent Account Record keeping.

On the basis of a risk assessment, prior examination reports and a review of the financial institution's audit findings, select a sample of foreign financial institution accounts. From the sample selected, determine the following :

- (i) Whether certifications and information on the accounts are complete and reasonable ;
- (ii) Whether the financial institution has adequate documentation to evidence that it does not maintain accounts for or indirectly provide services to foreign shell bank ;
- (iii) For account closures, whether closures were made within two (2) weeks and that the relationship was not re-established without sufficient reason ;
- (iv) Whether there are any LEA requests for information regarding foreign correspondent accounts. If so, ascertain that requests are met within two (2) weeks ;
- (v) Whether the financial institution received any official notifications to close a foreign financial institution account. If so, ascertain that the accounts were closed within ten business days ;
- (vi) Whether the financial institution retains (for five years from the date of account closure) the original of any document provided by a foreign financial institution, as well as the original or a copy of any document relied on in relation to any summons or subpoena of the foreign financial institution issued ; and
- (vii) The adequacy of the Special Due Diligence Program for Foreign Correspondent Accounts.

From a sample selected, determine whether the financial institution consistently follows its general due diligence policies, procedures and processes for foreign correspondent accounts. It may be necessary to expand the sample to include correspondent accounts maintained for foreign financial institutions other than foreign financial institutions (such as money transmitters or currency exchangers), as appropriate.

From the original sample, determine whether the financial institution has implemented EDD procedures for foreign financial institutions operating under :

- (i) An offshore banking licence ;

- (ii) A banking licence issued by a foreign country designated by FATF or any such authority as non-cooperative with international AML principles or procedures ; and
- (iii) A banking licence issued by a foreign country designated by the CBN as warranting special measures due to AML concerns ;

From a sample of accounts that are subject to EDD, verify that the financial institution has taken reasonable steps, in accordance with the financial institution's policies, procedures and processes to :

- (a) Determine, for any such foreign financial institution whose shares are not publicly traded, the identity of each of the owners of the foreign financial institution with the power to vote 10 percent or more of any class of securities of the financial institution, and the nature and extent of the ownership interest of each such owner ;
- (b) Conduct enhanced scrutiny of any accounts held by such financial institutions to guard against money laundering and report suspicious activity ; and
- (c) Determine whether or not such foreign financial institution provides correspondent accounts to other foreign financial institutions. If so, obtain information relevant to assess and mitigate money laundering risks associated with the foreign financial institution's correspondent accounts for other foreign financial institutions, including, as appropriate, the identity of those foreign financial institutions.

On the basis of examination procedures completed, including transaction testing, form a conclusion about the adequacy of policies, procedures and processes to meet regulatory requirements associated with foreign correspondent account record keeping and due diligence.

On the basis of the previous conclusion and the risks associated with the financial institution's activity in this area, proceed to expanded examination procedures, if necessary.

Examination 3.12. OBJECTIVE

Procedures of Private Banking Due Diligence Program (Nigerian/Non-Nigeria Persons). Assess the financial institution's compliance with the statutory and regulatory requirements to implement policies, procedures and controls to detect and report money laundering and suspicious activity through private banking accounts established, administered or maintained for Nigerian/non-Nigeria persons. ACTIVITY

Determine whether the financial institution offers private banking accounts in accordance with the regulatory definition of a private banking account. A private banking account means an account (or any combination of accounts) maintained at a financial institution covered by the regulation that satisfies all three of the following criteria :

- (i) Requires a minimum aggregate deposit of funds or other assets of not less than USA \$50,000 or its equivalent ;
- (ii) Is established on behalf of or for the benefit of one or more Nigerian/non-Nigerian persons who are direct or beneficial owners of the account ; and
- (iii) Is assigned to, or is administered or managed by, in whole or in part, an officer, employee, or agent of the financial institution acting as a liaison between the financial institution and the direct or beneficial owner of the account.

If an account satisfies the last two criteria in the definition of a private banking account as described above, but the institution does not require a minimum balance of USA \$50,000 or its equivalent, then the account does not qualify as a private banking account under this rule. However, the account is subject to the internal controls and risk-based due diligence included in the institution's general AML Compliance program.

Determine whether the financial institution has implemented due diligence policies, procedures and controls for private banking accounts established, maintained, administered, or managed in Nigeria by the financial institution for Nigerian/non-Nigerian persons. Determine whether the policies, procedures and controls are reasonably designed to detect and report any known or suspected money laundering or suspicious activity conducted through or involving any private banking account.

Review the financial institution's policies, procedures and controls to assess whether the financial institution's due diligence program includes reasonable steps to :

- (i) Ascertain the identity of the nominal and beneficial owners of a private banking account ;
- (ii) Ascertain whether any nominal or beneficial owner of a private banking account is a senior local/foreign political figure ;
- (iii) Ascertain the source(s) of funds deposited into a private banking account and the purpose and expected use of the private banking accounts ; and
- (iv) Review the activity of the account to ensure that it is consistent with the information obtained about the client's source of funds and with the stated purpose and expected use of the account, as needed, to guard against money laundering and to report any known or suspected money laundering or suspicious activity conducted to, from, or through a private banking accounts.

Review the financial institution's policies, procedures and controls for performing enhanced scrutiny to assess whether they are reasonably designed to detect and report transactions that may involve the proceeds of local/foreign corruption for which a senior political figure is a nominal or beneficial owner.

#### TRANSACTION TESTING

On the basis of a risk assessment, prior examination reports and a review of the financial institution's audit findings, select a sample of customer files to determine whether the financial institution has ascertained the identity of the nominal and beneficial owners of, and the source of funds deposited into private banking accounts. From the sample selected, determine whether the :

- (i) Financial institution's procedures comply with internal policies and statutory requirements ;
- (ii) Financial institution has followed its procedures governing risk assessment of private banking accounts ; and
- (iii) Financial institution performs enhanced scrutiny of private banking accounts for which senior foreign political figures are nominal or beneficial owners, consistent with its policy, regulatory guidance, and statutory requirements.

On the basis of examination procedures completed, including transaction testing form a conclusion about the ability of policies, procedures and processes to meet regulatory requirements associated with private banking due diligence programs.

### 3.13. Objective

Assess the financial institution's compliance with statutory and regulatory requirements.

Examination  
Procedures of  
Special  
Measures

#### ACTIVITY

Determine the extent of the financial institution's international banking activities and the foreign jurisdictions in which the financial institution conducts transactions and activities with particular emphasis on foreign correspondent banking and payable through accounts.

As applicable, determine whether the financial institution has established policies, procedures and processes to respond to specific special measures imposed by regulators that are applicable to its operations. Evaluate the adequacy of the policies, procedures and processes for detecting accounts or transactions within jurisdictions, financial institutions or transactions subject to final special measures.

Determine, through discussions with management and review of the financial institution's documentation, whether the financial institution has taken action in response to final special measures.

#### TRANSACTION TESTING

Determine all final special measures issued by regulators that are applicable to the financial institution.

For any of the first four types of special measures, determine whether the financial institution obtained, recorded or reported the information required by each particular special measure.

For the fifth special measure (prohibition), determine whether the financial institution complied with the prohibitions or restrictions required by each particular special measure and complied with any other actions required by the special measures.

As necessary, search the financial institution's MIS and other appropriate records for accounts or transactions with jurisdictions, financial institutions or transactions subject to final special measures.



On the basis of examination procedures completed, including transaction testing, form a conclusion about the ability of policies, procedures and processes to meet regulatory requirements associated with special measures.

Examination Procedures Foreign Financial Institution and Financial Accounts Reporting. Examination Procedures of International Transportation of Currency or Monetary Instruments Reporting.

3.14. OBJECTIVE

Assess the financial institution's compliance with statutory and regulatory requirements for the reporting of foreign financial institution and financial accounts.

ACTIVITY

Determine whether the financial institution has a financial interest in, or signature or other authority over the financial institution, securities, or other financial accounts in a foreign country, as well as whether the financial institution is required to file a Report of Foreign Financial Institution and Financial Accounts.

If applicable, review the financial institution's policies, procedures and processes for filing annual reports.

TRANSACTION TESTING

On the basis of a risk assessment, prior examination reports and a review of the financial institution's audit findings, select a sample of accounts to determine whether the financial institution has appropriately completed, submitted and retained copies of returns. On the basis of examination procedures completed, including transaction testing, form a conclusion about the ability of policies, procedures and processes to meet regulatory requirements.

3.15. OBJECTIVE

Assess the financial institution's compliance with statutory and regulatory requirements for the reporting of international shipments of currency or monetary instruments.

ACTIVITY

Determine whether the financial institution has (or has caused to be) physically transported, mailed or shipped currency or other monetary instruments

in excess of US \$10,000, at one time, out of Nigeria or whether the financial institution has received currency or other monetary instruments in excess of US \$10,000, at one time that has been physically transported, mailed or shipped into Nigeria.

If applicable, review the financial institution's policies, procedures and processes for filing a Report of International Transportation of Currency or Monetary Instruments for each shipment of currency or other monetary instruments in excess of USA \$10,000 out of or into Nigeria (including shipments sent through the postal service, common carrier, etc).

TRANSACTION TESTING

On the basis of a risk assessment, prior examination reports and a review of the financial institution's audit findings, select a sample of transactions conducted after the previous examination to determine whether the financial institution has appropriately completed, submitted and retained copies of the reports.

On the basis of examination procedures completed, including transaction testing, form a conclusion about the ability of policies, procedures and processes to meet regulatory requirements associated with these reports.

3.16. OBJECTIVE

Assess the structure and management of the financial institution's AML/ CFT Compliance Program and (if applicable) its consolidated or partially consolidated approach to AML/CFT compliance. An AML/CFT Compliance Program may be structured in a variety of ways and an Examiner should perform procedures based on the structure of the institution. Completion of these procedures may require communication with peer regulators.

Examination  
Procedures  
for AML/  
CFT  
Compliance  
Program  
Structures.

ACTIVITY

Review the structure and management of the AML/CFT Compliance Program. Communicate with peer regulators, if necessary, to confirm their understanding of the institution's AML/CFT Compliance Program. This approach promotes consistent supervision and lessens regulatory burden for financial institution. Determine the extent to which the structure of the AML/CFT Compliance Program affects the institution being examined, by considering:

- (i) The existence of consolidated or partially consolidated operations or functions responsible for day-to-day AML/CFT operations, including, but not limited to, the centralization of suspicious transaction monitoring and reporting, Currency Transaction Reporting (CTR) or record keeping activities ;
- (ii) The consolidation of operational units dedicated to and responsible for monitoring transactions across activities, business lines or legal entities. Assess the variety and extent of information that data or transaction obtained from sources such as banks/other financial institutions, broker/dealers, trust companies, corporations, insurance companies, or foreign branches are taken into consideration in the monitoring and reporting systems ;
- (iii) The extent to which the financial institution (or a corporate-level unit, such as audit or compliance) performs regular independent testing of AML/ CFT activities ; and
- (iv) Whether (and to what extent) the institution sponsors AML/CFT training.

Review testing for AML/CFT compliance throughout the financial institution, as applicable, and identify program deficiencies.

Review board minutes to determine the adequacy of MIS and of reports provided to the board of directors. Ensure that the board of directors has received appropriate notification of STRs filed.

Review policies, procedures, processes and risk assessments formulated and implemented by the institution's board of directors, a board committee thereof or senior management. As part of this review, assess effectiveness of the institution's ability to perform the following responsibilities :

- (i) Manage the AML/CFT Compliance Program and provide adequate oversight ;
- (ii) Set and communicate corporate standards that reflect the expectations of the institution's board of directors and provide for clear allocation of AML/ CFT compliance responsibilities ;
- (iii) Promptly identify and effectively measure, monitor and control key risks throughout the institution ;
- (iv) Develop an adequate risk assessment and the policies, procedures and processes to comprehensively manage those risks ;
- (v) Develop procedures for evaluation, approval and oversight of risk limits, new business initiatives and strategic changes ;

- (vi) Oversee the compliance of subsidiaries with applicable regulatory requirements (e.g., country and industry requirements) ;
- (vii) Oversee the compliance of subsidiaries with the requirements of the AML/CFT Compliance Program ; and
- (viii) Identify weaknesses in the AML/CFT Compliance Program and implement necessary and timely corrective action at both the institutional and subsidiary levels.

To ensure compliance with regulatory requirements, review the financial institution's procedures for monitoring and filing of STRs.

Once the Examiners have completed the above procedures, they should discuss their findings with the following parties, as appropriate :

- (i) Examiner in charge ;
- (ii) Person (or persons) responsible for on-going supervision of the institution and subsidiary financial institutions, as appropriate ;
- (iii) Corporate management ; and
- (iv) On the basis of examination procedures completed, form a conclusion about the adequacy of the AML/CFT Compliance Program structures and management including, if applicable, the effectiveness of the consolidated or partially consolidated approach to compliance.

When this approach is taken, Examiners must identify which portions of the AML/CFT Compliance Program are parts of the consolidated AML/CFT Compliance Program. This information is critical when scoping and planning an AML/CFT examination.

When evaluating a consolidated AML/CFT Compliance Program for adequacy, the Examiner should determine reporting lines and how each affiliate, subsidiary, business line and jurisdiction fit into the overall compliance structure. This should include an assessment of how clearly the roles and responsibilities are communicated across the financial institution.

The Examiner also should assess how effectively the financial institution or entire organization monitors AML/CFT compliance throughout the organization, including how well the consolidated and non-consolidated AML/CFT Compliance Program capture relevant data from subsidiaries.

The evaluation of a consolidated AML/CFT Compliance Program should take into consideration available information about the adequacy of the individual subsidiaries AML/CFT Compliance Program. Regardless of the decision to implement a consolidated AML/CFT Compliance Program in whole or in part, the program should ensure that all affiliates, including those operating within foreign jurisdictions meet their applicable regulatory requirements. For example, an audit program implemented solely on a consolidated basis that does not conduct appropriate transaction testing at all subsidiaries subject to the Money Laundering (Prohibition) Act 2011, CBN AML/CFT Regulation 2009 (as amended), etc would not be sufficient to meet regulatory requirements for independent testing for those subsidiaries.

3.17. OBJECTIVE

Assess the adequacy of the financial institution's systems to manage the risks associated with parallel banking relationships, and the management's ability to implement effective due diligence, monitoring and reporting systems.

Examination  
Procedures  
of Parallel  
Banking

ACTIVITY

Determine whether parallel banking relationships exist through discussions with management or by reviewing inter-party activities involving the financial institution and another foreign financial institution. Review the policies, procedures and processes related to parallel banking relationships. Evaluate the adequacy of the policies, procedures and processes given the financial institution's parallel banking activities and the risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

Determine whether there are any conflicts of interest or differences in policies, procedures and processes between parallel banking relationships and other foreign correspondent bank/other financial institution relationships. Particular consideration should be given to funds transfer, pouch and payable through activities because these activities are more vulnerable to money laundering. If the financial institution engages in any of these activities, Examiners should consider completing applicable expanded examination procedures that address each of these topics.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors parallel banking relationships, particularly those that pose a higher-risk for money laundering.

Determine whether the financial institution's system for monitoring parallel banking relationships for STRs, and for reporting suspicious transaction is adequate given the FI's size, complexity, location and types of customer relationships.

TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its parallel banking activities, as well as prior examination and audit reports, select a sample of higher-risk activities from parallel banking relationships (e.g., foreign correspondent banking, funds transfer, payable through accounts and pouch).

Consider the location of the foreign parallel financial institution. If the jurisdiction is higher risk, Examiners should review a larger sample of transactions between the two institutions. Financial institutions doing business with parallel foreign banking organizations in countries not designated as higher risk may still require EDD, but that determination will be based on the size, nature and type of the transactions between the institutions.

On the basis of examination procedures completed, including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with parallel banking organizations. Focus on whether controls exist to ensure independent and arm's-length dealings between the two entities. If significant concerns are raised about the relationship between the two entities, recommend that this information be forwarded to the appropriate supervisory authorities.

Expanded Examination Overview and Procedures for Products and Services.	3.18. EXAMINATION PROCEDURES OF CORRESPONDENT ACCOUNTS (DOMESTIC)
	OBJECTIVE
	Assess the adequacy of the financial institution's systems to manage the ML/FT risks associated with offering domestic correspondent account relationships, and ability of the management to implement effective monitoring and reporting systems.

## ACTIVITY

Review the policies, procedures, processes and any financial institution's service agreements related to domestic correspondent banking relationships. Evaluate the adequacy of the policies, procedures and processes given the financial institution's domestic correspondent accounts and the risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From a review of MIS and internal risk rating factors, determine whether the bank has identified any domestic correspondent banking activities as higher risk.

Determine whether the financial institution's system for monitoring domestic correspondent accounts for suspicious transactions and for reporting such suspicious transactions are adequate given the financial institution's size, complexity, location and types of customer relationships.

## TRANSACTION TESTING

On the basis of the financial institution's review of respondent accounts with unusual or higher-risk activity, its risk assessment and prior examination and audit reports, select a sample of respondents' accounts. From the sample selected, perform the following examination procedures :

- (i) Review financial institution statements for domestic correspondent accounts ;
- (ii) Review large or unusual transactions to determine their nature. As necessary, obtain and review copies of credit or debit advices and other supporting documentation ; and
- (iii) Note any currency shipments or deposits made on behalf of a respondent financial institution's customer. Based on this information determine whether :
  - (a) Currency shipments are adequately documented ;
  - (b) The respondent financial institution has performed due diligence on customers that conduct large currency transactions ; and
  - (c) CTRs are properly filed and transaction is commensurate with how it is expected.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes that are associated with domestic correspondent financial institution's relationships.

### 3.19. OBJECTIVE

Assess the adequacy of the Nigerian financial institution's systems to manage the ML/FT risks associated with foreign correspondent banking and ability of the management to implement effective due diligence, monitoring and reporting systems. This section expands the earlier core review of statutory and regulatory requirements of foreign correspondent account relationships in order to provide a broader assessment of the ML/FT risks associated with this activity.

Examination  
Procedures of  
Correspondent  
Accounts  
(Foreign).

### ACTIVITY

Review the policies, procedures and processes related to foreign correspondent financial institution account relationships. Evaluate the adequacy of the policies, procedures and processes. Assess whether the controls are adequate to reasonably protect the Nigerian financial institution from money laundering and terrorist financing.

From a review of MIS and internal risk-rating factors, determine whether the Nigerian financial institution effectively identifies and monitors foreign correspondent financial institution account relationships, particularly those that pose a higher risk for money laundering.

If the Nigerian financial institution has a standardized foreign correspondent agreement, review a sample agreement to determine whether each party's responsibilities, products and services provided and allowable third party usage of the correspondent account are covered under the contractual arrangement. If the Nigerian financial institution does not have a standardized agreement, refer to the transaction testing examination procedures.

Determine whether the Nigerian financial institution's system for monitoring foreign correspondent financial institution account relationships for suspicious transactions and for reporting such suspicious transactions are adequate, given the Nigerian financial institution's size, complexity, location and types of customer relationships.



## TRANSACTION TESTING

On the basis of the Nigerian financial institution's risk assessment of its foreign correspondent activities as well as prior examination and audit reports, select a sample of higher-risk foreign correspondent financial institution account relationships. The higher-risk sample should include relationships with foreign financial institutions located in jurisdictions that do not cooperate with international AML/CFT efforts and in other jurisdictions that the Nigerian financial institution has determined to pose a higher risk. From the sample selected, perform the following examination procedures :

- (i) Review a foreign correspondent agreement or contract that delineates each party's responsibilities and the products and services provided ;
- (ii) Review Nigerian financial institution's statements for foreign correspondent accounts and as necessary, specific transaction details. Compare expected transactions with actual activity ;
- (iii) Determine whether actual activity is consistent with the nature of the customer's business. Identify any unusual or suspicious transaction ;
- (iv) Review large or unusual transactions to determine their nature. As necessary, obtain and review copies of credit or debit advices, general ledger tickets and other supporting documentation ; and
- (v) Analyze transactions to identify behavior indicative of nested accounts, intermediary or clearing agent services or other services for third-party foreign financial institutions that have not been clearly identified.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with foreign correspondent financial institution relationships.

### Examination 3.20. OBJECTIVE

Procedures Assess the adequacy of the Nigerian financial institution's systems to manage the ML/FT risks associated with receiving bulk shipments of currency, and ability of the management to implement effective due diligence, monitoring and reporting systems.

### ACTIVITY

Determine whether the financial institution receives shipments of bulk currency. Review for adequacy the policies, procedures and processes related to receiving shipments of bulk currency, given the activity and the risks presented.

Review the list of currency originators and intermediaries that send bulk currency shipments to the financial institution.

Determine whether management has assessed the risks associated with receiving bulk currency shipments from particular currency originators and intermediaries. Consider the source of the currency originator's or intermediary's currency and the reasonableness of transaction volumes. Assess the adequacy of the risk-assessment methodology.

From a review of MIS and internal risk-rating factors, determine whether the financial institution effectively identifies and monitors relationships with currency originators and intermediaries, particularly those that pose a higher risk for money laundering or terrorist financing.

If the financial institution has a standardized agreement or contract with currency originators or intermediaries, review a sample agreement or contract to determine whether each party's responsibilities, products and services provided allow third-party usage of the relationship, including the parties' AML/CFT responsibilities are covered. If the financial institution does not have a standardized agreement or contract, refer to the transaction testing examination procedures below.

Determine whether the financial institution's system for monitoring and reporting suspicious transactions related to shipping relationships and transactions is adequate given the financial institution's size, complexity, location and types of customer relationships.

Determine whether the financial institution is monitoring expected or actual shipping volumes and taking action in response to unusual or inordinate increase in volumes.

#### TRANSACTION TESTING

Based on the financial institution's risk assessment of its relationships with currency originators and intermediaries, as well as prior examination and audit reports, select a sample of currency originators or intermediaries and recent bulk currency shipments. The sample should include relationships with currency originators and intermediaries located in or shipping from jurisdictions that may pose a higher risk for money laundering and terrorist financing, or that participate in businesses that may pose a higher risk for money laundering and terrorist financing.

Preferably on an unannounced basis and over a period of several days, observe the process for accepting shipments of bulk currency. Review the records and the shipments for irregularities.

From the samples selected, perform the following examination procedures :

- (i) Review for completeness a relationship agreement or contract that delineates each party's responsibilities and the products and services provided.
- (ii) Review Nigeria bank's statements of accounts and, as necessary, specific transaction details ;
- (iii) Review vault control records for bulk currency shipment transactions (in and out) to identify large denomination activity as a result of small denomination exchanges ;
- (iv) Assess the reasonableness of customer due diligence and EDD information pertaining to the sampled currency originators and intermediaries ;
- (v) Determine whether the nature, volume and frequency of activity is consistent with the expectations associated with the currency originator and intermediary;
- (vi) Discuss with financial institution management any inconsistencies identified. As necessary, obtain and review copies of credit or debit advices, general ledger tickets and other supporting documentation ;
- (vii) Review unusual transactions and customer due diligence information to determine if transactions are potentially suspicious ; and
- (viii) Discuss preliminary findings and conclusions with the management of the financial institution.

If the currency originator or intermediary, or the referral agent who works for the currency originator or intermediary has an account with the financial institution, review a sample of account activity.

Based on the examination procedures completed, including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with the bulk shipment of currency.

Examination Procedures of Foreign Currency Denominated Drafts.	3.21. OBJECTIVE Assess the adequacy of the financial institution's systems to manage the ML/FT risks associated with foreign currency denominated drafts, and management's ability to implement effective monitoring and reporting systems.
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## ACTIVITY

Review the policies, procedures and processes related to foreign currency denominated drafts. Evaluate the adequacy of the policies, procedures and processes given the financial institution's foreign currency denominated draft activities and the risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing. Determine whether policies address the following :

- (i) Criteria for allowing a financial institution to issue foreign currency denominated drafts (e.g., jurisdiction, products, services and target markets, purpose of account and anticipated activity, customer history and other available information) ;
- (ii) Identification of unusual transactions (e.g., structuring transactions or the purchase of multiple sequentially numbered foreign currency denominated drafts to the same payee) ; and
- (iii) Criteria for ceasing foreign currency denominated draft issuance through a foreign financial institution.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors higher-risk foreign currency denominated draft accounts.

Determine whether the financial institution's system for monitoring foreign currency denominated draft accounts for suspicious transactions, and for reporting suspicious transactions is adequate given the financial institution's size, complexity, location and types of customer relationships.

Obtain a list of the financial institution's correspondent accounts in which foreign currency denominated drafts are offered. Review the volume by number and currency amount of monthly transactions for each account. Determine whether management has appropriately assessed risk.

## TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its foreign currency denominated draft transactions as well as prior examination and audit reports, select a sample of foreign correspondent financial institution's accounts in which foreign currency denominated drafts are processed. In the sample selected,

include accounts with a high volume of foreign currency denominated draft transactions and perform the following examination procedures :

- (i) Review transactions for sequentially numbered foreign currencydenominated drafts to the same payee or from the same remitter and research any unusual or suspicious foreign currency denominated draft transactions ;
- (ii) Review the financial institution’s contracts and agreements with foreigncorrespondent financial institutions ;
- (iii) Determine the contracts address procedures for processing and clearingforeign currency denominated drafts ; and
- (iv) Verify that the financial institution has obtained and reviewed informationabout the foreign financial institution’s home country AML/CFT regulatory requirements (e.g., customer identification and suspicious transaction reporting).

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with foreign currency denominated drafts.

<p>3.22. OBJECTIVE</p> <p>Assess the adequacy of the financial institution’s systems to manage the risks associated with Payable Through Accounts (PTA), and ability of the management to implement effective monitoring and reporting systems.</p>	<p>Examination Procedures of Payable Through Accounts.</p>
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ACTIVITY

Review the policies, procedures and processes related to PTAs. Evaluate the adequacy of the policies, procedures and processes given the financial institution’s PTA activities and the risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing. Determine whether :

- (i) Criteria for opening PTA relationships with a foreign financial institutionare adequate. Examples of factors that may be used include jurisdiction, products, services, markets, purpose, anticipated activity, customer history, ownership, senior management, certificate of incorporation, banking license, certificate of good standing and demonstration of the foreign financial institution’s operational capability to monitor account activity ;

- (ii) Appropriate information has been obtained and validated from the foreign financial institution concerning the identity of any persons having authority to direct transactions through the PTA ;
- (iii) Information and EDD have been obtained from the foreign financial institution concerning the source and beneficial ownership of funds of persons who have authority to direct transactions through the PTA (e.g., name, address, expected activity level, place of employment, description of business, related accounts, identification of foreign politically exposed persons, source of funds and articles of incorporation) ;
- (iv) Sub-accounts are not opened before the Nigerian financial institution has reviewed and approved the customer information ;
- (v) Master or sub-accounts can be closed if the information provided to the financial institution has been materially inaccurate or incomplete ; and
- (vi) The financial institution can identify all signatories on each sub-account.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors PTAs.

Determine whether the financial institution's system for monitoring PTAs for suspicious activities and reporting suspicious activities is adequate given the financial institution's size, complexity, location and types of customer relationships.

To assess the volume of risk and determine whether adequate resources are allocated to the oversight and monitoring activity, obtain a list of foreign correspondent financial institution accounts in which PTAs are offered and request MIS reports that show :

- (i) The number of sub-accounts within each PTA ; and
- (ii) The volume and Naira amount of monthly transactions for each subaccount.

Verify that the financial institution has obtained and reviewed information concerning the foreign financial institution's home country AML/CFT regulatory requirements (e.g., customer identification requirements and suspicious transaction reporting) and considered these requirements when reviewing PTAs. Determine whether the financial institution has ensured that subaccount agreements comply with any AML/CFT statutory and regulatory requirements existing in the foreign financial institution's home country.

## TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its PTA activities as well as prior examination and audit reports, select a sample of PTAs. From the sample, review the contracts or agreements with the foreign financial institution and determine whether the contracts or agreements :

- (i) Clearly outline the contractual responsibilities of both the Nigerian financial institution and the foreign financial institution ;
- (ii) Define PTA and subaccount opening procedures and require an independent review and approval process when opening the account ;
- (iii) Require the foreign financial institution to comply with its Nigeria/local AML/CFT requirements ;
- (iv) Restrict sub-accounts from being opened by finance companies, funds remitters or other non-bank financial institutions ;
- (v) Prohibit multi-tier sub-account holders ;
- (vi) Provide for proper controls over currency deposits and withdrawals by sub-account holders and ensure that CTRs have been appropriately filed ;
- (vii) Provide for Naira limits on each sub-account holder's transactions that are consistent with expected account activity ;
- (viii) Contain documentation requirements that are consistent with those used for opening domestic accounts at the Nigerian financial system ;
- (ix) Provide the Nigerian financial institution with the ability to review information concerning the identity of sub-account holders (e.g., directly or through a trusted third party) ;
- (x) Required the foreign financial institution to monitor subaccount activities for unusual or suspicious activity and report findings to the Nigerian financial institution ; and
- (xi) Allow the Nigerian financial institution, as permitted by local laws, to audit the foreign financial institution's PTA operations and to access PTA documents.

Review PTA master-account of the financial institution's statements. The Examiner should determine the time period based upon the size and complexity of the financial institution. The statements chosen should include frequent transactions and those of large Naira amounts. Verify the statements to the general ledger and bank reconciliations. Note any currency shipments or deposits made at the Nigerian financial institution on behalf of an individual sub-account holder for credit to the customer's subaccount.

From the sample selected, review each sub account holder's identifying information and related transactions for a period of time as determined by the Examiner. Evaluate PTA sub account holders' transactions. Determine whether the transactions are consistent with expected transactions or warrant further research. The sample should include sub account holders with significant dollar activity.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with PTAs.

#### Examination 3.23. OBJECTIVE

Procedures of Pouch Activities. Assess the adequacy of the financial institution's systems to manage the ML/FT risks associated with pouch activities and the management's ability to implement effective monitoring and reporting systems.

#### ACTIVITY

Determine whether the financial institution has incoming or outgoing pouch activity and whether the activity is via carrier or courier.

Review the policies, procedures and processes, and any contractual agreements related to pouch activities. Evaluate the adequacy of the policies, procedures, and processes given the financial institution's pouch activities and the risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors pouch activities.

Determine whether the financial institution's system for monitoring pouch activities for suspicious transactions and for reporting suspicious transactions is adequate given the financial institution's size, complexity, location and types of customer relationships.

Review the list of financial institution customers permitted to use pouch services (incoming and outgoing). Determine whether management has assessed the ML/FT risk of the customers permitted to use this service.



TRANSACTION TESTING

On the basis of the financial institution’s ML/FT risk assessment of its pouch activities as well as prior examination and audit reports, and recent activity records, select a sample of daily pouches for review. Preferably on an unannounced basis and over a period of several days, not necessarily consecutive, observe the pouch opening and the data capture process for items contained in a sample of incoming pouches, and observe the preparation of outgoing pouches. Review the records and the pouch contents for currency, monetary instruments, bearer securities, prepaid cards, gems, art, illegal substances or contraband, or other items that should not ordinarily appear in a financial institution’s pouch.

If the courier or the referral agent who works for the courier has an account with the financial institution, review an appropriate sample of his account activity.

On the basis of examination procedures completed, including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with pouch activity.

3.24. OBJECTIVE

Assess the adequacy of the financial institution’s systems to manage the ML/FT risks associated with electronic banking (e-banking) customers, including Remote Deposit Capture (RDC) activity and management’s ability to implement effective monitoring and reporting systems in compliance with CBN’s circulars on e-banking.

Examination Procedures on Electronic Banking. Examination Procedures of Funds Transfers.

ACTIVITY

Review the policies, procedures and processes related to e-banking. Evaluate the adequacy of the policies, procedures and processes given the financial institution’s e-banking activities and the ML/FT risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors higher-risk e-banking activities.

Determine whether the financial institution's system for monitoring e-banking for suspicious transactions and for reporting suspicious transactions is adequate given the financial institution's size, complexity, location and types of customer relationships.

#### Transaction Testing

On the basis of the financial institution's risk assessment of its e-banking activities as well as prior examination and audit reports, select a sample of e-banking accounts. From the sample selected, perform the following procedures :

- (i) Review account opening documentation and KYC requirements, ongoing CDD and transaction history ;
- (ii) Compare expected activity with actual activity ; and
- (iii) Determine whether the transaction is consistent with the nature of the customer's business. Identify any unusual or suspicious transaction.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with e-banking relationships.

#### 3.25. OBJECTIVE

Assess the adequacy of the financial institution's systems to manage the risks associated with funds transfers and the management's ability to implement effective monitoring and reporting systems.

This section expands the core review of the statutory and regulatory requirements of funds transfers to provide a broader assessment of ML/FT risks associated with this activity.

#### ACTIVITY

Review the policies, procedures and processes related to funds transfers. Evaluate the adequacy of the policies, procedures and processes given the financial institution's funds transfer activities and the risks they present. Assess whether the

controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors funds transfer activities.

Evaluate the financial institution's risks related to funds transfer activities by analyzing the frequency and currency volume of funds transfers, jurisdictions and the financial institution's role in the funds transfer process (e.g., whether it is the originator's bank or financial institution, intermediary financial institution or beneficiary's financial institution). These factors should be evaluated in relation to the financial institution's size, its location and the nature of its customer and correspondent account relationships.

Determine whether an audit trail of funds transfer activities exists. Determine whether an adequate separation of duties or other compensating controls are in place to ensure proper authorization for sending and receiving funds transfers and for correcting postings to accounts.

Determine whether the financial institution's system for monitoring funds transfers and for reporting suspicious activities is adequate given the financial institution's size, complexity, location and types of customer relationships. Determine whether suspicious activity monitoring and reporting systems include :

- (i) Funds transfers purchased with currency ;
- (ii) Transactions in which the financial institution is acting as an intermediary ;
- (iii) All SWIFT message formats ;
- (iv) Transactions in which the financial institution is originating or receiving funds transfers from foreign financial institutions, particularly to or from jurisdictions with strict privacy and secrecy laws or those identified as higher risk ; and
- (v) Frequent currency deposits or funds transfers and then subsequent transfers, particularly to a larger institution or out of the country.

Review the financial institution's procedures for cross-border funds transfers as follows :

- (i) Determine whether the financial institution processes its foreign correspondent banking activity with due diligence. Review and evaluate the transparency practices of the financial institution's

correspondents in crossborder funds transfers through the institutions. For example, whether correspondents are appropriately utilizing the MT message format) ;

- (ii) As applicable and if not already performed, review the financial institution's procedures to ensure compliance with the Travel Rule, including appropriate use of the MT format ;
- (iii) Assess the financial institution's policies for cooperation with its correspondents when they request the bank or financial institution to provide information about parties involved in funds transfers ;
- (iv) Assess the adequacy of the financial institution's procedures for addressing isolated as well as repeated instances where payment information received from a correspondent is missing, manifestly meaningless or incomplete or suspicious ;
- (v) Determine the financial institution's procedures for Payable Upon Proper Identification (PUPID) transactions ;
- (vi) Determine how the beneficiary bank or other financial institution disburses the proceeds (i.e., by currency or official cheques) L and
- (vii) Determine how the originating bank or other financial institution allows PUPID funds transfers for non-customers and the type of funds accepted (i.e., by currency or official check).

#### TRANSACTION TESTING

On the basis of the financial institution's risk assessment of funds transfer activities as well as prior AML/CFT Bank Examination and Audit Reports, select a sample of higher-risk funds transfer activities, which may include the following :

- (i) Funds transfers purchased with currency ;
- (ii) Transactions in which the financial institution is acting as an intermediary, such as cover payments ;
- (iii) Transactions in which the financial institution is originating or receiving funds transfers from foreign financial institutions, particularly to or from jurisdictions with strict privacy and secrecy laws or those identified as higher risk ; and (iv) PUPID transactions.

From the sample selected, analyze funds transfers to determine whether the amounts, frequency and jurisdictions of origin or destination are consistent with the nature of the business or occupation of the customer.

In addition, for funds transfers processed using various message formats, review the sample of messages to determine whether the financial institution has used the appropriate message formats and has included complete originator and beneficiary information (e.g., no missing or meaningless information).

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with funds transfer activity.

#### Examination 3.26. OBJECTIVE

Procedures of Assess the adequacy of the bank's/other financial institution's Automated systems to manage the risks associated with Automated Clearing House (ACH), International ACH Transactions (IAT) and the House management's ability to implement effective monitoring and Transactions. reporting systems.

#### ACTIVITY

Review the policies, procedures and processes related to ACH transactions including IATs. Evaluate the adequacy of the policies, procedures and processes given the financial institution's ACH transactions, including IATs and the risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors higher-risk customers using ACH transactions, including IATs.

Evaluate the financial institution's risks related to ACH transactions including IATs by analyzing the frequency, volume and types of ACH transactions in relation to the financial institution's size, its location, the nature of its customer account relationships, and the location of the origin or destination of IATs relative to the financial institution's location.

Determine whether the financial institution's system for monitoring customers, including third-party service providers (TPSP) using ACH transactions and IATs for suspicious activities and for reporting of suspicious activities is adequate given the

financial institution's size, complexity, location and types of customer relationships. Determine whether internal control systems include :

- (i) Identifying customers with frequent and large ACH transactions or IATs ;
- (ii) Monitor ACH detail activity when the batch-processed transactions are separated for other purposes (e.g., processing errors) ;
- (iii) As appropriate, identify and apply increased due diligence to high risk customers who originate or receive IATs, particularly when a party to the transaction is located in a higher-risk geographic location ; and
- (iv) Using methods to track, review and investigate customer complaints or unauthorized returns regarding possible fraudulent or duplicate ACH transactions, including IATs.

#### TRANSACTION TESTING

On the basis of the financial institution's risk assessment of customers with ACH transactions as well as prior AML/CFT Bank Examination and Audit Reports, select a sample of higher-risk customers, including TPSPs with ACH transactions or IATs which may include the following :

- (i) Customers initiating ACH transactions, including IATs from the internet or via telephone, particularly from an account opened on the internet or via the telephone without face-to-face interaction ;
- (ii) Customers whose business or occupation does not warrant the volume or nature of ACH or international transfer activity ;
- (iii) Customers who have been involved in the origination or receipt of duplicate or fraudulent ACH transactions or international transfer ; and
- (iv) Customers or originators (clients of customers) that are generating a high rate or high volume of invalid account returns, consumer unauthorized returns or other unauthorized transactions.

From the sample selected, analyze ACH transactions including IATs to determine whether the amounts, frequency and jurisdictions of origin or destination are consistent with the nature of the business or occupation of the customer. A review of the account opening documentation including CIP documentation may be necessary in making these determinations. Identify any suspicious or unusual activity.

On the basis of the examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with ACH transactions and international transfers.

### 3.27. OBJECTIVE

Assess the adequacy of the financial institution's systems to manage the risks associated with electronic cash (e-cash), including prepaid cards and the management's ability to implement effective monitoring and reporting systems.

Examination  
Procedures  
of Electronic  
Cash.

### ACTIVITY

Review the policies, procedures and processes related to e-cash, including prepaid cards. Evaluate the adequacy of the policies, procedures and processes given the financial institution's e-cash activities, including prepaid cards and the risk they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors higher-risk e-cash transactions, including prepaid card transactions.

Determine whether the financial institution's system for monitoring e-cash transactions, including prepaid card transactions for suspicious activities and for reporting suspicious activities is adequate given the financial institution's size, complexity, location and types of customer relationships.

### TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its e-cash activities including prepaid card activities, as well as prior AML/CFT Bank Examination and Audit Reports, select a sample of e-cash transactions. From the sample selected perform the following examination procedures :

- (i) Review account opening documentation, including CIP, on-going CDD and transaction history ;
- (ii) Compare expected activity with actual activity ;
- (iii) Determine whether the activity is consistent with the nature of the customer's business ; and
- (iv) Identify any unusual or suspicious activity.

On the basis of AML/CFT examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with e-cash relationships.

#### Examination 3.27. Objective

Procedures Assess the adequacy of the financial institution's systems to manage of Thirdparty the risks associated with its relationships with third-party payment Payment processors, and the management's ability to implement effective Processors. monitoring and reporting systems.

#### ACTIVITY

Review the policies, procedures and processes related to third-party payment processors (processors). Evaluate the adequacy of the policies, procedures and processes given the financial institution's processor activities and the risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors processor relationships, particularly those that pose a higher risk for money laundering.

Determine whether the financial institution's system for monitoring processor accounts for suspicious activities and for reporting suspicious activities is adequate given the financial institution's size, complexity, location and types of customer relationships.

#### TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its processor activities as well as prior AML/CFT Bank Examination and Audit Reports, select a sample of higher-risk processor accounts. From the sample selected :

- (i) Review account opening documentation and on-going due diligence information ;
- (ii) Review account statements and, as necessary, specific transaction details to determine how expected transactions compare with actual activity ;
- (iii) Determine whether actual activity is consistent with the nature of the processor's stated activity ;



- (iv) Assess the controls concerning identification of high rates of unauthorized returns and the process in place to address compliance and fraud risks ; and
- (v) Identify any unusual or suspicious activity.

On the basis of the AML/CFT examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with processor accounts.

### 3.28. OBJECTIVE

Assess the adequacy of the financial institution's systems to manage the risks associated with monetary instrument and the management's ability to implement effective monitoring and reporting systems.

Examination  
Procedures of  
Purchase and  
Sale of  
Monetary  
Instruments.

This section expands the core review of statutory and regulatory requirements for purchase and sale of monetary instruments in order to provide a broader assessment of the money laundering risks associated with this activity.

### ACTIVITY

Review the policies, procedures, and processes related to the sale of monetary instruments. Evaluate the adequacy of the policies, procedures and processes given the financial institution's monetary instruments activities and the risks they present. Assess whether controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From the volume of sales and the number of locations that monetary instruments are sold, determine whether the financial institution appropriately manages the risk associated with monetary instrument sales.

Determine whether the financial institution's system for monitoring monetary instruments for suspicious activities and for reporting suspicious activities is adequate given the financial institution's volume of monetary instrument sales, size, complexity, location and types of customer relationships. Determine whether suspicious activity monitoring and reporting systems (either manual or automated) include a review of :

- (i) Sales of sequentially numbered monetary instruments from the same or different purchasers on the same day to the same payee ;
- (ii) Sales of monetary instruments to the same purchaser or sales of monetary instruments to different purchasers made payable to the same remitter ;
- (iii) Monetary instrument purchases by non-customers ; and
- (iv) Common purchasers, payees, addresses, sequentially numbered purchases and unusual symbols.

#### TRANSACTION TESTING

On the basis of the financial institution's risk assessment, as well as prior RBS AML/CFT Bank Examination and Audit Reports, select a sample of monetary instrument transactions for both customers and non-customers from :

- (i) Monetary instrument sales records ; and
- (ii) Copies of cleared monetary instruments purchased with currency.

From the sample selected, analyze transaction information to determine whether amounts, the frequency of purchases and payees are consistent with expected activity for customers or non-customers (e.g., payments to utilities or household purchases). Identify any suspicious or unusual activity.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with monetary instruments.

#### Examination 3.29. OBJECTIVE

Procedures Assess the adequacy of the financial institution's systems to manage of Brokered the risks associated with brokered deposit relationships and the Deposits. management's ability to implement effective due diligence, monitoring and reporting systems.

#### ACTIVITY

Review the policies, procedures and processes related to deposit broker relationships. Evaluate the adequacy of the policies, procedures and processes given the financial institution's deposit broker activities and the risks that they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From a review of MIS and internal risk rating factors, determine whether the bank effectively identifies and monitors deposit broker relationships, particularly those that pose a higher risk for money laundering.

Determine whether the financial institution's system for monitoring deposit broker relationships for suspicious activities and for reporting suspicious activities is adequate given the financial institution's size, complexity, location and types of customer relationships.

#### TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its brokered deposit activities as well as prior AML/CFT Bank Examination and Audit Reports, select a sample of higher-risk deposit broker accounts. When selecting a sample, Examiners should consider the following :

- (i) New relationships with deposit brokers ;
- (ii) The method of generating funds (e.g., internet brokers) ;
- (iii) Types of customers (e.g., non-resident or offshore customers, politically exposed persons or foreign shell banks or other financial institution) ;
- (iv) A deposit broker that has appeared in the financial institution's STRs ;
- (v) Subpoenas served on the financial institution for a particular deposit broker ;
- (vi) Foreign funds providers ; and
- (vii) Unusual activity.

Review the customer due diligence information on the deposit broker. For deposit brokers who are considered higher risk (e.g., they solicit foreign funds or market via the internet or are independent brokers) assess whether the following information is available :

Background and references.

- (i) Business and marketing methods ;
- (ii) Client-acceptance and due diligence practices ;
- (iii) The method for or basis of the broker's compensation or bonus programme ;
- (iv) The broker's source of funds ; and
- (v) Anticipated activity or transaction types and levels (e.g., funds transfers).

On the basis of RBS AML/CFT examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with deposit brokers.

### 3.30. OBJECTIVE

Examination

Assess the adequacy of the financial institution's systems to manage the risks associated with both networking and in-house Non-Deposit Investment Products (NDIP) and the management's ability to implement effective monitoring and reporting systems. Procedures of Non-Deposit Investment Products.

### ACTIVITY

Review the policies, procedures and processes related to NDIP. Evaluate the adequacy of the policies, procedures and processes given the financial institution's NDIP activities and the risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

If applicable, review the contractual arrangements with financial service providers. Determine the AML/CFT compliance responsibility of each party. Determine whether these arrangements provide for adequate AML/CFT oversight and control functions.

From a review of MIS reports (e.g., exception reports, funds transfer reports and activity monitoring reports) and internal risk rating factors, determine whether the financial institution effectively identifies and monitors NDIP, particularly those that pose a higher risk for money laundering.

Determine how the financial institution includes NDIP sales activities in its institution-wide AML/CFT aggregation systems.

Determine whether the financial institution's system for monitoring NDIP and for reporting suspicious activities is adequate given the financial institution's size, complexity, location and types of customer relationships.

### TRANSACTION TESTING

If the financial institution or its majority-owned subsidiary is responsible for the sale or direct monitoring of NDIP, then the Examiners should perform transaction testing procedures on customer accounts established by the financial institution.

On the basis of the financial institution's risk assessment of its NDIP activities as well as prior AML/CFT Bank Examination and Audit Reports, select a sample of higher-

risk NDIP. From the sample selected, perform the following examination procedures:

- (i) Review appropriate documentation including CIP to ensure that adequate due diligence has been performed and appropriate records are maintained ;
- (ii) Review account statements and (as necessary) specific transaction details for :
  - (a) Expected transactions with actual activity ;
  - (b) Holdings in excess of the customer's net worth ;
  - (c) Irregular trading patterns (e.g., incoming funds transfers to purchase securities followed by delivery of securities to another custodian shortly thereafter) ; and
- (iii) Determine whether actual activity is consistent with the nature of the customer's business and the stated purpose of the account. Identify any unusual or suspicious activity.

On the basis of RBS AML/CFT examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with NDIP sales activities.

#### Examination 3.31. OBJECTIVE

Procedures of Concentration Accounts. Assess the adequacy of the financial institution's systems to manage the risks associated with concentration accounts and the management's ability to implement effective monitoring and reporting systems.

#### ACTIVITY

Review the policies, procedures and processes related to concentration accounts. Evaluate the adequacy of the policies, procedures and processes in relation to the financial institution's concentration account activities and the risks they represent. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors concentration accounts.

Review the general ledger and identify any concentration accounts. After discussing concentration accounts with management and conducting any additional research needed, obtain and review a list of all concentration accounts and the financial institution's most recent reconciliation statements.

Determine whether the financial institution's system for monitoring concentration accounts for STRs and for reporting of STRs is adequate given the financial institution's size, complexity, location and types of customer relationships.

#### TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its concentration accounts as well as prior examination and audit reports, select a sample of concentration accounts. From the sample selected, perform the following examination procedures :

- (i) Obtain account activity reports for selected concentration accounts ;
- (ii) Evaluate the activity and select a sample of transactions passing through different concentration accounts for further review ; and
- (iii) Focus on higher-risk activity (e.g., funds transfers or monetary instruments purchases) and transactions from higher-risk jurisdictions.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with concentration accounts.

#### 3.32. OBJECTIVE

Assess the adequacy of the financial institution's systems to manage Examination the risks associated with lending activities and the management's Procedures of ability to implement effective due diligence, monitoring and Lending reporting systems. Activities.

#### ACTIVITY

Review the policies, procedures and processes related to lending activities. Evaluate the adequacy of the policies, procedures and processes given the financial institution's lending activities and the risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors higher-risk loan accounts. Determine whether the financial institution's system for monitoring loan accounts for suspicious transactions and for reporting of suspicious transactions is adequate

given the financial institution's size, complexity, location and types of customer relationships.

#### TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its lending activities as well as prior examination and audit reports, select a sample of high risk loan accounts. From the sample selected, perform the following examination procedures :

- (i) Review account opening documentation including CIP to ensure that adequate due diligence has been performed and that appropriate records are maintained ;
- (ii) Review as necessary the loan history ;
- (iii) Compare expected transactions with actual activity ; and
- (iv) Determine whether actual activity is consistent with the nature of the customer's business and the stated purpose of the loan. Identify any unusual or suspicious transaction.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with lending relationships.

#### 3.33. OBJECTIVE

Examination Procedures of Trade Finance Activities. Assess the adequacy of the financial institution's systems to manage the risks associated with trade finance activities and the management's ability to implement effective due diligence, monitoring and reporting systems.

#### ACTIVITY

Review the policies, procedures and processes related to trade finance activities. Evaluate the adequacy of the policies, procedures and processes governing trade finance-related activities and the risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

Evaluate the adequacy of the due diligence information the financial institution obtains for the customer's files. Determine whether the financial institution has processes in place for obtaining information at account opening in addition to ensuring current customer information is maintained.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors the trade finance portfolio for suspicious or unusual activities, particularly those that pose a higher risk for money laundering.

Determine whether the financial institution's system for monitoring trade finance activities for suspicious activities and for reporting of suspicious activities is adequate, given the financial institution's size, complexity, location and types of customer relationships.

TRANSACTION TESTING

On the basis of the financial institutions' risk assessment of its trade finance portfolio as well as prior examination and audit reports, select a sample of trade finance accounts. From the sample selected, review customer due diligence documentation to determine whether the information is commensurate with the customer's risk. Identify any unusual or suspicious activities.

Verify whether the financial institution monitors the trade finance portfolio for potential violations and unusual transactional patterns and conducts and records the results of any due diligence.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with trade finance activities.

3.34. OBJECTIVE	Examination
Assess the adequacy of the financial institution's systems to manage the risks associated with private banking activities and the management's ability to implement effective due diligence monitoring and reporting systems.	Procedures of Private Banking Activities.

This section expands the core review of the statutory and regulatory requirements of private banking in order to provide a broader assessment of the ML/FT risks associated with this activity.



## ACTIVITY

Review the policies, procedures and processes related to private banking activities. Evaluate the adequacy of the policies, procedures and processes given the financial institution's private banking activities and the risks they represent. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From a review of MIS reports (e.g., customer aggregation, policy exception and missing documentation, customer risk classification, unusual accounts activity and client concentrations) and internal risk rating factors, determine whether the financial institution effectively identifies and monitors private banking relationships, particularly those that pose a higher risk for money laundering.

Determine whether the financial institution's system for monitoring private banking relationships for suspicious activities and for reporting of suspicious activities is adequate given the financial institution's size, complexity, location and types of customer relationships.

Review the private banking compensation program. Determine whether it includes qualitative measures that are provided to employees to comply with account opening and suspicious transaction monitoring and reporting requirements.

Review the monitoring program the financial institution's uses to oversee the private banking relationship manager's personal financial condition and to detect any inappropriate activities.

## TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its private banking activities as well as prior examination and audit reports, select a sample of private banking accounts. The sample should include the following types of accounts :

- (i) Politically Exposed Persons (PEP) ;
- (ii) Private Investment Companies (PIC), International Business
- (iii) Corporations (IBC) and shell companies ;
- (iv) Offshore entities ;
- (v) Cash-intensive businesses ;
- (vi) Import or export companies ;
- (vii) Customers from or doing business in a higher-risk geographic location ;

- (viii) Customers listed on unusual activity monitoring reports ; and
- (ix) Customers who have large currency transactions and frequent funds transfers.

From the sample selected, perform the following examination procedures :

- (i) Review the account opening documentation and ongoing due diligence information ;
- (ii) Review account statements and as necessary, specific transaction details ;
- (iii) Compare expected transactions with actual activity ;
- (iv) Determine whether actual activity is consistent with the nature of the customer's business ; and
- (v) Identify any unusual or suspicious activity.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with private banking relationships.

Update Risk Assessment Summary and Knowledge of Business of the financial institution.

#### Examination 3.35. OBJECTIVE

Procedures of Assess the adequacy of the financial institution's policies, Trust and Asset procedures, processes and systems to manage the ML/FT risks Management associated with trust and asset management services and the Services. management's ability to implement effective due diligence, monitoring and reporting systems.

For examination of stand-alone trusts, the Examiners should cover additional areas such as training, the CCO, independent review and follow-up items.

#### ACTIVITY

Review the policies, procedures and processes related to trust and asset management services. Evaluate the adequacy of the policies, procedures and processes given the financial institution's trust and asset management activities and the risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

Review the institution's procedures for gathering additional identification information, when necessary, about the settlor, grantor, trustee or other persons with authority to direct a trustee and who thus have authority or control over the account in order to establish a true identity of the customer.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors trust and asset management relationships, particularly those that pose a higher risk for money laundering.

Determine how the financial institution includes trust and asset management relationships in an institution-wide AML/CFT aggregation systems.

Determine whether the financial institution's system for monitoring trust and asset management relationships for suspicious transactions and for reporting of such transactions is adequate, given the financial institution's size, complexity, location and types of customer relationships.

#### TRANSACTION TESTING

On the basis of the financial institution's ML/FT risk assessment of its trust and asset management relationships as well as prior examination and audit reports, select a sample of higher-risk trust and asset management services relationships. Include relationships with grantors and co-trustees if they have authority or control as well as any higher-risk assets such as private investment companies (PIC) or asset protection trusts. From the sample selected, perform the following examination procedures :

- (i) Review account opening documentation, including the CIP, to ensure that adequate due diligence has been performed and that appropriate records are maintained ;
- (ii) Review account statements and (as necessary) specific transaction details. Compare expected transactions with actual activity ;
- (iii) Determine whether actual activity is consistent with the nature of the customer's business and the stated purpose of the account ; and
- (iv) Identify any unusual or suspicious activity.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with trust and asset management relationships.

Update the section Notes, Risk Assessment Summary and Knowledge of Business of the financial institution.

### 3.36. OBJECTIVE

Examination

Assess the adequacy of the financial institution's systems to manage Procedures of the risks associated with transactions involving accounts held by NonResident non-resident aliens (NRA) and foreign individuals, and the Aliens and management's ability to implement effective due diligence, Foreign monitoring and reporting systems. Individuals.

### ACTIVITY

Review the financial institution's policies, procedures and processes related to NRA and foreign individual accounts. Evaluate the adequacy of the policies, procedures and processes given the financial institution's non-resident alien and foreign individual activities and the risks they represent. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors higher-risk NRA and foreign individual accounts.

Determine whether the financial institution's system of monitoring NRA and foreign individual accounts for suspicious activities and for reporting of suspicious activities is adequate based on the complexity of the financial institution's NRA and foreign individual relationships, the types of products used by NRAs and foreign individuals, the home countries of the NRAs, and the source of funds and wealth for NRAs and foreign individuals.

### TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its NRA and foreign individual accounts as well as prior examination and audit reports, select a sample of higher-risk NRA accounts. Include the following risk factors :

- (i) Account for resident or citizen of a higher-risk jurisdiction ;
- (ii) Account activity which is substantially currency based ;
- (iii) NRA or foreign individual who uses a wide range of bank services, particularly correspondent services ; and
- (iv) NRA or foreign individual for whom the financial institution has filed a STR.

From the sample selected, perform the following examination procedure :

- (i) Review the customer due diligence information, including CIP information, if applicable ;
- (ii) Review account statements and (as necessary) transaction details to determine whether actual account activity is consistent with expected activity. Assess whether transactions appear unusual or suspicious ; and
- (iii) Review transaction activity and identify patterns that indicate Nigerian resident status or indicate other unusual and suspicious activity.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with NRA accounts.

#### Examination 3.37. OBJECTIVE

**Procedures** Assess the adequacy of the financial institution's systems to manage of Politically the risks associated with senior local/foreign political figures, often Exposed referred to as Politically Exposed Persons (PEP) and the Persons. management's ability to implement effective risk-based due diligence, monitoring and reporting systems.

#### ACTIVITY

Review the risk-based policies, procedures and processes related to PEPs. Evaluate the adequacy of the policies, procedures and processes given the financial institution's PEP accounts and the risks they present. Assess whether the riskbased controls are adequate to reasonably protect the financial institution from being used as a conduit for money laundering, corruption and terrorist financing.

Review the procedures for opening PEP accounts. Identify senior management's role in the approval and ongoing risk-based monitoring of PEP accounts.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors PEP relationships, particularly those that pose a higher risk for corruption, money laundering and terrorist financing.

Determine whether the financial institution's system for monitoring PEPs for suspicious activities and for reporting of suspicious activities is adequate given the financial institution's size, complexity, location and types of customer relationships.

TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its PEP relationships as well as prior examination and audit reports, select a sample of PEP accounts. From the sample selected, perform the following examination procedures :

- (i) Determine compliance with regulatory requirements and with the financial institution's established policies, procedures and processes related to PEPs ;
- (ii) Review transaction activity for accounts selected. If necessary, request and review specific transactions ; and
- (iii) If the analysis of activity and customer due diligence information raises concerns, hold discussions with the institution management.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with PEPs.

3.38. OBJECTIVE

Examination

Assess the adequacy of the financial institution's systems to manage the risks associated with transactions involving embassy and foreign consulate accounts and the management's ability to implement effective due diligence, monitoring and reporting systems.

Embassy and  
Foreign  
Consulate  
Accounts.

ACTIVITY

Review the policies, procedures and processes related to embassy and foreign consulate accounts. Evaluate the adequacy of the policies, procedures and processes given the financial institution's embassy and foreign consulate accounts and the risks they present (e.g., number of accounts, volume of activity and geographic locations). Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

Identify senior management's role in the approval and ongoing monitoring of embassy and foreign consulate accounts. Determine whether the board is aware

of embassy banking activities and whether it receives periodic reports on these activities.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors embassy and foreign consulate accounts, particularly those that pose a higher risk for money laundering.

Determine whether the financial institution's system for monitoring embassy and foreign consulate accounts for suspicious activities and for reporting of suspicious activities is adequate given the financial institution's size, complexity, location and types of customer relationships.

#### TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its embassy and foreign consulate accounts as well as prior examination and audit reports, select a sample of embassy and foreign consulate accounts. From the sample selected, perform the following examination procedures :

- (i) Determine compliance with regulatory requirements and with the financial institution's established policies, procedures and processes ;
- (ii) Review the documentation authorizing the ambassador or the foreign consulate to conduct banking in Nigeria ; and
- (iii) Review transaction activity for accounts selected and if necessary, request and review specific transactions.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with embassy and foreign consulate accounts.

#### Examination 3.39. OBJECTIVE

Procedures of Designated Non-Financial Institutions (DNFI) and the management's ability to implement effective monitoring and reporting systems. Assess the adequacy of the financial institution's systems to manage the risks associated with accounts of Designated Non-Financial Institutions.

## ACTIVITY

Determine the extent of the financial institution's relationships with DNFI and for financial institutions with significant relationships with DNFI, review the financial institution's risk assessment of this activity.

Review the policies, procedures and processes related to DNFI accounts. Evaluate the adequacy of the policies, procedures and processes given the financial institution's DNFI activities and the risks they represent. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors DNFI accounts.

Determine whether the financial institution's system for monitoring DNFI accounts for suspicious activities and for reporting of suspicious activities is adequate given the nature of the bank's customer relationships.

## MONEY SERVICES BUSINESSES

- (i) Determine whether the financial institution has policies, procedures and processes in place for accounts opened or maintained for Money Services Businesses (MSB) to :
- (ii) Confirm registration (if required) and that registration must be renewed as required ;
- (iii) Confirm status of the license, if applicable ;
- (iv) Confirm agent status, if applicable ; and
- (v) Conduct a risk assessment to determine the level of risk associated with each account and whether further due diligence is required.

Determine whether the financial institution's policies, procedures and processes to assess risks posed by MSB customers effectively identify higher risk accounts and the amount of further due diligence necessary.

## TRANSACTION TESTING

On the basis of the financial institution's risk assessment of the DNFI as well as prior examination and audit reports, select a sample of higher-risk DNFI accounts. From the sample selected, perform the following examination procedures :

- (i) Review account opening documentation and ongoing due diligence information ;



- (ii) Review account statements (as necessary) and specific transaction details. Compare expected transactions with actual activity ; and
- (iii) Determine whether actual activity is consistent with the nature of the customer's business and identify any unusual or suspicious activity.

On a basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with DNFI relationships.

#### 3.40. OBJECTIVE

Examination

Assess the adequacy of the financial institution's systems to manage the risks associated with professional service provider relationships and the management's ability to implement effective due diligence, monitoring and reporting systems.

Procedures of Professional Service Providers.

#### ACTIVITY

Review the policies, procedures and processes related to professional service provider relationships. Evaluate the adequacy of the policies, procedures and processes given the financial institution's relationships with professional service providers and the risks these relationships represent. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors professional service provider relationships. MIS reports should include information about the entire relationship. For example, an Interest on Lawyers' Trust Account (IOLTA) may be in the name of the law firm instead of an individual. However, the financial institution's relationship report should include the law firm's account and the names and accounts of lawyers associated with the IOLTA.

Determine whether the financial institution's system for monitoring professional service provider relationship's suspicious activities and for reporting of suspicious activities is adequate given the financial institution's size, complexity, location and types of customer relationships.

#### TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its relationships with professional service providers as well as prior examination and audit reports, select

a sample of higher-risk relationships. From the sample selected, perform the following examination procedures :

- (i) Review account opening documentation and a sample of transaction activity ;
- (ii) Determine whether actual account activity is consistent with anticipated (as documented) account activity. Look for trends in the nature, size or scope of the transactions, paying particular attention to currency transactions ; and
- (iii) Determine whether ongoing monitoring is sufficient to identify potentially suspicious activity.

On the basis of examination procedures conducted including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with professional service provider relationships.

Examination Procedures of Non-Governmental Organizations and Charities.	3.41. OBJECTIVE Assess the adequacy of the financial institution's systems to manage the risks associated with accounts of Non-Governmental Organizations (NGO) and charities and the management's ability to implement effective due diligence, monitoring, and reporting systems.
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ACTIVITY

Review the policies, procedures and processes related to NGOs. Evaluate the adequacy of the policies, procedures and processes given the financial institution's NGO accounts and the risks they represent. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors higher-risk NGO accounts. Determine whether the financial institution's system for monitoring NGO accounts for suspicious activities and for reporting of suspicious activities is adequate given the financial institution's size, complexity, location and types of customer relationships.

TRANSACTION TESTING

On the basis of the financial institution's risk assessment of the NGO and charity account, as well as prior examination and audit reports, select a sample of higher-

risk NGO accounts. From the sample selected, perform the following examination procedures :

- (i) Review account opening documentation and ongoing due diligence information ;
- (ii) Review account statements (as necessary) and specific transaction details
- (iii) Compare expected transactions with actual activity ;
- (iv) Determine whether actual activity is consistent with the nature of the customer's business ; and
- (v) Identify any unusual or suspicious activity.

On the basis of examination procedures conducted including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with NGO accounts.

3.42. OBJECTIVE

Assess the adequacy of the financial institution's systems to manage the risks associated with transactions involving domestic and foreign business entities and the management's ability to implement effective due diligence, monitoring and reporting systems.

Examination

Procedures of Business Entities (Domestic and Foreign).

ACTIVITY

Review the financial institution's policies, procedures and processes related to business entities. Evaluate the adequacy of the policies, procedures and processes given the financial institution's transactions with business entities and the risks they present. Assess whether the controls are adequate to reasonably protect the financial institution from money laundering and terrorist financing.

Review the policies and processes for opening and monitoring accounts with business entities. Determine whether the policies adequately assess the risk between different account types.

Determine how the financial institution identifies (as necessary) and completes additional due diligence on business entities. Assess the level of due diligence the financial institution performs when conducting its risk assessment.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors higher-risk business entity accounts.

Determine whether the financial institution's system for monitoring business entities for suspicious activities and for reporting of suspicious activities is adequate given the activities associated with business entities.

#### TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its accounts with business entities as well as prior examination and audit reports, select a sample of these accounts. Include the following risk factors :

- (i) An entity organized in a higher-risk jurisdiction ;
- (ii) Account activity that is substantially currency based ;
- (iii) An entity whose account activity consists primarily of circular-patterned funds transfers ;
- (iv) A business entity whose ownership is in bearer shares, especially bearer shares that are not under the institution's or trusted third-party control ;
- (v) An entity that uses a wide range of the institution's services, particularly trust and correspondent services ;
- (vi) An entity owned or controlled by other non-public business entities ;and
- (vii) Business entities for which the financial institution has filed STRs.

From the sample selected, obtain a relationship report for each selected account. It is critical that the full relationship, rather than only an individual account, be reviewed.

Review the due diligence information on the business entity. Assess the adequacy of that information.

Review account statements (as necessary) and specific transaction details. Compare expected transactions with actual activity. Determine whether actual activity is consistent with the nature and stated purpose of the account and whether transactions appear unusual or suspicious. Areas that may pose a higher risk, such as funds transfers, private banking, trust, and monetary instruments should be a primary focus of the transaction review.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with business entity relationships.

#### Examination 3.43. OBJECTIVE

Procedures of Assess the adequacy of the financial institution's systems to CashIntensive manage the risks associated with cash-intensive businesses and Businesses. entities, and the management's ability to implement effective due diligence, monitoring and reporting systems.

#### ACTIVITY

Review the policies, procedures and processes related to cash-intensive businesses. Evaluate the adequacy of policies, procedures and processes given the financial institution's cash-intensive business activities in relation to the financial institution's cash-intensive business customers and the risks that they represent. Assess whether the controls are adequate to reasonably protect the bank from money laundering and terrorist financing.

From a review of MIS and internal risk rating factors, determine whether the financial institution effectively identifies and monitors cash-intensive businesses and entities.

Determine whether the financial institution's system for monitoring cashintensive businesses for suspicious activities and for reporting of suspicious activities is adequate given the financial institution's size, complexity, location and types of customer relationships.

#### TRANSACTION TESTING

On the basis of the financial institution's risk assessment of its cash-intensive business and entity relationships as well as prior examination and audit reports, select a sample of cash-intensive businesses. From the sample selected, perform the following examination procedures :

- (i) Review account opening documentation including CIP information, ifapplicable, and a sample of transaction activity ;
- (ii) Determine whether actual account activity is consistent with anticipatedaccount activity ;
- (iii) Look for trends in the nature, size or scope of the transactions, payingparticular attention to currency transactions ; and

(iv) Determine whether ongoing monitoring is sufficient to identify potentially suspicious activity.

On the basis of examination procedures completed including transaction testing, form a conclusion about the adequacy of policies, procedures and processes associated with cash-intensive businesses and entities.

**Risk Rating**      **4.0.** The Risk Rating Methodology is consistent with the Financial Methodology. Institutions Risk Based Supervisory Framework for Banks and Other Inherent Risks. Financial Institutions in Nigeria for prudential supervision. It contains a new set of analytical criteria and processes in the following main components :

#### GENERAL

Bank Examiners are required to conduct a general diagnostic of a financial institution, focusing their analysis on the most significant activities and issues that are relevant to ML/FT risks, their management and supervision. These are broadly divided into two main areas of (a) qualitative factors and (b) quantitative analysis.

#### (a) QUALITATIVE FACTORS :

The Bank Examiners are required to take into account issues concerning the legal structure and geographic location of the financial institution's clients; the quality of management and their risk culture (conservative vs. risk taking); retail vs. niche player market; regulatory compliance /sanctions history; standing and reputation in the applicable sector/ industry; etc.

This analysis will be focused on understanding the types of clients, markets, regions, products and services offered, and the organizational culture and business acumen. These could assist the Bank Examiner to form a view as to his approach to ML/FT risk management and compliance of the financial institution. Internal and external audit information, stock exchange filings and other similar information could also complement his analysis as well as the quantitative analysis described below.

(b) QUANTITATIVE ANALYSIS :

The Examiner is required to quantify the relevant activities and characteristics of the financial institution that could increase the ML/FT risks. He is required to consider the institution's levels and trends in its business lines, funding sources and liquidity, primary sources of income on and off balance sheet items; breakdown of types of clients in the various activities by nationality, geographic location, PEPs, FEPs, etc. This analysis should be correlated with the qualitative analysis and potential ML/FT risk exposure.

PART 1

4.1.—(a) STRUCTURAL FACTORS

Identify the main structural characteristic features and business of the financial institution in the country and compared with its peers. The more robust and applicable indicators/factors that would promote useful comparison of risk exposure across financial institutions with respect to their peer groups include :

- (i) SIZE - Total Assets, clients, geographic reach, size and volume of transactions, etc.
- (ii) MARKET OR GEOGRAPHIC ZONE —
  - (a) Foreign,
  - (b) Local
- (iii) OWNERSHIP AND CORPORATE STRUCTURE —
  - (a) Stand alone entity or
  - (b) Subsidiary/Affiliate of financial group
- (iv) YEARS IN OPERATION.

SIZE :

The assumption underlying size as an indicator of risk is that the larger an institution, the higher the probability of ML/FT occurring by virtue of the number of assets it manages, number of clients, geographic reach, size and volume of transactions, etc.

The size of a financial institution can be measured by way of its total assets, gross income, number of customers, branches, or employees, etc. It is recommended we use total assets because it is the most robust and stable indicator of size.

For simplicity, the following asset size groups are used for purposes of assigning financial institutions to peer groups and risk ranking. Note that the last column reflects the risk rating system used by the CBN's Supervisory Framework for Banks and Other Financial Institutions in Nigeria:

4.2. PEER GROUP RATINGS : ASSET SIZE		
<i>From</i>	<i>To</i>	<i>CBN Scale</i>
N1.00	N150,000,000,000	Low
N150,000,000,001	N300,000,000,000	Moderate
N300,000,000,001	N500,000,000,000	
N500,000,000,001	N1,000,000,000,000	Above average
N1,000,000,000,001+		High

**MARKET OR GEOGRAPHIC ZONE**

The spread of business across the country or abroad through branches or subsidiaries can have an impact on a bank's exposure to risk and its ability to oversee and control such risks. This factor can also be used as a measure of geographic risk (not necessarily related to size) based on the location of branches and subsidiaries.

**OWNERSHIP AND CORPORATE STRUCTURE**

Issues involving corporate structure relate to the strength and transparency of ownership and control, including management oversight, governance, risk management and more generally fit and proper person issues. Certain assumptions with respect to risk may be drawn from these factors. Financial institutions with less transparent or complex ownership structures may adversely influence the implementation of good corporate governance practices and system of accountability leading to compliance failures.

Financial institutions that are members of established and fully regulated conglomerates or groups may have different risk profiles than stand-alone private financial institutions. On a similar vein, financial institutions whose ownership or controllers are associated with participation from countries with high levels of crime and/or with weak prudential and AML/CFT regulation and supervision may



have a higher risk profile than banks affiliated with countries with strong regulation and supervision.

Another factor to consider is the affiliation of financial institutions with non-financial and non-regulated entities that can expose the financial institutions to the risk of contagion through their dealings or association with entities that may be exposed to a high level of ML/FT risks.

YEARS IN OPERATION

Similar to financial and prudential supervisory concerns, there are inherent ML/FT risks that could be associated with newly licensed financial institutions, e.g. within the last 5 years. Newly licensed financial institutions may have risks associated with the incentive to grow and secure market share in order to survive, which could adversely affect compliance, particularly with respect to deposit-taking activities. Their internal controls and risk management systems may still be evolving. The quality of clients and business may also be lower, exposing them to ML/FT risks.

4.2. BUSINESS-SPECIFIC RISK FACTORS (INSIGNIFICANT ACTIVITIES)

Quantitative analysis of the gross risk and business specific risk factors constitute the second main component of risk analysis in relation to the line of business activities of financial institutions. This lower level risk analysis complements the structural risk factor analysis in 4.1.

An on-going piloting of the risk assessment matrix will provide the basis for calibrating the criteria, analytical variables and assumptions used.

Inherent Risk Factors. Significant Activities and Inherent Risk Factors

Inherent risks are those that are intrinsic to or built-in the various significant activities identified in the type of product, service or client. This takes a high level view of risk rather than the more granular level of analysis required for individual clients.

There are a number of approaches or factors that can be used to assess the relative level of inherent risks in the significant activities. Not all risk factors will be applicable or equally applicable to each significant activity identified. Irrespective of the approach taken, the Bank Examiner will consider the volume and complexity especially with respect to the challenges it can pose to Know Your Customer (KYC)

and monitoring requirements associated with corporate customers, trusts, non-face-to-face clients within a particular financial institution.

4.2.1. Business-specific factors constitute the second main building block of the ML/FT risk analysis framework. The objective is to identify those significant activities that are more exposed to ML/FT risks, including business processes.

EACH OF THE ACTIVITIES SHOULD BE ASSESSED FOR THEIR INHERENT EXPOSURE TO ML/FT RISKS. Sufficient information will assist in identifying and applying weights to the main business activities of each financial institution.

RISK ASSESSMENT METHODOLOGY is to be established and tested in order to arrive at a more precise basis for calibrating the weights assigned, analytical variables and assumptions applied. For this purposes the following significant business activities could be identified for Deposit Money Banks (DMBs) :

DEPOSIT TAKING :

- (i) Current accounts
- (ii) Time deposits
- (iii) Savings accounts

CREDIT AND FINANCIAL GUARANTEES :

Cash secured loans (including secured credit cards)

DEBT INSTRUMENTS :

PRIVATE PLACEMENT

OTHER BANKING PRODUCTS AND SERVICES :

- (i) Wire transfers
- (ii) Money remittance
- (iii) E-banking
- (iv) Non-resident Nigerian Accounts (NRN) or diaspora accounts.
- (v) Private Banking
- (vi) Correspondent banking
- (vii) Cash export
- (viii) Non-Profit Organizations (NPOs)

4.2.2. Weights will be assigned to each category of significant activity in accordance with its relative significance within the business activities. This could be determined using one or more analytical approaches such as the percentage volume each activity generates, the total income in relation to each activity and the number and/or type of clients involved. Such weights would also take into account the knowledge and judgment of the Bank Examiner with respect to ML/ FT risks, and the soundness of risk management practices in such areas.

4.2.3. Inherent risks are those that are intrinsic to or built-in the various significant activities identified in the type of product, service or client involved. This takes a high level view of risk rather than the more granular level of analysis required for individual clients.

Individual  
Weights.  
Inherent  
risk factors.

There are a number of approaches or factors that can be used to assess the relative level of inherent risks in the significant activities. Not all risk factors will be applicable or equally applicable to each significant activity identified. Irrespective of the approach taken, the Bank Examiner will consider the volume and complexity especially with respect to the challenges it can pose to Know Your Customer (KYC) and monitoring requirements over corporate customers, trusts, non-face-to-face clients of the particular financial institution.

While several types of inherent risk factors could be used, it is recommended for adoption an approach based on (a) customers, (b) very exposed persons (financially and politically exposed persons), (c) currency, and (d) others-high risk industries.

Each factor represents a different and additional set of inherent risks in the identified activities, i.e. they should be additive and not duplicative. The aim is to use a reasonably small number of factors that would capture the core risk factors inherent in the significant activities.

For instance, each activity would be risk-rated using any one or more criteria such as :

- (a) Type of customer I (local, foreign) ;
- (b) Customers II : (PEP, FEPs) ;
- (c) Currency (Naira, Others) ; and
- (d) Others (High-Risk Industries).

The following are the inherent risk factors :

(a) Customers

The two broad sub-categories of customers are LOCAL AND FOREIGN. These categories are broken down into further sub-categories such as individuals and corporate clients.

(b) Very Exposed Persons

These are Politically Exposed Persons (PEPs) and Financial Exposed Persons (FEPs), irrespective of whether such a client is an individual, or the ultimate beneficial owner of a corporate client. Once a client has been identified as a PEP or FEP an additional risk factor is attached to the line of business associated with him. The basis of analysis could vary based on the relative number of PEP or FEP clients and/or volume of business with PEPs or FEPs in that line of business, using absolute numbers or percentages.

Alternatively, both indicators may be considered by using the average volume of PEP or FEP-related business (dividing the volume of business by the number of PEPs or FEPs).

A decision will need to be made as to which basis of analysis to use, based on the more reliable indicator of risk.

(c) Currency

The two broad sub-categories used are (i) Local currencies Naira and (ii) foreign currencies such as US Dollars, Euros or Pound Sterling. This could be measured by the total amount held in local and foreign currencies within client's accounts in each particular institution.

(d) Others (High-Risk Industries)

High-risk industries include casinos, precious metal and gem dealing business, money service business and defence industries. They have an inherent risk of money laundering due to the increased risk within the industries as they could be used to launder illicit funds. This could be analyzed by obtaining the total number of clients within each financial institution that would fall into the high-risk industry category. The Bank Examiners could decide whether this factor is beneficial or not, including whether to expand or amend the industries suggested, based on their

knowledge and experience within the Nigerian market. They may also want to include other financial institutions or the oil and gas industries.

4.3. It is recommended that a simple risk-rating system that uses ranges Rating from 1 (very low risk) to 5 (very high risk) be adopted and applied for all the System.

variables linked with assessment of quantitative analysis. A financial institution's risk-rating will then be determined based on their position relative to their peer group or sector using the following simple linear interpolation technique :

$$y_2 = \frac{(x_2 - x_1)(y_3 - y_1)}{(x_3 - x_1)} + y_1$$

The scale between 1 and 5 (described in detail below) should be used as part of the linear interpolation with other variables including 'minimum' and 'maximum'. For example, in total assets the minimum and maximum variable would be taken from the total market figure.

This would then be assessed using the financial institution's actual assets amount at a defined period in time (cut-off date of the examination/supervision). The linear interpolation would then be applied based on the rating of between 1 and 5 to assess the risk of the particular financial institution in relation to its structural and business risks.

### Rating

Each structural factor and significant activity is assigned a qualitative risk rating based on its perceived inherent risk. This is then converted to a numerical equivalent. The individual weights (%) assigned to each significant activity are applied to each of the inherent risk ratings (1 to 5) to produce the total weighted risk for each activity and the sum total of all the activities for the financial institution.

The numerical results from these calculations can be reconverted to a qualitative rating using the following conversion table for each significant activity and the total inherent risks :

SCORING : INHERENT RISK AND NET RISK				
Scale Management	Quality Management	Range		SCALE
		From	To	
1	Very Low	0,01	1	Low
2	Low	1,01	2	Moderate
3	Medium	2,01	3	
4	High	3,01	4	Above Average
5	Very High	4,01	5,0	High

PART 2

General.

4.4. RISK MITIGANTS

The qualitative assessment of the quality of risk mitigating factors comprises the second building block of the risk assessment methodology. For this purpose, due consideration must be given to the CBN’s RBS prudential guidelines for banks and other financial institutions as well as the principal compliance obligations imposed by the AML/CFT law on financial institutions.

Thus, the risk methodology comprises an assessment of the quantity of risk on the one hand, and quality of risk management, controls and legal compliance on the other. The inclusion of legal compliance introduces a rules-based element to the methodology because in practice, there is no such thing as a pure riskbased system due to the role of supervisors to monitor and enforce the applicable legislation.

The following rating system for the quality of risk mitigation from 1 (very good) to 5 (very deficient) is broadly consistent and convertible to the prudential risk-based framework currently used by the CBN :

Mission	Rating	CBN Rating Equivalent
Quantitative	Qualitative	(prudential)
1	Very good	Strong
2	Good	Acceptable
3	Acceptable	
4	Deficient	Needs Improvement
5	Very deficient	Weak

Assessing the quality of mitigants is largely a function of on-site examination, (at least during the first phase of using this methodology). The on-site examination process and procedures contained in this Framework will further document the detailed examination steps and techniques to be used to assess the adequacy of risk management and controls, including the review of legal compliance and updating the inherent risks and the overall institutional risk profile.

Note that each of these mitigants would have a set of sub-components to be assessed. Where applicable, they should be applied on a group-wide level including overseas branches and subsidiaries. The following group of risk mitigants should be incorporated in the assessment matrix :

(i) CORPORATE GOVERNANCE AND ROLE OF THE BOARD

For purposes of AML/CFT, corporate governance refers to a set of policies, practices and internal processes that establish a system for controlling, directing and managing the operations of a financial institution.

A key feature of good corporate governance is the role of the board/senior management with respect to oversight of a financial institution's operations and a transparent system of accountability. Good corporate governance is also identified with sound ethical values and business conduct that focus on legal compliance with respect to the prevention, detection and reporting of ML/FT.

The Bank Examiners should therefore establish the existence of a code of ethics or conduct that will help in determining if AML/CFT issues are adequately addressed. It should discourage profit making without overlooking AML/CFT compliance. As a regulated entity, corporate governance should consider the interests of the wide public and depositors, and the concerns of its regulators, including the NFIU.

The Bank Examiners should therefore pay sufficient attention at the system of corporate governance in financial institutions and hold the board/senior management ultimately responsible for AML/CFT compliance and risk management, and for promoting a strong compliance culture throughout the institution.

#### (ii) RISK MANAGEMENT

Risk management is a framework to identify, assess, prioritize and control/ minimize ML/FT risks to lower the probability of ML/FT occurring in a financial institution. It is acknowledged that ML/FT is not a zero sum game so the focus is on risk mitigation.

The Bank Examiners should expect financial institutions to formulate and implement policies that identify the ML/FT inherent risk in their main products and business lines, customers, and processes, and to take reasonable measures to measure and control such risks. The review of the adequacy of internal policies, controls, and procedures should therefore not only be limited to legal compliance, but also address the adequacy of risk management systems and controls at various stages of a financial institution's operations. For instance, the introduction of new products, services or entry into new markets/locations should consider their exposure to ML/FT risks and the adequacy of risk mitigating controls.

#### (iii) POLICIES AND PROCEDURES

Policies and procedures should be risk-based. They support implementation of the corporate governance and risk management framework already discussed. In addition to reviewing the role of the board in formulating and communicating policies and procedures, the Bank Examiner should also assess the adequacy of such policies and procedures for compliance with the AML/CFT legislation and regulations.

Bank Examiners should also expect consistency between policies and procedures on hand, and the structure of the institution and significant banking business on the other. Other factors to consider include the size, scope and complexity of operations. At a minimum, the Bank Examiners should evaluate the adequacy of policies and procedures with respect to customer acceptance, customer due diligence at take on and on a regular basis, monitoring of customer transactions



and activities, analysis and reporting of unusual and suspicious activities, record-keeping, recruitment and training, internal audit and compliance functions.

#### (iv) INTERNAL CONTROLS

The general principle is that internal controls should be risk-based. That is, there should be stronger controls where there is an increased risk of ML/FT. They can be assessed at macro and micro control levels as follows :

Organizational (macro level) controls refer to AML/CFT systems such as internal and external audit, compliance and management information systems. Macro control systems support the board and management's ability to properly supervise the activities of the financial institution to control and minimize ML/FT risks, and to comply with the applicable laws.

They also underpin sound corporate governance. In particular, a sound management information system will inform the board and top management of the ML/FT risks being assumed, the results of internal (and when applicable external) audit of the adequacy of AML/CFT systems and controls, compliance reports, and the results of the Bank Examiners' AML/CFT inspections, recommendations and enforcement action. It should also inform management of the level of unusual and suspicious activities, and reports to the NFIU.

At the business line level (micro controls) internal controls refer to systems designed to minimize risk in the various business activities, customers, etc. of the financial institution. They also support the institution's compliance with AML/ CFT internal policies and legislation. The Bank Examiners should evaluate their adequacy and implementation especially in the significant business units and higher risk activities with respect to customer acceptance/rejection, customer identification and verification, due diligence and account monitoring, internal and external suspicious activity reporting, record-keeping, etc.

#### (v) COMPLIANCE

Compliance is the bedrock for sound corporate governance and a ML/FT risk management framework. It requires the commitment of the board and senior management, adequate funding, and a system for measuring the compliance/ non-compliance.

The board and senior management should foster a culture of compliance throughout the banks and lead by example. It requires a system of accountability and staff ownership of the compliance program that places responsibility on individuals for their actions.

Not only should poor compliance be taken into account in evaluating staff performance, but good compliance should also be rewarded. The board and management should ensure that employees have appropriate AML/CFT training and information and should participate in such training themselves.

Not only should there be a system of detection and measurement of noncompliance with AML/CFT issues, but management should also respond quickly to cases of non-compliance to minimize risk to the institution and improve its risk mitigation systems.

The adequacy of compliance should be assessed with respect to legal compliance as well as compliance with internal policies and controls. An effective compliance function will not only help a financial institution comply with the letter of the law but also with the "*spirit of the law*".

Compliance should be embedded in all significant business lines and processes. The Bank Examiners should evaluate the adequacy of compliance in relation to a financial institution's size, complexity, history of compliance, and degree of ML/FT risk exposure. A key component of compliance is the legally mandated appointment of the AML/CFT Chief Compliance Officer.

The role of compliance is generally focused on ensuring proper customer due diligence, monitoring and reporting of suspicious activities, training, etc. Relevant sections of FAFT Recommendation have set out the expectations for financial institutions with respect to the adequacy of this function.

#### (vi) REPORTING OF SUSPICIOUS ACTIVITIES

This is a key component to an effective AML/CFT regime. The analysis and assessment of the adequacy of the reporting systems should also allow the Bank Examiners to determine whether the financial institution has developed the appropriate mechanisms to comply with the reporting requirements set forth under the legal framework, such as rendering returns on CTRs, PEPs and STRs, with emphasis on STRs and PEPs. The Bank Examiners should also review the adequacy

of different systems in place, whether manuals or automated, and the internal reporting lines and analysis of unusual and suspicious activities. The internal and external reporting mechanisms should at a minimum consider the confidentiality, safeguards and promptness for handling suspicious activities.

(vii) TRAINING

Staff AML/CFT training could be general or specific/specialized depending on the needs of staff and the institution. They range from introductory training for all new staff, to specialized training by function or activity. The Bank Examiners would expect that more enhanced training be provided to staff in the more significant and higher risk areas of business, e.g. wire transfers and NGO clients. It is important for the Bank Examiners to assess the suitability of training, the periodicity, and training budget. Records of attendance/participation in training should be maintained and reviewed by the Bank Examiners and internal inspectors.

The above approach provides an analytical framework for assessing the degree of ML/FT risks in a financial institution (risk-based supervision). It also incorporates an assessment of risk mitigating factors including elements of legal compliance (rules-based supervision). The results will be an individual net risk rating for each significant activity and a consolidated ML/FT risk rating for the institution.

The following summary matrix illustrates an example of the above framework and risk ratings for a financial institution. It is divided in three parts, for illustrative purposes :

- (i) Part 1 Structural Risk
- (ii) Part 2 Business Risk (Significant Business and Inherent Risks)
- (iii) Part 3 Risk Mitigants

PART 1: EXAMPLE OF MACRO-INSTITUTIONAL STRUCTURAL FACTORS (25%)					
STRUCTURAL FACTORS	Weight (%)	Score	Total Institutional Risk	Trend of Structural Risk	
				Structural Risk (Before)	Trend
1. Size	50%				
2. Geographic Zone	25%				
3. Corporate Structure :	15%				

4. Others	10%				
Total Institutional/Structural Risk Outcome Quantitative					
Outcome Qualitative					

2. EXAMPLE OF BUSINESS / INHERENT RISKS IN SIGNIFICANT BUSINESS ACTIVITIES											
Products, Services and Customers			QUANTITATIVE INFORMATION								
			INHERENT RISK							60 %	
Item	Weight Cbn	1. Customer		2. Very Exposed Persons		3. Currency NIRA		4. Others	Gross Risk	Trend	
		LOCAL	FOR EIGN	PEP'S	FEP'S	(NGN)	OTHERS	HighIndu Riskstries	Total Inherent Risk (LI Weighted )	Total Inherent Risk (Before )	Trend of Business Risk
1. Deposit taking	45 %										Stable
2. Credit :	10 %										Stable
3. Debt Instruments	5 %										Stable
4. Other Products and Services	40 %										Stable
Sub-Total Inherent Risk											

Total	100%	Profile of Risk about Inherent Risk Outcome Quantitative	
		Outcome Quantitative	Very Low

## **5.0. AML/CFT RBS REGULATION FOR FINANCIAL INSTITUTIONS**

Background. Record-keeping and reporting by designated non-financial Suspicious institutions, businesses and professions, banks and other financial Transaction institutions to regulatory authorities are requirements of extant laws Report. and regulations. Relevant provisions of the law and regulation were Customers designed to help identify the source, volume and movement of and Entities. currency and other monetary instruments transported or transmitted into or out of Nigeria, or deposited in financial institutions in the country.

The enabling Act and Regulation under reference seek to achieve the objective by requiring individuals, banks and other financial institutions to render certain returns listed in AML/CFT Regulation, 2009 (as amended) to the CBN (AML/CFT Office in Financial Policy and Regulation Department) and Nigerian Financial Intelligence Unit (NFIU) ; to properly identify persons conducting transactions and to maintain a paper trail by keeping appropriate records of their financial transactions. Should the need arise, these records will enable law enforcement and regulatory agencies to pursue investigations of criminal, tax and regulatory violations, and provide useful evidence in prosecuting money laundering and other financial crimes.

The MLPA, 2011 and CBN AML/CFT Regulation, 2009 (as amended) apply equally to all banks, other financial institutions and persons that are under the regulatory purview of the CBN. The law also imposes criminal liability on a person or financial institution that knowingly assists in the laundering of money or fails to report to the NFIU the suspicious transactions conducted through it. The CBN AML/CFT Regulation also directs financial institutions to establish and maintain procedures reasonably designed to ensure and monitor compliance with the reporting and record-keeping requirements of the MLPA, 2011. However, the standards contained herein are only the minimum and financial institutions are encouraged to set better standards to cover their operations.

A financial institution is required to render a Suspicious Transaction Report (STR) related to money laundering and terrorist fund to the

NFIU.

The EFCC Act 2004 and TPA, 2011 criminalize the financing of terrorism. CBN AML/CFT Regulation, 2009 (as amended) has also augmented the existing MLPA legal framework by strengthening customer identification procedures, prohibiting financial institutions from engaging in business with foreign shell banks, requiring financial institutions to have due diligence procedures (in some cases, have enhanced due diligence (EDD) procedures for foreign correspondent and private banking accounts) and improving information sharing between financial institutions, on one hand and the law enforcement agencies (LEAs) and regulators on the other.

#### 5.1. OVERVIEW OF ML/FT RISK ASSESSMENT

Any type of account is potentially vulnerable to money laundering or terrorist financing. By the nature of their business, occupation or anticipated transaction activity, certain customers and entities may pose specific risks. At this stage of the risk assessment process, it is essential that the financial institution exercises judgment and neither define nor treat all members of a specific category of customer as posing the same level of risk.

In assessing customer risk, financial institutions are required to consider other variables such as services sought and geographic locations. Guidance and discussion on specific customers and entities that are detailed below may be necessary :

Foreign financial institutions, including banks and foreign money services providers (e.g. currency exchanges and money transmitters) ;

- (i) Non-bank financial institutions (e.g. money services businesses; casinos and card clubs ; brokers/dealers in securities; and dealers in precious metals, stones or jewels) ;
- (ii) Senior foreign and domestic political figures, their immediate family members and close associates [collectively known as Politically Exposed Persons (PEPs)] ;
- (iii) Accounts of foreign individuals ;
- (iv) Foreign corporations and domestic business entities, particularly offshore corporations (such as domestic shell companies and Private Investment

- Companies (PIC) and International Business Corporations (IBC)) located in higher-risk geographic locations ;
- (v) Deposit brokers particularly foreign deposit brokers ;
  - (vi) Cash-intensive businesses (e.g. convenience stores, restaurants, retail stores, liquor stores, cigarette distributors, privately owned ATMs and parking garages);
  - (vii) Non-governmental organizations and charities (foreign and domestic) ;and
  - (viii) Professional service providers (e.g. attorneys, accountants, doctors or real estate brokers).

Identifying geographic locations that may pose a higher risk is essential to a financial institution's AML/CFT Compliance Program. Financial institutions are required to understand and evaluate the specific risks associated with doing business in, opening accounts for customers from or facilitating transactions involving certain geographic locations. However, geographic risk alone does not necessarily determine a customer's or transaction's risk level, either positively or negatively.

The second step of the risk assessment process entails a more detailed analysis of the data obtained during the identification stage. It is to help assess more accurately the associated ML/FT risk involved. This step involves evaluating data pertaining to the financial institution's activities (e.g. the number of domestic and international funds transfers; private banking customers; foreign correspondent accounts; PTAs and domestic and international geographic locations of the institution's business area and customer transactions) in relation to Customer Identification Program (CIP) and Customer Due Diligence (CDD) information.

The level and sophistication of analysis may vary from one financial institution to another. The detailed analysis is important because within any type of product or category of customer there will be account holders that pose varying levels of risk.

This step (in the risk assessment process) gives the institution's management a better understanding of its institution's risk profile in order to develop the appropriate policies, procedures and processes to mitigate the overall risk.

Specifically, the analysis of the data pertaining to the financial institution's activities should consider, as appropriate, the following factors :

- (i) Purpose of the account ;
- (ii) Actual or anticipated activity in the account ;
- (iii) Nature of the customer's business/occupation ;
- (iv) Customer's location ; and
- (v) Types of products and services used by the customer.

The value of a two-step risk assessment process is illustrated in the following example of data collected in the first step of the risk assessment process which reflects that a financial institution sends out 100 international funds transfers per day :

- (i) Further analysis may show that approximately 90 percent of the fundstransfers are recurring well-documented transactions for long-term customers ; and
- (ii) On the other hand, the analysis may show that 90 percent of these transfers are non-recurring or are for non-customers.

While the numbers are the same for the two examples above, the overall risks are different. As illustrated above, the institution's Customer Identification Program (CIP) and Customer Due Diligence (CDD) information must play important roles in this process.

Developing the Financial Institution's management is required to structure its Financial institution's AML/CFT Compliance Program to adequately address Institution's its risk profile as identified by its risk assessment. Management AML/CFT should therefore understand its financial institution's ML/FT risk Compliance exposure and develop the appropriate policies, procedures and Program Based processes to monitor and control its ML/FT risks. For example, the Upon its Risk financial institution's monitoring systems should be able to identify, Assessment. research and report suspicious activity. Such process must be risk-based with particular emphasis on higher-risk products, services, customers, entities and geographic locations as identified by the institution's ML/FT risk assessment.

Note that independent testing (audit) is required to review the financial institution's risk assessment for reasonableness. Additionally, management is also required to consider the staffing resources and the level of training that are necessary to



promote adherence with these policies, procedures and processes. For those financial institutions that assume a higher-risk AML/CFT profile, management is required to provide a more robust AML/CFT Compliance Programme that specifically monitors and controls the higher risks accepted by the management and board.

Financial institutions that implement a consolidated or partially consolidated AML/CFT Compliance Programme are required to assess risk both individually within business lines and across all activities and legal entities. Aggregating ML/ FT risks on a consolidated basis for larger or more complex institutions may enable the organization to better identify risks and risk exposures within and across specific lines of business or product categories. Consolidated information also assists senior management and the board of directors in understanding and appropriately mitigating risks across the institution.

Consolidated AML/CFT Compliance Risk Assessment. Updating of Risk Assessment by Financial Institution. Minimum Requirement of AML/ CFT Compliance. Internal Controls.

To avoid having an out-dated understanding of the ML/FT risk exposures, the financial institution is required to continually reassess its ML/FT risks and communicate with its business units, functions and legal entities. The identification of ML/FT risks or deficiency in one area of business may indicate concerns elsewhere in the institution. This therefore requires the management’s attention to identify and control them.

An effective AML/CFT Compliance Programme must be able to control the risks associated with the institution’s products, services, customers, entities and geographic locations. Therefore, an effective risk assessment is required to be an ongoing process, not a one-time exercise.

Management is required to update its risk assessment to identify changes in the financial institution’s risk profile when it is necessary, especially when new products and services are introduced, existing products and services change, higher-risk customers open and close accounts or the financial institution expands through mergers and acquisitions.

In the absence of such changes and in the spirit of sound practice, financial institutions are required to periodically reassess their ML/FT risks at least every 12 to 18 months.

The Programme should contain the following :

- (i) A system of internal controls to ensure on-going compliance ;
- (ii) Independent testing of AML/CFT compliance ;
- (iii) Designate an individual or individuals responsible for managing AML/CFT compliance (Chief Compliance Officer) ; and
- (iv) Training for appropriate personnel.

The board of directors, acting through senior management, is ultimately responsible for the approval of AML/CFT Programme and ensuring that the financial institution maintains an effective AML/CFT internal control structure, including suspicious activity monitoring and reporting. The board of directors and management should create a culture of compliance to ensure staff adherence to the financial institution's AML/CFT policies, procedures and processes.

Internal controls are the institution's policies, procedures and processes designed to limit and control risks and to achieve compliance with the MLPA, 2011 and CBN AML/CFT Regulation 2009 (as amended)

The level of sophistication of the internal controls should be commensurate with the size, structure, risks and complexity of the financial institution. Large complex financial institutions are more likely to implement departmental internal controls for AML/CFT compliance.

Departmental internal controls typically address risks and compliance requirements unique to a particular line of business or department and are part of a comprehensive AML/CFT Compliance Programme.

Internal controls should :

- (i) Identify financial institution's operations (i.e. products, services, customers, entities and geographic locations) that are more vulnerable to abuse by money launderers and criminals. They should ensure that the institution provides for periodic updates to its risk profile and has AML/CFT Compliance Programme that is tailored to manage risks ;

- (ii) Be such that the board of directors or its committee thereof and senior management are informed of AML/CFT compliance initiatives, identified compliance deficiencies and corrective action taken, and the directors and senior management should be notified of returns rendered to the regulatory authorities ;
- (iii) Identify a person or persons responsible for AML/CFT compliance ;
- (iv) Provide for Programme continuity by way of back-up in personnel and information storage and retrieval in cases of changes in management or employee composition or structure ;
- (v) Provide for meeting all regulatory record-keeping and reporting requirements, implement all recommendations for AML/CFT compliance and provide for timely updates in response to changes in regulations ;
- (vi) Cover the implementation of risk-based CDD policies, procedures and processes ;
- (vii) Identify reportable transactions and that all the required reports are accurately rendered promptly and these include STRs, PEPs and CTRs. Financial institutions are required to centralize their review and report- rendition functions within a unit in the branches and head-offices ;
- (viii) Provide for dual controls and the segregation of duties as much possible. For example, employees that complete the reporting forms (such as STRs and CTRs generally should not also be responsible for taking the decision to file the reports ;
- (ix) Provide sufficient controls and systems for rendering CTRs ;
- (x) Provide sufficient controls and systems of monitoring timely detection and reporting of suspicious activity ;
- (xi) Provide for adequate supervision of employees that handle currency transactions, complete reporting formats, grant exemptions, monitor suspicious activity or engage in any other activity covered by the MLPA, AML/CFT Regulation and other guidelines ;
- (xii) Incorporate MLPA and AML/CFT Regulation-compliance into the job descriptions and performance evaluations of financial institution personnel, as appropriate ; and
- (xiii) Provide for the training of employees to be aware of their responsibilities under the AML/CFT Regulations and internal policy guidelines.

Independent testing (audit) should be conducted by the internal audit Independent department, external auditors, consultants or other qualified independent parties. Testing. While the frequency of audit is not specifically defined in any statute, a sound practice is for the financial institution to conduct independent testing generally every 12 to 18 months or commensurate with the ML/FT risk profile of the institution.

Financial institutions that do not employ outside auditors, consultants or have internal audit departments may comply with this requirement by using qualified persons who are not involved in the function that is tested.

The persons conducting the AML/CFT testing should report directly to the board of directors or to a designated board committee consisting primarily or completely of outside directors.

Those persons responsible for conducting an objective independent evaluation of the written AML/CFT Compliance Programme should perform testing for specific compliance with the MLPA, AML/CFT Regulation and other related requirements. They are required to also evaluate pertinent management information systems (MIS). The audit has to be risk-based and must evaluate the quality of risk management for all the financial institution's operations, departments and subsidiaries.

Risk-based Audit Programmes will vary depending on the institution's size, complexity, scope of activities, risk profile, quality of control functions, geographic diversity and use of technology. An effective risk-based auditing Programme will cover all of the institution's activities. The frequency and depth of each audit activity will vary according to the activity's risk assessment.

It should be noted that the risk-based auditing will enable the board of directors and auditors to use the financial institution's risk assessment to focus its scope of audit on the areas of greatest concern. The testing should assist the board of directors and management in identifying areas of weakness or areas where there is a need for enhancements or stronger controls.

Independent testing should (at a minimum) include :

- (i) The evaluation of the overall adequacy and effectiveness of the AML/CFT Compliance Programme, including policies, procedures and

- processes. This evaluation will contain an explicit statement about the AML/CFT compliance programme's overall adequacy and effectiveness and compliance with applicable regulatory requirements. At the very least, the audit should contain sufficient information for the reviewer (e.g. an Examiner, review auditor or NFIU officer) to reach a conclusion about the overall quality of the AML/CFT Compliance Programme ;
- (ii) A review of the financial institution's risk assessment for reasonableness given the institution's risk profile (products, services, customers, entities and geographic locations) ;
  - (iii) Appropriate risk-based transaction testing to verify the financial institution's adherence to the MLPA, 2011 and CBN AML/CFT Regulation, 2009 record keeping and rendition of returns requirements on PEPs, STRs and CTRs information sharing requests ;
  - (iv) An evaluation of management's efforts to resolve violations and deficiencies noted in previous audits and regulatory examinations, including progress in addressing outstanding supervisory actions (if applicable) ;
  - (v) A review of staff training for adequacy, accuracy and completeness ;
  - (vi) A review of the effectiveness of the suspicious transaction monitoring systems (are they manual, automated or a combination?) used for AML/CFT compliance. Related reports may include, but are not limited to :
    - (a) Suspicious transaction monitoring reports ;
    - (b) Large currency aggregation reports ;
    - (c) Monetary instrument records ;
    - (d) Funds transfer records ;
    - (e) Non-sufficient funds (NSF) reports ;
    - (f) Large balance fluctuation reports ;
    - (g) Account relationship reports ;
    - (h) An assessment of the overall process for identifying and reporting suspicious transaction, including a review of filed or prepared STRs to determine their accuracy, timeliness, completeness and effectiveness of the institution's policy ; and
  - (vii) An assessment of the integrity and accuracy of MIS used in the AML/CFT Compliance Programme. MIS includes reports used to identify and extract data on the large currency transactions, aggregate daily currency transactions, funds-transfer transactions, monetary instrument sales transactions and analytical and trend reports.

The auditors' reports should include their documentation on the scope of the audit, procedures performed, transaction testing completed and findings of the review. All audit documentation and work-papers should be made available for the Examiner to review. Any violations, policy and/or procedures exceptions or other deficiencies noted during the audit should be included in the audit report and reported to the board of directors or its designated committee in a timely manner.

The board or designated committee and the audit staff are required to track the deficiencies observed in the auditors' report and document the corrective actions recommended and taken.

The institution's board of directors is required to designate a qualified individual that must not be less than a General Manager to serve as the Chief Compliance Officer (CCO). The CCO is responsible for the coordinating and monitoring of day-to-day AML/CFT compliance by the institution. The CCO is also charged with managing all aspects of the AML/CFT Compliance Programme and with managing the institution's adherence to the MLPA, AML/CFT Regulation and other AML/CFT Requirements. However, it is the board of directors that is ultimately responsible for the institution's AML/CFT compliance.

Chief Compliance Officer. Training.

As the title of the individual responsible for overall AML/CFT compliance is of importance, his/ her level of authority and responsibility within the financial institution is also critical. Though the CCO may delegate the AML/CFT duties to other employees, he/she will be held responsible for the overall AML/CFT compliance by the institution. The board of directors is responsible for ensuring that the CCO has sufficient authority and resources (monetary, physical and personnel) to administer an effective AML/CFT Compliance Programme based on the institution's risk profile.

The CCO should be fully knowledgeable of the MLPA, AML/CFT Regulation and all related requirements. The CCO should also understand the institution's products, services, customers, entities, geographic locations and the potential money laundering and

terrorist financing risks associated with these activities. The appointment of a CCO is not sufficient to meet the regulatory requirement if that person does not have the expertise, authority or time to satisfactorily carry out the job efficiently and effectively.

Confirm that the line of communication allows the CCO to regularly apprise the board of directors and senior management of ongoing compliance with AML/ CFT regime of the institution. Ensure that pertinent MLPA-related information, including the reporting of STRs rendered to NFIU are reported to the board of directors or an appropriate board committee so that these individuals can make informed decisions about the overall AML/CFT compliance of the institution. Ensure also that the CCO is responsible for carrying out the directives of the board and ensuring that employees adhere to the institution's AML/CFT policies, procedures and processes.

Financial institutions are required to ensure that appropriate personnel are trained in applicable aspects of the MLPA, 2011 and CBN AML/CFT Regulation, 2009 (as amended). The training should cover the regulatory requirements and the institution's internal AML/CFT policies, procedures and processes.

At a minimum, the financial institution's training Programme must provide training for all personnel and particularly for whose duties require knowledge of the MLPA and CBN AML/CFT Regulation 2009 (as amended). The training should be tailored to the person's specific responsibilities. In addition, an overview of the AML/CFT requirements typically should be given to new staff during employee orientation. Training should encompass information related to applicable business lines such as trust services, international and private banking.

The CCO should receive periodic training that is relevant and appropriate given changes to regulatory requirements as well as the activities and overall ML/ FT risk profile of the institution.

The board of directors and senior management should be informed of changes and new developments in the MLPA and AML/CFT Regulation, other guidelines and directives, and regulations by other agencies. While the board of directors

may not require the same degree of training as the institution operations personnel, they need to understand the importance of AML/CFT regulatory requirements, the ramifications of non-compliance and the risks posed to the institution. Without a general understanding of the MLPA and AML/CFT Regulation, the board of directors cannot adequately provide AML/CFT oversight, approve AML/CFT policies, procedures and processes or provide sufficient AML/ CFT resources.

Training should be on-going and incorporate current developments and changes to the MLPA, 2011 and CBN AML/CFT Regulation, 2009 (as amended) and other related guidelines. Changes to internal policies, procedures, processes and monitoring systems should also be covered during training. The training Programme should reinforce the importance that the board and senior management place on the institution's compliance with the MLPA and AML/CFT Regulation and ensure that all employees understand their roles in maintaining an effective AML/CFT Compliance Programme.

Examples of money laundering and suspicious transaction monitoring and reporting can and should be tailored to each individual audience. For example, training for tellers should focus on examples involving large currency transactions or other suspicious transactions while training for the loan department should provide examples involving money laundering through lending arrangements. Financial institutions are required to document their training Programmes. Training and testing materials, the dates of training sessions and attendance records should be maintained by the institution and be made available for Bank Examiners to review.

5.2. OVERVIEW OF PROCEDURES FOR REGULATORY REQUIREMENTS AND RELATED TOPICS

Overview of Customer Identification Program. All financial institutions are required to have a written Customer Identification Programme (CIP). Each financial institution should implement a written CIP that is appropriate for its size and type of business and that includes certain minimum requirements. The CIP must be incorporated into the institution's AML/CFT Compliance Programme which is subject to approval by the institution's board of directors.



The implementation of a CIP by the financial institution's subsidiaries is appropriate as a matter of safety, soundness and protection from reputation risks.

Domestic subsidiaries (other than functionally regulated subsidiaries that are subject to separate CIP rules) of financial institutions should comply with the CIP rule that applies to the parent institution when opening an account.

The CIP is intended to enable the financial institution form a reasonable belief that it knows the true identity of each customer. The CIP must include account opening procedures that specify the identifying information that will be obtained from each customer. It must also include reasonable and practical riskbased procedures for verifying the identity of each customer.

Each financial institution is required to conduct a risk assessment of its customer base and product offerings. To determine the risks involved it must consider :

- (i) The types of accounts offered by it ;
- (ii) The institution's methods of opening accounts ;
- (iii) The types of identification information available ; and
- (iv) The institution's size, location and customer base, including types of products and services used by the customers in different geographic locations.

A financial institution using documentary methods to verify a customer's identity must have procedures that set forth the minimum acceptable documentation. The identification must provide evidence of a customer's nationality or residence and bear a photograph or similar safeguard. Examples include a driver's licence or international passport. However, other forms of identification may be used if they enable the institution to form a reasonable belief that it knows the true identity of the customer. Nonetheless, given the availability of counterfeit and fraudulently obtained documents, a financial institution is encouraged to review more than a single document to ensure that it has a reasonable belief that it knows the customer's true identity.

Verification through Documents. Verification through Non Documentary Methods. Record Keeping and Retention Requirements.

For a person other than an individual (such as a corporation, partnership or trust), the institution should obtain documents

showing the legal existence of the entity. Such documents include certified Memorandum and Articles of Association (Memart) of the incorporation, an un-expired government-issued business licence, a partnership agreement or a trust instrument.

Financial institutions are not advised to use non-documentary methods to verify a customer's identity. However, a financial institution using non-documentary methods to verify a customer's identity must have procedures that set forth the methods to be used by the institution.

A financial institution's CIP must include record-keeping procedures. At a minimum, the institution must retain the identification information such as name, address, date of birth for an individual, Tax Identification Number (TIN); telephone numbers, e-mail addresses and any other information required by the CIP which are obtained at account opening for a period of five years after the account is closed. For credit cards, the retention period is also five years after the account closes or becomes dormant.

The financial institution is required to keep a description of the following for five years after the record was made :

- (i) Any document that was relied on to verify identity, noting the type of document, the identification number, the place of issuance and the date of issuance and expiration date (if any) ;
- (ii) The method and the results of any measures undertaken to verify identity ; and
- (iii) The results of any substantive discrepancy discovered when verifying the identity.

**Comparison with Terrorist Lists.** The CIP must include procedures for determining whether existing or potential customer appears on any list of known or suspected terrorists or terrorist organizations. As often as possible and in accordance with the requirements of the AML/CFT Regulation and other related requirements on the subject, financial institutions are required to compare customer names against the list of terrorists after

**Adequate Customer**

Notice. the account opening procedure is completed.

Important Information Procedures for Opening a new Account. The CIP must include procedures and evidence in which the financial institution has provided customers with adequate notice for request about of information to verify their identities. The notice must generally describe the financial institution's identification requirements and this should be provided in a manner that is reasonably designed to allow a customer to view it or otherwise receive the notice before the account is opened. Examples include posting the notice in the lobby, on a Web site or within loan application documents. Sample of such notice is provided below.

Reliance on another

Financial Institution. To help the government fight the funding of terrorism and money laundering activities, the law and regulation require all financial institutions to obtain, verify and record information that identifies each person who opens an account. What this means is that when a prospective customer opens an account, the financial institution will ask for his/her name, address, date of birth and other information that will allow us identify you. The financial institution may also ask to see the potential customers' driver's licence, international passport, TIN, National Identity Card, Voter Registration Card or other identifying documents.

A financial institution is permitted to rely on another financial institution (including an affiliate) to perform some or all of the elements of the CIP. If such reliance is addressed in the CIP, the following criteria must be met :

- (i) The relied-upon financial institution must be subject to a rule that makes it mandatory to implement the AML Programme requirements ;
- (ii) The customer has an account or is opening an account at the institution and at the other functionally regulated institution ;
- (iii) Such reliance must be reasonable under the circumstances ; and
- (iv) The financial institution must enter into a contract, requiring the other financial institution to certify annually to the beneficiary financial institution that the agent-institution has implemented its own AML Programme and that it will perform (or its agent will perform) the specified requirements of the institution's CIP.

<p>The CIP rule does not alter a financial institution's authority to use a third party such as an agent or service provider to perform services on its behalf. Therefore, a financial institution is permitted to arrange for a third party such as a Car Dealer or Mortgage Broker to act as its agent in connection with a loan for purpose of verifying the identity of its customer. The financial institution can also arrange for a third party to maintain its records. As with any other responsibility performed by a third party, the financial institution is ultimately responsible for that third party's compliance with the requirements of its CIP. As a result, financial institution should establish adequate controls and review procedures for such relationships.</p>	<p>Use of Third Parties.</p> <p>Other Legal Requirements.</p> <p>Inquiries and Requests by PEPs.</p> <p>Funds transfer records.</p>
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<p>Nothing in the CIP rule relieves a financial institution of its obligations under any provision of the MLPA, AML/CFT Regulation, other laws, rules and regulations, particularly with respect to provisions concerning information that must be obtained, verified or maintained in connection with any account or transaction.</p>	<p>Monetary instrument records.</p>
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Financial institutions should establish policies, procedures and processes for identifying PEPs' requests, monitoring their transaction activity when appropriate, identifying unusual or potentially suspicious transaction related to those subjects and filing, as appropriate, STRs related to them.

Examiners should review the adequacy and effectiveness of the policies, procedures and processes of identifying PEPs' requests, monitoring their transaction activity when appropriate, identifying unusual or potentially suspicious transaction related to them, filing as appropriate, STRs related to the subjects.

5.3. The MLPA 2011 and CBN AML/CFT Regulation, 2009 (as amended) require financial institutions to maintain records of funds transfer in amounts of N5 million and above for individuals; and N10 million & above for corporate bodies. Periodic review of this information can assist financial institutions in identifying patterns of unusual activity. A periodic review of the funds transfer records in financial institutions with low funds transfer activity is usually sufficient

to identify unusual activity. For financial institutions with more significant funds transfer activity, use of spreadsheet or vendor software is an efficient way to review funds transfer activity for unusual patterns. Most vendor software systems include standard suspicious transaction filter reports. These reports typically focus on identifying certain higher-risk geographic locations and larger currency funds transfer transactions for individuals and businesses.

Each institution should establish its own filtering criteria for both individuals and businesses. Non customer funds transfer transactions and Payable Upon Proper Identification (PUPID) transactions should be reviewed by Examiners for unusual activity. Activities identified during these reviews should be subjected to additional research to ensure that identified activity is consistent with the stated account purpose and expected activity. When inconsistencies are identified, financial institutions may need to conduct a global relationship review to determine if a STR is warranted.

5.4. Keeping of record for sale of monetary instrument is a requirement of the MLPA, 2011 and CBN AML/CFT Regulation, 2009 (as amended). Such records can assist the financial institution in identifying possible currency structuring through the purchase of cashier's cheques, official bank/financial institution cheques, money orders, or traveller's cheques in amounts of USA \$10,000 or its equivalent. A periodic review of these records can also help identify frequent purchasers of monetary instruments and common payees. Reviews for suspicious transaction should encompass activity for an extended period of time (30, 60, 90 days) and should focus on, among other things, identification of commonalities, such as common payees and purchasers, or consecutively numbered purchased monetary instruments.

Surveillance Monitoring (Automated Account Monitoring). 5.5. A surveillance monitoring system (sometimes referred to as an automated account monitoring system) can cover multiple types of transactions and use various rules to identify potentially suspicious transaction. In addition, many can adapt over time based on historical activity, trends or internal peer comparison. These systems typically use computer Programmes to identify individual transactions, patterns of unusual activity or deviations from expected activity. These systems can capture a wide range of account activity, such as deposits, withdrawals, funds transfers, Automated Clearing House (ACH) transactions and Automated Teller Machine (ATM) transactions, directly from the financial institution's core data processing system.

STR Completion and Filing.

Overview of Currency Transaction Reporting.

Aggregation of Currency Transactions.

5.6. STR completion and filing with NFIU are a critical part of the STR monitoring and reporting process. Appropriate policies, procedures and processes should be in place to ensure that STR forms are filed in a timely manner as required by extant law and regulation, are complete and accurate, and that the narrative provides a sufficient description of the activity reported as well as the basis for filing.

5.7. A financial institution is required to render Currency Transaction Report (CTR) to NFIU for each transaction in cash (deposit, withdrawal, exchange or other payment or transfer) of N5,000,000 and above or N10,000,000 and above for individuals or corporate bodies respectively through, from or to the financial institution. All types of currency transactions are to be reported, there are no exempt persons.

Multiple cash transactions totaling more than N5,000,000 or N10,000,000 and above for individuals or corporate bodies respectively during any one business day are treated as a single transaction if the financial institution has knowledge that they are by or on behalf of the same person. Transactions throughout the financial institution should be aggregated when determining multiple transactions. Types of currency transactions subject to reporting requirements individually or by aggregation include but are not limited to denomination exchanges, Individual Retirement

Accounts (IRA), loan payments, Automated Teller Machine (ATM) transactions, purchases of certificates of deposit, deposits and withdrawals, funds transfers paid for in currency and monetary instrument purchases. Financial institutions are strongly encouraged to develop systems necessary to aggregate currency transactions throughout the institution. Management should ensure that an adequate system exists and is implemented that will appropriately report currency transactions to the appropriate authorities subject to the CBN AML/ CFT Regulation 2009 (as amended) requirement.

A completed CTR is required to be rendered (manually or electronically) to the NFIU within 7 days after the date of the transaction. The financial institution must retain copies of CTRs for five years from the date of the report.

If a financial institution fails to file CTRs on reportable transactions, the institution is required to file the un-filed CTRs immediately.

#### 5.8. SEARCH REQUIREMENTS

Upon receiving an information-request, a financial institution is required to conduct a one-time search of its records to identify accounts or transactions of a named suspect. Unless otherwise instructed by an information-request, financial institutions must search their records for current accounts, accounts maintained during the preceding 12 months and transactions conducted outside of an account by or on behalf of a named suspect during the preceding six months. The financial institution must search its records and report any positive matches to CBN/NFIU within seven (7) days, unless otherwise specified in the information-request. If a financial institution identifies any account or transaction, it must report to the CBN/NFIU that it has a match. Relevant details are required to be provided to CBN/NFIU in addition to the fact that the financial institution has found a match. Where no match is found, a nil report must be submitted within the deadline. The institution is forbidden from keeping silent or providing no response.

Filing Time  
Frames and  
Record  
Retention  
Requirements.  
CTR Back-  
Filing.  
Information  
Sharing  
Between  
Law  
Enforcement  
and Financial  
Institutions.  
Restrictions and  
Confidentiality.

A financial institution may provide subject lists to a third-party service provider or vendor to perform or facilitate record searches as long as the institution takes the necessary steps, through the use of an agreement or procedures to ensure that the third party safeguards and maintains the confidentiality of the information.

If a financial institution that receives the subject lists fails to perform or complete searches on one or more information-request received during the previous 12 months, it must immediately obtain these prior requests from CBN/ NFIU and perform a retroactive search of its records.

A financial institution is not required to perform retroactive searches in connection with information sharing requests that were transmitted more than 12 months before the date upon which it discovers that it failed to perform or complete searches on prior information requests. Additionally, in performing retroactive searches a financial institution is not required to search records created after the date of the original information request.

Financial institutions should develop and implement comprehensive policies, procedures and processes for responding to requests. A financial institution may use the required information rendered to CBN/NFIU to determine whether to establish or maintain an account or engage in a transaction, or to assist in its AML/CFT compliance. While the subject-list could be used to determine whether to establish or maintain an account, CBN/NFIU strongly discourages financial institutions from using this as the sole factor in reaching a decision to do so, unless the request specifically states otherwise.

Subject-lists are not permanent watch lists. They generally relate to onetime inquiries and could not be updated or corrected if an investigation is dropped, a prosecution is declined, or a subject is exonerated. Furthermore, such names do not necessarily correspond to convicted or indicted persons. A subject need only be reasonably suspected based on credible evidence of engaging in terrorist



acts or money laundering. Moreover, CBN/NFIU advises that inclusion of a name on subject-list should not be the sole factor used to determine whether to file STR. Financial institutions are required to establish a process for determining when and if a STR should be filed.

Actions taken pursuant to information provided in a request from CBN/ NFIU do not affect a financial institution's obligations to comply with all of the rules and regulations of MLPA 2011 and CBN AML/CFT Regulation 2009 (as amended) nor do they affect a financial institution's obligations to respond to any legal process. Additionally, actions taken in response to a request do not relieve a financial institution of its obligation to file a STR and immediately notify LEA, if necessary, in accordance with applicable laws and regulations.

A financial institution must not disclose to any person (other than to CBN/ NFIU, the institution's primary regulator or the LEA on whose behalf CBN/NFIU is requesting information) the fact that CBN/NFIU has requested or obtained information. A financial institution should designate one or more points of contact for receiving information-requests. An affiliated group of financial institutions may establish one point of contact to distribute the subject-list to respond to requests. However, the subject-lists cannot be shared with any foreign office, branch or affiliate (unless the request specifically states otherwise). The lists cannot be shared with affiliates or subsidiaries of financial institutions' holding companies, if the affiliates or subsidiaries are not financial institutions.

Each financial institution must maintain adequate procedures to protect the security and confidentiality of requests from CBN/NFIU. The procedures to ensure confidentiality will be considered adequate if the financial institution applies procedures similar to those it has established to comply with regulatory requirements in order to protect its customers' non-public personal information. Financial institutions may keep a log of all requests received and of any positive matches identified and reported to CBN/NFIU Documenta.

Additionally, documentation of how all the required searches were conducted tion. is essential. A financial institution may maintain copies of the cover page of the request on which it signed-off that the records were checked, the date of the search and search results (positive or negative). For positive matches with subjectlists received, copies of the form returned to CBN/NFIU and the supporting

documentation should be retained. Financial institutions are required to print search self-verification document and subject response list for documentation purpose.

The Subject Response List displays the total number of positive responses submitted to CBN/NFIU for that transmission, the transmission date, the submitted date, the tracking number and subject name that had the positive hit. If the financial institution elects to maintain copies of such requests, the Examiner should not criticize it for doing so, as long as it appropriately secures them and protects their confidentiality. Audit reports should include an evaluation of compliance with these guidelines within their scope.

CBN/NFIU will regularly update a list of search transmissions, including information on the date of transmission, tracking number and number of subjects listed in the transmission. Examiners may review this subject-list to verify that search requests have been received. Each financial institution should contact its primary regulator for guidance to ensure it obtains the subject-list and for updating contact information.

Financial institutions and their associates are encouraged to share information in order to identify and report activities that may involve terrorist activity or money laundering. Financial institutions should however notify the CBN/NFIU of its intent to engage in information sharing and that it has established and will maintain adequate procedures to protect the security and confidentiality of the information. Failure to comply with this requirement will result in loss of safeharbour protection for information sharing and may result in a violation of privacy laws or other laws and regulations.

Voluntary Information Sharing.  
  
Notice to share information given to CBN/NFIU.

If a financial institution chooses to voluntarily participate in VIS, policies, procedures and processes should be developed and implemented for sharing and receiving of information.

The financial institution should designate a point of contact for receiving and providing information. A financial institution should establish a process for sending and receiving information sharing requests. Additionally, a financial institution must take reasonable steps

to verify that the other financial institution or association of financial institutions with which it intends to share information has also submitted the required notice to CBN/NFIU. The CBN/NFIU provides participating financial institutions with access to a list of other participating financial institutions and their related contact information.

If a financial institution receives such information from another financial institution, it must also limit the use of the information and maintain its security and confidentiality. Such information may be used only to identify and render returns on money laundering and terrorist financing; to determine whether to establish or maintain an account; to engage in other forms of transactions; or to assist in complying with MLPA and AML/CFT Regulation.

The procedures to ensure confidentiality will be considered adequate if the financial institution applies procedures similar to the ones it has established to comply with the regulation on the protection of its customers' non-public personal information. The VIS does not authorize a financial institution to share information on suspicious transactions, nor does it permit the financial institution to disclose the existence or non-existence of such transactions.

If a financial institution shares information under VIS about the subject on STR, the information shared should be limited to underlying transaction and customer information. A financial institution may use information obtained under VIS to determine whether to file a STR, but the intention to prepare or file a STR cannot be shared with another financial institution. Financial institutions should establish a process for determining when and if a STR should be filed.

Actions taken pursuant to information obtained through the VIS process do not affect a financial institution's obligations to respond to any legal process. Additionally, actions taken in response to information obtained through the voluntary information sharing process do not relieve a financial institution of its obligation to file a STR and to immediately notify the LEA (if necessary) in accordance with all applicable laws and regulations.

## 5.9. OVERVIEW OF PURCHASE AND SALE OF MONETARY INSTRUMENTS RECORD-KEEPING

**Purchaser Verification.** Financial institutions are required to verify the identity of persons purchasing monetary instruments for cash in tandem with the reportable thresholds in the laws and regulation and USA \$1,000 or above, and to maintain records of all such sales.

**Indirect Currency**

**Purchases of Monetary Instruments.** Financial institutions should either verify that the purchaser of monetary instruments is a deposit account holder with identifying information on record with the financial institution, or a financial institution may verify the identity of the purchaser in accordance with the form of identification contained in AML/ CFT Regulation in respect of the customer's name and address and other means of identification acceptable by the financial community for cashing cheques by non-customers. The financial institution must obtain additional information for purchasers who do not have deposit accounts. The method used to verify the identity of the purchaser must be recorded.

Financial institutions may implement a policy requiring customers who are deposit account holders and who want to purchase monetary instruments in amounts of N5 million for individuals, N10 million for corporate entities or USA \$1,000 with cash to first deposit the cash into their deposit accounts. Nothing within the CBN AML/CFT Regulation 2009 (as amended) or other regulations prohibits a financial institution from instituting such a policy.

However, when a customer purchases a monetary instrument in amounts of N5 million for individuals, N10 million for corporate entities or USA \$1,000 using cash, the customer should first deposit such cash into his/its account, the transaction is still subject to the regulatory record-keeping and reporting requirements. These requirements apply whether the transaction is conducted in accordance with a financial institution's established policy or at the request of the customer. Generally, when a bank/other financial institution sells monetary instruments to deposit account holders, it is expected to already maintain most of the regulatory required information in the normal course of its business.

- A financial institution's records of sales must contain, at a minimum, the following information :
- (A) If the purchaser has a deposit account with the bank :
- (i) Name of the purchaser ;
  - (ii) Date of purchase ;
  - (iii) Types of instruments purchased ;
  - (iv) Serial numbers of each of the instruments purchased ;
  - (v) Amounts of each of the instruments purchased in Naira or other currencies ;
  - (vi) Specific identifying information, if applicable ; and (vii) Telephone numbers and e-mail address.
- (B) If the purchaser does not have a deposit account with the financial institution :
- (i) Name and address of the purchaser ;
  - (ii) Social security or alien identification number of the purchaser ;
  - (iii) Date of birth of the purchaser ;
  - (iv) Date of purchase ;
  - (v) Types of instruments purchased ;
  - (vi) Serial numbers of each of the instruments purchased ;
  - (vii) Naira or other currencies amount of each of the instruments purchased ;
  - (viii) Specific identifying information for verifying the purchaser's identity (e.g. state of issuance and number on driver's licence) ; and
  - (ix) Telephone number and e-mail address.

Record keeping and Retention Requirements.

Overview of Funds Transfers Record Keeping.

If the purchaser cannot provide the required information at the time of the transaction or through the financial institution's own previously verified records, the transaction should be refused. The records of monetary instrument sales must be retained for five years and be available for & reported to CBN, NFIU, auditors and other competent authorities.

5.10. Every financial institution is required to comply with statutory and regulatory requirements for funds transfers.

The regulatory requirements are set forth in the MLPA, 2011 and CBN AML/CFT Regulation, 2009 (as amended).

Funds transfer systems enable instantaneous transfer of funds, including both domestic and cross-border transfers. Consequently these systems can present an attractive method to disguise the source of funds derived from illegal activity. The CBN AML/CFT Regulation, 2009 requires each financial institution involved in funds transfers to collect and retain certain information in connection with funds transfers of USA\$1,000 or more. The information required to be collected and retained depends on the financial institution's role in the particular funds transfer (originator's financial institution, intermediary financial institution, or beneficiary's financial institution). The requirements may also vary depending on whether an originator or beneficiary is an established customer of a financial institution and whether a payment order is made in person or otherwise.

It also requires all financial institutions to include certain information in transmittal orders for funds transfers of USA \$1,000 or more.

**RESPONSIBILITIES OF ORIGINATOR'S FINANCIAL INSTITUTIONS**

Record Keeping Requirements. For each payment order in the amount of USA \$1,000 or more that a financial institution accepts as an originator's financial institution, it must obtain and retain the following records :

Additional Recordkeeping Requirements for Nonestablished Customers. Payment Orders Made in Person

- (i) Name and address of the originator ;
- (ii) Amount of the payment order ;
- (iii) Date of the payment order ;
- (iv) Any payment instructions ;
- (v) Identity of the beneficiary's institution ;
- (vi) As many of the following items as are received with the payment order :
  - (a) Name and address of the beneficiary ;
  - (b) Account number of the beneficiary ; and
  - (c) Any other specific identifier of the beneficiary.

If the originator is not an established customer of the financial institution, the originator's financial institution must collect and retain the information listed above. In addition, the originator's financial institution must collect and retain other information,

depending on whether the payment order is made in person by the originator.

If the payment order is made in person by the originator, the originator's financial institution must verify the identity of the person placing the payment order before it accepts the order. If it accepts the payment order, the originator's financial institution must obtain and retain the following records :

- (i) Name and address of the person placing the order ;
- (ii) Type of identification document reviewed ;
- (iii) Number of the identification document (e.g., driver's licence);  
and
- (iv) The person's Tax Identification Number (TIN), National I.D. number or Employer Identification Number (EIN) or, if none, the passport number and country of issuance, or a notation in the record of lack of it thereof.

If the originator's financial institution has knowledge that the person placing the payment order is not the originator, the originator's financial institution must obtain and record the originator's TIN or, if none, the passport number and country of issuance, or a notation of lack of it thereof.

If a payment order is not made in person by the originator, the originator's financial institution must obtain and retain the following records :

- (i) Name and address of the person placing the payment order ;  
and
- (ii) The person's TIN or, if none, the passport number and country of issuance, or a notation in the record of lack of it thereof, and a copy or record of the method of payment (e.g., cheque or credit card transaction) for the funds transfer.

If the originator's financial institution has knowledge that the person placing the payment order is not the originator, the originator's financial institution must obtain and record the originator's TIN or, if none, the passport number and country of issuance, or a notation of lack of it thereof.

Information retained must be retrievable by reference to the name of the originator. When the originator is an established customer of the financial institution and has an account used for funds transfers, information retained must also be retrievable by account number. Records must be maintained for five years.

For funds transmittals of USA \$1,000 or more, the transmitter's financial institution must include the following information in the transmittal order at the time that a transmittal order is sent to a receiving financial institution :

- (i) Name and account number of the transmitter, and, if the payment is ordered from an account ;
- (ii) Address of the transmitter ;
- (iii) Amount of the transmittal order ;
- (iv) Date of the transmittal order ;
- (v) Identity of the recipient's financial institution ;
- (vi) As many of the following items as are received with the transmittal order :
  - (a) Name and address of the recipient ;
  - (b) Account number of the recipient ;
  - (c) Any other specific identifier of the recipient ; and
- (vii) Either the name and address or the numerical identifier of the transmitter's financial institution.

#### RESPONSIBILITIES OF INTERMEDIARY INSTITUTIONS

For each payment order of USA \$1,000 or more that a financial institution accepts as an intermediary financial institution, the institution must retain a record of the payment order.

For funds transmittals of USA \$1,000 or more, the intermediary financial institution must include the following information if received from the sender in a transmittal order at the time that order is sent to a receiving financial institution :

- (i) Name and account number of the transmitter ;
- (ii) Address of the transmitter ;
- (iii) Amount of the transmittal order ;
- (iv) Date of the transmittal order ;



- (v) Identity of the recipient's financial institution ;
- (vi) As many of the following items as are received with the transmittal order :
  - (a) Name and address of the recipient ;
  - (b) Account number of the recipient ;
  - (c) Any other specific identifier of the recipient ; and
 Either the name and address or the numerical identifier of the transmitter's financial institution

Intermediary financial institutions must pass on all the information received from a transmitter's financial institution or the preceding financial institution, but they have no duty to obtain information not provided by the transmitter's financial institution or the preceding financial institution.

#### RESPONSIBILITIES OF BENEFICIARY'S FINANCIAL INSTITUTIONS

Record Keeping Requirements	For each payment order of USA \$1,000 or more that a financial institution accepts as a beneficiary's financial institution, the institution must retain a record of the payment order.
Proceeds Delivered in Person.	If the beneficiary is not an established customer of the financial institution, the beneficiary's institution must retain the above information for each payment order of USA \$1,000 or more.
Proceeds Not Delivered in Person.	<p>If proceeds are delivered in person to the beneficiary or its representative or agent, the institution must verify the identity of the person receiving the proceeds and retain a record of the following :</p> <ul style="list-style-type: none"> <li>(i) Name and address ;</li> <li>(ii) The type of document reviewed ;</li> <li>(iii) The number of the identification document ;</li> <li>(iv) The person's TIN, or, if none, the passport number and country of issuance, or a notation in the record of the lack thereof ; and</li> <li>(v) If the institution has knowledge that the person receiving the proceeds is not the beneficiary, the institution must obtain and</li> </ul>

retain a record of the beneficiary's name and address, as well as the beneficiary's identification.

If proceeds are not delivered in person, the institution must retain a copy of the cheque or other instrument used to effect the payment, or the institution must record the information on the instrument. The institution must also record the name and address of the person to whom it was sent.

Information retained must be retrievable by reference to the name of the beneficiary. When the beneficiary is an established customer of the institution and has an account used for funds transfers, information retained must also be retrievable by account number.

There are no Travel Rule requirements for beneficiary financial institutions.

Although the use of coded names or pseudonyms are not permitted, the use of abbreviated names, names reflecting different accounts of a corporation (e.g., XYZ Payroll Account), and trade and assumed names of a business (doing business as) or the names of unincorporated divisions or departments of the business are allowed.

Customer's street address is required to be included in a transmittal order and this should be known to the transmittor's financial institution.

The regulatory interpretation of the term address means either the transmittor's street address or the transmittor's address maintained in the financial institution's automated CIF (not mailing address such as post office box) as long as the institution maintains the transmittor's address on file and the address information is retrievable upon request by LEA.

A financial institution that maintains a correspondent account for a foreign financial institution must maintain records

Irretrievability.  
Abbreviations  
and Addresses.  
Customer  
Address.  
Certifications.  
Account Closure.  
Verification.

identifying the owners of each foreign financial institution. A financial institution must also record the name and street address of a person who resides in Nigeria and who is authorized, and has agreed, to be an agent to accept service of legal process. A financial institution must produce these records within seven days upon receipt of a written request from a LEA.

Financial institutions must obtain certifications (or recertifications) or the required information within 30 calendar days after the date an account is established and at least once every three years thereafter. If the financial institution is unable to obtain the required information, it must close all correspondent accounts with the foreign financial institution within a commercially reasonable time.

A financial institution should review certifications for reasonableness and accuracy. If a financial institution at any time knows, suspects, or has reason to suspect that any information obtained or that any other information it relied on is no longer correct, the financial institution must request the foreign financial institution to verify or correct such information, or the financial institution must take other appropriate measures to ascertain its accuracy. Therefore, financial institutions should review certifications for potential problems that may warrant further review, such as use of post office boxes or forwarding addresses.

If the financial institution has not obtained the necessary or corrected information within 90 days, it must close the account within a commercially reasonable time. During this time, the financial institution may not permit the foreign financial institution to establish any new financial positions or execute any transactions through the account, other than those transactions necessary to close the account. Also, a financial institution may not establish any other correspondent account for the foreign financial institution until it obtains the required information.

A financial institution must also retain the original of any document provided by a foreign financial institution, and retain the original or a copy of any document otherwise relied on for the purposes of the regulation, for at least five years after the date that the financial institution no longer maintains any correspondent account for the foreign financial institution.

Requests for AML Records by Regulator. 5.11. Also, upon request by its regulator(s), a financial institution must provide or make available records related to its AML compliance or one of its customers within three (3) working days from the time of the request.

Special Due Diligence Program for Foreign Correspondent Accounts. 5.12. This subsection requires each financial institution that establishes, maintains, administers, or manages a correspondent account for a foreign financial institution to take certain AML measures for such accounts.

General Due Diligence. Risk assessment of foreign financial institutions. Financial institutions are required to establish a due diligence programme that includes appropriate, specific, risk-based, and, where necessary, enhanced policies, procedures and controls that are reasonably designed to enable the financial institution to detect and report, on an ongoing basis, any known or suspected money laundering activity conducted through or involving any correspondent account established, maintained, administered, or managed by it for a foreign financial institution.

Due diligence policies, procedures and controls must include each of the following :

- (i) Determining whether each such foreign correspondent account is subject to Enhanced Due Diligence (EDD) ;
- (ii) Assessing the money laundering risks presented by each such foreign correspondent account ; and
- (iii) Applying risk-based procedures and controls to each such foreign correspondent account reasonably designed to detect and report known or suspected money laundering activity, including a periodic review of the correspondent account activity sufficient to determine consistency with information obtained about the type, purpose and anticipated activity of the account.

A financial institution's general due diligence Programme must include policies, procedures and processes to assess the risks posed by its foreign financial institution customers. A financial institution's resources are most appropriately directed at those accounts that pose a more significant money laundering risk. Its due diligence programme should provide for the risk assessment of foreign correspondent accounts considering all relevant factors, including, as appropriate :

- (i) The nature of the foreign financial institution's business and the markets it serves ;
- (ii) The type, purpose and anticipated activity of the foreign correspondent account ;
- (iii) The nature and duration of the financial institution's relationship with the foreign financial institution (and, if relevant, with any affiliate of the foreign financial institution) ;
- (iv) The AML and supervisory regime of the jurisdiction that issued the charter or licence to the foreign financial institution and, to the extent that information regarding such jurisdiction is reasonably available, of the jurisdiction in which any company that is an owner of the foreign financial institution is incorporated or chartered ; and Information known or reasonably available to the financial institution about the foreign financial institution's AML record, including public information in standard industry guides, periodicals and major publications.

<p>As part of ongoing due diligence, financial institutions should periodically review their foreign correspondent accounts. Monitoring will not, in the ordinary situation, involve scrutiny of every transaction taking place within the account, but, instead, should involve a review of the account sufficient to ensure that the financial institution can determine whether the nature and volume of account activity are generally consistent with information regarding the purpose of the account and expected account activity and to ensure that the financial institution can adequately identify suspicious transactions.</p>	<p>Monitoring of foreign correspondent accounts. Enhanced Due Diligence.</p>
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An effective due diligence Programme will provide for a range of

due diligence measures, based upon the financial institution's risk assessment of each foreign correspondent account. The starting point for an effective due diligence Programme, therefore, should be a stratification of the money laundering risk of each foreign correspondent account based on the financial institution's review of relevant risk factors (such as those identified above) to determine which accounts may require increased measures. The due diligence Programme should identify risk factors that would warrant the institution conducting additional scrutiny or increased monitoring of a particular account. As due diligence is an ongoing process, a financial institution should take measures to ensure account profiles are current and monitoring should be risk-based. Financial institutions should consider whether risk profiles should be adjusted or suspicious activity reported when the activity is inconsistent with the profile.

Financial institutions are required to establish risk-based EDD policies, procedures and controls when establishing, maintaining, administering or managing a correspondent account in Nigeria for foreign financial institutions operating under any one or more of the following :

- (i) An offshore banking licence ;
- (ii) A banking licence issued by a foreign country that has been designated as non-cooperative with international AML principles or procedures by an inter-governmental group or organization of which Nigeria is a member and Nigeria representative to the group or organization concurs its decision ; and
- (iii) A banking licence issued by a foreign country that has been designated by the CBN as warranting special measures due to money laundering concerns.

If such an account is established or maintained, the financial institution is required to establish EDD policies, procedures and controls to ensure that it, at a minimum, takes reasonable steps to :

- (i) Determine, for any such foreign financial institution whose shares are not publicly traded, the identity of each of the owners of the foreign financial

- institution and the nature and extent of the ownership interest of each such owner ;
- (ii) Conduct enhanced scrutiny of such account to guard against moneylaundering and to identify and report any suspicious transactions in accordance with applicable laws and regulations. (This enhanced scrutiny is to reflect the risk assessment of the account and shall include, as appropriate) ;
  - (iii) Obtain and consider information relating to the foreign financial institution's anti-money laundering Programme to assess the risk of money laundering presented by the foreign financial institution's correspondent account ;
  - (iv) Monitor transactions to, from, or through the correspondent account in a manner reasonably designed to detect money laundering and suspicious activity ;
  - (v) Obtain information from the foreign financial institution about the identity of any person with authority to direct transactions through any correspondent account that is a payable through account, and the sources and the beneficial owner of funds or other assets in the payable through account ; and
  - (vi) Determine whether the foreign financial institution for which the correspondent account is maintained in turn maintains correspondent accounts for other foreign financial institutions that use the foreign financial institution's correspondent account. (If so, take reasonable steps to obtain information relevant to assess and mitigate money laundering risks associated with the foreign financial institution's correspondent accounts for other foreign financial institutions, including, as appropriate, the identity of those foreign financial institutions).

In addition to those categories of foreign financial institutions identified in the regulation as requiring EDD, financial institutions may find it appropriate to conduct additional due diligence measures on foreign financial institutions identified through application of the financial institution's general due diligence Programme as posing a higher risk for money laundering. Such measures may include any or all of the elements of EDD set forth in the regulation, as appropriate for the risks posed by the specific foreign correspondent account.

As also noted in the above section on general due diligence, a financial institution's resources are most appropriately directed at those accounts that pose

a more significant money laundering risk. Accordingly, where a financial institution is required or otherwise determines that it is necessary to conduct EDD in connection with a foreign correspondent account, the financial institution may consider the risk assessment factors discussed in the section on general due diligence when determining the extent of the EDD that is necessary and appropriate to mitigate the risks presented.

In particular, the anti-money laundering and supervisory regime of the jurisdiction that issued a charter or licence to the foreign financial institution may be especially relevant in a financial institution's determination of the nature and extent of the risks posed by a foreign correspondent account and the extent of the EDD to be applied.

A financial institution's due diligence policies, procedures and controls established must include procedures to be followed in circumstances when appropriate due diligence or EDD cannot be performed with respect to a foreign correspondent account and when the financial institution should :

- (i) Refuse to open the account ;
- (ii) Suspend transaction activity ;
- (iii) File STR ; and
- (iv) Close account.

Special Procedures When Due Diligence Cannot be Performed.

Overview of Private Banking Due

5.13. Financial institution are required to comply with the statutory and regulatory requirements by implementing policies, procedures and controls to detect and report money laundering and suspicious activity through private banking accounts established, administered or maintained for non-Nigerian persons.

Diligence Program (Non-activity through private banking accounts established, administered Nigerians).

Private banking can be broadly defined as providing personalized financial services to wealthy clients. In particular, a financial institution must establish appropriate, specific and (where necessary) EDD policies, procedures and controls that are reasonably designed to enable the financial institution to detect and report instances of money laundering through such accounts. CBN AML/CFT Regulation, 2009 (as amended) mandates enhanced scrutiny to detect and, if appropriate, report transactions that may

Private Banking Accounts.



involve proceeds of foreign corruption for private banking accounts that are requested or maintained by or on behalf of a senior foreign/local political figure or the individual's immediate family and close associates.

A private banking account is an account (or any combination of accounts) either so-called private bank account or maintained at a financial institution that satisfies all the three criteria :

(i) Requires a minimum aggregate deposit of funds or other assets of not less than USA\$50,000 or its equivalent ;

(ii) Is established on behalf of or for the benefit of one or more Nigerian or non-Nigerian persons who are direct or beneficial owners of the account ; and

(iii) Is assigned to, or is administered by, in whole or in part, an officer, employee, or agent of a financial institution acting as a liaison between a financial institution covered by the regulation and the direct or beneficial owner of the account.

With regard to the minimum deposit requirement, a *private banking account* is an account (or combination of accounts) that requires a minimum deposit of not less than USA \$50,000 or its equivalent. A financial institution may offer a wide range of services that are generically termed private banking, and even if certain (or any combination, or all) of the financial institution's private banking services do not require a minimum deposit of not less than USA \$50,000 or its equivalent, these relationships should be subject to a greater level of due diligence under the financial institution's risk- based AML compliance Programme.

Due Dilligence. A financial institution is required to establish and maintain a due diligence Programme that includes policies, procedures and controls that are reasonably designed to detect and report any known or suspected money laundering or suspicious activity conducted through or involving any private banking account for a Nigerian or non-Nigerian person that is established, maintained, administered, or managed in Nigeria by the financial institution. The due diligence Programme must ensure that, at a minimum, the financial institution takes reasonable steps to do each of the following :

Risk Assessment of Private Banking Accounts for Nigerian/ Non-Nigerian Persons.

- (i) Ascertain the identity of all nominal and beneficial owners of a private banking account ;
- (ii) Ascertain whether the nominal or beneficial owner of any private banking account is a senior local/foreign political figure ;
- (iii) Ascertain the source(s) of funds deposited into a private banking account and the purpose and expected use of the account ; and
- (iv) Review the activity of the account to ensure that it is consistent with the information obtained about the client's source of funds, and with the stated purpose and expected use of the account, and to file a STR, as appropriate, to report any known or suspected money laundering or suspicious activity conducted to, from, or through a private banking account.

The nature and extent of due diligence conducted on private banking accounts for Nigerian/non- Nigerian persons will likely vary for each client depending on the presence of potential risk factors. More extensive due diligence, for example, may be appropriate for new clients; clients who operate in, or whose funds are transmitted from or through jurisdictions with weak AML controls; and clients whose lines of business are primarily currency-based (e.g., casinos or currency exchangers). Due diligence should also be commensurate with the size of the account. Accounts with relatively more deposits and assets should be subject to greater due diligence. In addition, if the financial institution at any time learns of information that casts doubt on previous information, further due diligence would be appropriate.

Financial institutions that provide private banking services generally are required to obtain considerable information about their clients, including the purpose for which the customer establishes the *private banking account*. This information can establish a baseline for account activity that will enable a financial institution to better detect suspicious activity and to assess situations where additional verification regarding the source of funds may be necessary.

Ascertaining Source of Funds and Monitoring Account Activity.

Financial institutions are not expected, in the ordinary course of business, to verify the source of every deposit placed into every private banking account. However, financial institutions should monitor deposits and transactions as necessary to ensure that activity is consistent with information that the financial institution has received about the client's source of funds and with the stated purpose and expected use of the account. Such monitoring will facilitate the identification of accounts that warrant additional scrutiny.

Enhanced Scrutiny of Private Banking Accounts for Senior Local/ Foreign Political Figures.

The term *senior political figure* is defined to include one or more of the following :

- (i) A current or former Senior official in the executive, legislative, administrative, military, or judicial branches of a foreign government (whether elected or not) ;
- (ii) Senior official of a major foreign political party ;
- (iii) Senior executive of a foreign-government-owned commercial enterprise ;
- (iv) A corporation, business, or other entity that has been formed by, or for the benefit of, any such individual ;
- (v) An immediate family member (including spouses, parents, siblings, children, and a spouse's parents and siblings) of any such individual ; and
- (vi) A person who is widely and publicly known (or is actually known by the relevant financial institution) to be a close associate of such individual.

Senior political figures as defined above are often referred to as Politically Exposed Persons or PEPs. For private banking accounts for which a senior

local/foreign political figure is a nominal or beneficial owner, the financial institution's due diligence Programme must include enhanced scrutiny that is reasonably designed to detect and report transactions that may involve the proceeds of local/ foreign corruption. The term proceeds of local/foreign corruption means any asset or property that is acquired by, through, or on behalf of a senior local/ foreign political figure through misappropriation, theft, or embezzlement of public funds, the unlawful conversion of property of a foreign government, or through acts of bribery or extortion, and includes any other property into which any such assets have been transformed or converted.

Enhanced scrutiny of private banking accounts for senior local/foreign political figures should be risk-based. Reasonable steps to perform enhanced scrutiny may include consulting publicly available information regarding the home country of the client, contacting branches of the financial institution operating in the home country of the client to obtain additional information about the client and the political environment, and conducting greater scrutiny of the client's employment history and sources of income. For example, funds transfers from a government account to the personal account of a government official with signature authority over the government account may raise a financial institution's suspicions of possible political corruption. In addition, if a financial institution's review of major news sources indicates that a client may be or is involved in political corruption, the financial institution should review the client's account for unusual activity and :

- (i) Refuse to open the account ;
- (ii) Suspend transaction activity ;
- (iii) File an STR ; and
- (iv) Close the account.

Identifying Senior Political Figures. Financial institutions are required to establish policies, procedures and controls that include reasonable steps to ascertain the status of an individual as a senior political figure. Procedures should require obtaining information regarding employment and other sources of income, and the financial institution should seek information directly from the client regarding possible senior local/foreign political figure status. The financial institution should also check references, as appropriate, to determine whether the individual holds or has previously held a senior political position or may be a close associate of

Performed. a senior local/foreign political figure. In addition, the financial institution should make reasonable efforts to review public sources of information regarding the client.

Financial institutions applying reasonable due diligence procedures in accordance with regulatory requirements may not be able to identify, in every case, individuals who qualify as senior local/foreign political figures, and, in particular, their close associates, and thus may not apply enhanced scrutiny to all such accounts. If the financial institution's due diligence Programme is reasonably designed to make this determination, and it administers this Programme effectively, then the financial institution should generally be able to detect, report and take appropriate action when suspected money laundering is occurring with respect to these accounts, even in cases when the financial institution has not been able to identify the accountholder as a senior foreign political figure warranting enhanced scrutiny.

A financial institution's due diligence policies, procedures and controls established must include special procedures when appropriate due diligence cannot be performed. These special procedures must include when the financial institution should :

- (i) Refuse to open the account ;
- (ii) Suspend transaction activity ;
- (iii) File an STR ; and
- (iv) Close the account.

5.14. Financial institutions and domestic financial agencies are required to take certain special measures against foreign jurisdictions, foreign financial institutions, classes of international transactions, or types of accounts of primary money laundering concern.

Overview of Special Measures. Record keeping and Reporting of Certain Financial Transactions. Information Relating to

TYPES OF SPECIAL MEASURES

They are to take following special measures either individually, jointly or in any combination :

Under the first special measure, financial institutions are required to maintain records or file reports or both, concerning the aggregate amount of transactions or the specifics of each transaction with

respect to a jurisdiction, financial institution, class of transactions or type of account that is of primary money laundering concern.

Beneficial  
Ownership.

Under the second special measure, financial institutions are required to take reasonable and practicable steps to obtain and retain information concerning the beneficial ownership of any account opened or maintained by a foreign person (other than a foreign entity whose shares are subject to public reporting requirements or are listed and traded on a regulated exchange or trading market), or a representative of such foreign person that involves a jurisdiction, financial institution, class of transactions or type of account that is of primary money laundering concern.

Information  
Relating to  
Certain  
Payable  
through  
Accounts.  
Information  
Relating to  
Certain  
Correspondent  
Accounts.

Under the third special measure, financial institutions that open or maintain a payable through account involving a jurisdiction, financial institution, class of transactions or type of account that is of primary money laundering concern are required to :

- (i) To identify each customer (and representative) who is permitted to use the account or whose transactions are routed through the account ; and
- (ii) To obtain information about each customer (and representative) that is substantially comparable to that which the financial institution obtains in the ordinary course of business with respect to its customers residing in Nigeria.

Under the fourth special measure, financial institutions that open or maintain a correspondent account involving a jurisdiction, financial institution, class of transactions or type of account that is of primary money laundering concern are required to :

Identify each customer (and representative) who is permitted to use the account or whose transactions are routed through the account; and

- (i) Obtain information about each such customer (and representative) that is substantially comparable to that which a depository institution obtains in the ordinary course of business with respect to its customers residing in Nigeria.

Overview of International Transportation of Currency or Monetary Instruments Reporting. Financial institutions are required to comply with statutory and regulatory requirements for the reporting of international shipments of currency or monetary instruments.

Monitoring of Office of Foreign Assets Control (OFAC) List. Each person (including a financial institution) who physically transports, mails or ships currency or monetary instruments in excess of USA \$10,000 at one time out of or into Nigeria (and each person who causes such transportation, mailing or shipment) must file a Declaration Report with the Nigeria Customs Services (NCS) at the time of entry into or departure from Nigeria in accordance with section 2(3) of MLPA, 2011.

When a person receives currency or monetary instruments through financial institution in an amount exceeding USA \$10,000 or its equivalent at one time that have been shipped from and to any place outside Nigeria, a report must be filed with the CBN, SEC and NFIU within 7 days of date of such transaction (unless a report has already been filed). The report is to be completed by or on behalf of the person requesting transfer of the currency or monetary instruments.

Financial institutions are also required to report these items if they are mailed or shipped through the postal service or by common carrier. However, a financial institution or trust company recognized under the law is not required to report overland shipments of currency or monetary instruments if they are shipped to or received from an established customer maintaining a deposit relationship with the financial institution where the latter can reasonably conclude that the amounts do not exceed what is commensurate with the customary conduct of the business, industry or profession of the customer concerned.

Management should implement applicable policies, procedures and processes for filing these declaration reports. Management should review the international transportation of currency and monetary instruments.

Financial institutions are required to establish procedures and processes of monitoring and identifying OFAC blocked countries, entities, etc. Also assess the appropriateness of the procedures and processes are also to be appropriate, taking into consideration the financial institution's products, services, customers, entities, transactions, geographical locations and its scope of international operations.

Though complying with OFAC requirements is mandatory to only U.S. based banks, it is important that financial institutions in Nigeria be aware of these requirements and take notice of all OFAC blocked/banned countries, terrorists, entities, etc. This would enable the financial institutions know and avoid carrying out transactions with blocked entities as transactions that pass through a U.S. correspondent bank would be confiscated. This could cause both financial and reputation loss to the Nigerian financial institution victims.

Financial institutions are therefore required to have procedures and processes of knowing the requirements, updating them, monitoring and reporting transactions with entities, countries, etc on the OFAC List, United Nations Security Council Resolutions (UNSCRs) 1267, 1373 and their successor resolutions.

#### 5.15. OVERVIEW AND PROCEDURES FOR CONSOLIDATED AND OTHER TYPES OF AML/CFT COMPLIANCE PROGRAMME STRUCTURES

A financial institution is required to ensure that its structure and management of its institution's AML/CFT Compliance Programme and (if applicable) its consolidated or partially consolidated approach to AML/CFT are adequate.

Every financial institution is required to have a comprehensive AML/CFT Compliance Programme that addresses the requirements of the Money Laundering (Prohibition) Act and CBN AML/CFT Regulation 2009 applicable to all its operations.

Overview of  
AML/CFT  
Compliance  
Program  
Structures.

Each financial institution has discretion as to how its AML/CFT Compliance Programme is structured and managed. It may structure and manage its AML/ CFT Compliance Programme or some parts of the Programme within a legal entity;



with some degree of consolidation across entities within the institution; or as part of a comprehensive enterprise risk management framework.

Many large, complex financial institutions aggregate risk of all types (e.g., compliance, operational, credit, interest rate risk, etc.) on an institution-wide basis in order to maximize efficiencies and better identify, monitor and control all types of risks within or across affiliates, subsidiaries, lines of business or jurisdictions. In such institutions, management of MLPA, 2011 and CBN AML/ CFT Regulation, 2009 (as amended) risk is generally the responsibility of a corporate compliance function that supports and oversees the AML/CFT Compliance Programme.

Other financial institutions may adopt a structure that is less centralized but still consolidates some or all aspects of AML/CFT compliance. For example, risk assessment, internal controls, suspicious transaction monitoring, independent testing or training may be managed centrally. Such centralization can effectively maximize efficiencies and enhance assessment of risks and implementation of controls across business lines, legal entities and jurisdiction of operation. For example, a centralized ML/FT risk assessment function may enable a financial institution to determine its overall risk exposure to a customer doing business with it in multiple business lines or jurisdiction. Regardless of how a consolidated AML/CFT Compliance Programme is organized, it should reflect the institution's business structure, size and complexity. It should be designed to effectively address risks, exposures and applicable legal requirements across the institution.

A consolidated approach should also include the establishment of corporate standards for AML/CFT compliance that reflect the expectations of the financial institution's board of directors, with senior management working to ensure that the Chief Compliance Officer implements these corporate standards. Individual lines of business policies would then supplement the corporate standards and address specific risks within the line of business or department.

A consolidated AML/CFT Compliance Programme typically includes a central point where its risks throughout the institution are aggregated. Under a consolidated approach, risk should be assessed both within and across all business lines, legal entities and jurisdictions of operation. Compliance Programmes for global institutions should incorporate the AML laws and requirements of the various

jurisdictions in which they operate. Internal audit should assess the level of compliance with the consolidated AML/CFT Compliance Programme.

Bank Examiners should be aware that some complex and diversified financial institutions may have various subsidiaries that hold different types of licences and banking charters or may organize business activities and AML/CFT Compliance Programme components across their legal entities. For instance, a highly diversified financial institution may establish or maintain accounts using multiple legal entities that are examined by multiple regulators. This action may be taken in order to maximize efficiencies, enhance tax benefits, adhere to jurisdictional regulations, etc. This methodology may present a challenge to the Bank Examiner reviewing AML/CFT compliance in a legal entity within an institution. As appropriate, Examiners should coordinate efforts with other regulatory agencies in order to address these challenges or ensure the examination scope appropriately covers the legal entity examined.

Structure of the AML/CFT Compliance Function. Financial institution has discretion as how to structure and manage its AML/ CFT Compliance Programme. For example, a small institution may choose to combine its compliance with other functions and utilize the same personnel in several roles. In such circumstances, there should still be adequate senior-level attention to AML/CFT compliance and sufficient dedicated resources. As is the case in all structures, the audit function should remain independent.

A larger and more complex institution may establish a corporate AML/CFT compliance function to coordinate some or all its responsibilities. For example, when there is delegation of AML/CFT compliance responsibilities and its Chief Compliance Officer is located within lines of business, expectations should be clearly set forth in order to avoid conflicts and ensure effective implementation of the AML/CFT Compliance Programme. In particular, allocation of responsibility should be clear with respect to the content and comprehensiveness of MIS reports, the depth and frequency of monitoring efforts, and the role of different parties within the financial institution (e.g., risk, business lines, operations) in AML/CFT compliance decision-making processes. A clear communication of the functions that have been delegated and those that remain centralized help to ensure consistent implementation of the AML/CFT Compliance Programme among lines

of business, affiliates and jurisdictions. In addition, a clear line of responsibility may help to avoid conflicts of interest and ensure that objectivity is maintained.

Regardless of the management structure or size of the institution, AML/ CFT compliance staff located within lines of business is not precluded from close interaction with the management and staff of the various business lines. AML/CFT compliance functions are often most effective when strong working relationships exist between compliance and business line staff.

In some compliance structures, the compliance officers could report to the management of the business line. This can occur in smaller institutions when the AML/CFT compliance officer reports to a senior officer; in larger institutions, the compliance officer could report to a line business manager; or in a foreign owned financial institution, its Nigeria's operations could be reported by the compliance officer to a single officer or executive. These situations can present risks of potential conflicts of interest that could hinder effective AML/CFT compliance.

To ensure the strength of compliance controls, an appropriate level of its compliance independence should be maintained, for example, by :

- (i) Providing AML/CFT compliance officer a reporting line to the corporate compliance or other independent function ;
- (ii) Ensuring that AML/CFT compliance officer is actively involved in all matters affecting AML risk (e.g., new products, review or termination of customer relationships, filing determinations) ;
- (iii) Establishing a process for escalating and objectively resolving disputes between AML/CFT compliance officer and business line management ; and
- (iv) Establishing internal controls to ensure that compliance objectivity is maintained when AML/CFT compliance officer is assigned additional responsibilities.

<p>The board of directors and senior management of a financial institution have different responsibilities and roles in overseeing and managing AML/CFT compliance risk. The board of directors has primary responsibility for ensuring that the financial institution has a comprehensive and effective AML/CFT Compliance Programme and oversight framework that is reasonably designed to ensure compliance with MLPA, AML/CFT Regulation and related regulations. Senior management is responsible for implementing the board-approved AML/ CFT Compliance Programme.</p>	<p>Management and Oversight of the AML/ CFT Compliance Program. Board of Directors.</p>
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The board of directors is responsible for approving the AML/CFT Compliance Programme and for overseeing the structure and management of its compliance function. The board is responsible for setting an appropriate culture of AML/CFT compliance, establishing clear policies regarding the management of key AML/CFT risks and ensuring that these policies are adhered to in practice.

The board should ensure that senior management is fully capable, qualified and properly motivated to manage the AML/CFT compliance risks arising from the institution's business activities in a manner that is consistent with the board's expectations. The board should ensure that its compliance function has an appropriately prominent status within the organization. Senior management within the AML/CFT compliance function and senior compliance personnel within the individual business lines should have the appropriate authority, independence and access to personnel and information within the organization and appropriate resources to conduct their activities effectively.

The board should ensure that its views about the importance of AML/CFT compliance are understood and communicated across all levels of the financial institution. The board also should ensure that senior management has established appropriate incentives to integrate AML/CFT compliance objectives into management goals and compensation structure across the organization, and that corrective actions, including disciplinary measures, if appropriate, are taken when serious AML/CFT compliance failures are identified.

Senior Management. Consolidated AML/CFT Compliance Programs. Suspicious Transaction Reporting.

Senior management is responsible for communicating and reinforcing the AML/CFT compliance culture established by the board, and implementing and enforcing the board-approved AML/CFT Compliance Programme. If the financial institution has a separate AML/CFT compliance function, the senior management is required to establish, support and oversee the institution's AML/CFT Compliance Programme. AML/CFT chief compliance officer should report to the board or a committee thereof on effectiveness of the AML/CFT, Compliance Programme and significant AML/CFT compliance matters.

Senior management of a foreign owned financial institution is required to provide sufficient AML/CFT compliance information relating to its Nigerian operations to the board/senior management and control unit in its home country. It should also ensure that responsible senior management in the home country has an appropriate understanding of the Nigerian ML/FT risk and control environment governing its Nigeria operations. The management of such Nigerian financial institution should assess the effectiveness of established AML/CFT control mechanisms for Nigerian operations on an on-going basis, report and escalate areas of concern as needed. As appropriate, corrective action then should be developed and implemented.

Financial institutions that centrally manage the operations and functions of their subsidiary financial institutions, other subsidiaries and business lines should ensure that comprehensive risk management policies, procedures and processes are in place across the organization to address the entire organization's spectrum of risk. An adequate consolidated AML/CFT Compliance Programme provides the framework for all subsidiaries, business lines and foreign branches to meet their specific regulatory requirements (e.g., country or industry requirements). Accordingly, financial institutions that centrally manage a consolidated AML/CFT Compliance Programme should, among other things, provide appropriate structure and advise the business lines, subsidiaries

and foreign branches on the development of appropriate guidelines.

An organization applying a consolidated AML/CFT Compliance Programme may choose to manage only specific compliance controls (e.g. STR monitoring systems and audit) on a consolidated basis, with other compliance controls managed solely within affiliates, subsidiaries and business lines.

Financial Institution's Holding Companies (FIHC) or any non-bank subsidiary thereof, or a foreign owned financial institution that is subject to the BOFI Act or any non-bank subsidiary of such a foreign owned financial institution operating in Nigeria, are required to file STRs. A FIHC's non-bank subsidiaries operating only outside Nigeria are also required to file STRs. Certain savings and loan holding companies and their non depository subsidiaries are required to file STRs pursuant to CBN AML/CFT Regulations, 2009 (as amended). In addition, savings and loan holding companies are strongly required to file STRs.

5.16. The Financial institution's systems are required to be adequate to manage the risks associated with foreign branches and offices and the management should have the ability to implement its monitoring and reporting systems effectively.

Nigerian financial institutions open foreign branches and offices in order to meet specific customer demands, help them grow, or expand products or services offered. Foreign branches and offices vary significantly in size, complexity of operations, and scope of products and services offered. Financial institutions must take these factors into consideration when reviewing their foreign branches and offices AML/CFT Compliance Programme. Financial institutions are expected to have policies, procedures and processes in place at all their branches and offices to protect against risks of money laundering and terrorist financing. AML/ CFT policies, procedures and processes at the foreign office or branch should comply with

local requirements and be consistent with the Nigerian financial institution's standards; however, they may need to be tailored for local or business practices.

Financial institutions should understand the type of products and services offered at their foreign branches and offices, as well as the customers and geographic locations served at the foreign branches and offices. Any service offered by the Nigerian financial institution may be offered by the foreign branches and offices if not prohibited by the host country. Such products and services offered at the foreign branches and offices may have a different risk profile from that of the same products or services offered in Nigerian. Therefore, the institution should be aware that risks associated with foreign branches and offices may differ (e.g., wholesale versus retail operations).

Financial institution should understand the foreign jurisdiction's various AML/CFT requirements. Secrecy laws or their equivalent may affect the ability of the foreign branch or office to share information with the Nigerian financial institutions parent institution. While financial institution with overseas branches or subsidiaries may find it necessary to tailor monitoring approaches as a result of local privacy laws, the compliance oversight mechanism should ensure it can effectively assess and monitor risks within such branches and subsidiaries.

Although specific MLPA requirements are not applicable at foreign branches and offices, financial institutions are expected to have policies, procedures and processes in place at all their branches and offices to protect against risks of money laundering and terrorist financing. In this regard, foreign branches and offices should be guided by the Nigerian financial institutions' AML/CFT policies, procedures and processes. The foreign branches and offices must comply with applicable provisions of Money Laundering (Prohibition) Act 2011 (MLPA), AML/CFT Regulation requirements and all other local AML/CFT related laws, rules and regulations.

**Risk Mitigation.** Branches and offices of Nigerian financial institutions located in higher-risk geographic locations may be vulnerable to abuse by money launderers. To address this concern, the Nigerian financial institution's policies,

procedures and processes for the foreign operation should be consistent with the following recommendations:

- (i) The Nigerian financial institution's head office and management in Nigeria and the one at the foreign country should understand the effectiveness and quality of supervision and the legal and regulatory requirements of the host country. The Nigerian financial institution's head office should be aware of and understand any concerns that the host country supervisors may have with respect to the foreign branch or office ;
- (ii) The Nigerian financial institution's head office should understand the foreign branches' or offices' risk profile (e.g., products, services, customers and geographic locations) ; and
- (iii) The Nigerian financial institution's head office and management should have access to sufficient information in order to periodically monitor the activity of their foreign branches and offices, including the offices' and branches' level of compliance with head office policies, procedures and processes. Some of this may be achieved through Management Information System (MIS) reports. The Nigerian financial institution's head office should develop a system for testing and verifying the integrity and effectiveness of internal controls at the foreign branches or offices by conducting in-country audits. Senior management at the head office should obtain and review copies (written in English) of audit reports and any other reports related to AML/CFT and internal control evaluations.
- (iv) The Nigeria financial institution's head office should establish robust information-sharing practices between branches and offices, particularly regarding higher-risk account relationships. The institution should use the information to evaluate and understand account relationships throughout the corporate structure (e.g., across borders or legal structures).
- (v) The Nigerian institution's head office should be able to provide Examiners with any information deemed necessary to assess compliance with the applicable laws.

Foreign branch and office compliance and audit structures can vary substantially based on the scope of operations (e.g., geographic locations) and the type of products, services and customers. Foreign branches and offices with multiple locations within a geographic region are frequently overseen by branch compliance and audit staff. Regardless of the size or scope of operations, the



compliance and audit staff and audit Programmes should be sufficient to oversee the ML/FT risk.

#### 5.17. OVERVIEW OF PARALLEL BANKING

The financial institution's systems are required to be adequate to manage the risks associated with parallel banking relationships and the management should have the ability to implement its due diligence, monitoring and reporting systems effectively.

A parallel financial institution exists when at least one Nigerian financial institution and one foreign financial institution are controlled either directly or indirectly by the same person or group of persons who are closely associated in their business dealings or otherwise acting together, but are not subject to consolidated supervision by a single home country supervisor.

The foreign financial institution will be subject to different money laundering rules and regulations and a different supervisory oversight structure, both of which may be less stringent than Nigeria. The regulatory and supervisory differences heighten

the ML/FT risk associated with parallel banking organizations. and reporting systems effectively.

Financial institutions maintain correspondent relationships at other domestic financial institutions to provide certain services that can be performed more economically or efficiently because of the other financial institution's size, expertise in a specific line of business or geographic location. Such services may include :

- (i) Deposit accounts — Assets known as due from financial institution deposits or correspondent financial institution balances may represent the financial institution's primary operating account ;
- (ii) Funds transfers — A transfer of funds between financial institutions may result from the collection of cheques or other cash items, transfer and settlement of securities transactions, transfer of participating loan funds, purchase or sale of government funds, or processing of customer transactions ; and
- (iii) Other services — Services include processing of loan participations, facilitating secondary market loan sales, performing data processing and payroll services and exchanging foreign currency.

Parallel banking organizations may have common management, share policies and procedures, cross-sell products, or generally be linked to a foreign parallel financial institution in a number of ways. The key money laundering concern regarding parallel banking organizations is that the Nigerian financial institution may be exposed to greater risk through transactions with the foreign parallel financial institution. Transactions may be facilitated and risks heightened because of the lack of arm's length dealing or reduced controls on transactions between financial institutions that are linked or closely associated. For example, officers or directors may be common to both entities or may be different but nonetheless work together.

Risk Factors.  
Risk Mitigation.  
Overview of Correspondent Accounts (Domestic).

The Nigerian financial institution's policies, procedures and processes for parallel banking relationships should be consistent with those of other foreign correspondent bank relationships. In addition, parallel financial institutions should :

- (i) Provide for independent lines of decision-making authority ;
- (ii) Guard against conflicts of interest ; and
- (iii) Ensure independent and arm's-length dealings between related entities.

5.18. The financial institution's systems are to be adequate to manage the ML/FT risks associated with offering of domestic correspondent account relationships, and the management must have the ability to implement its monitoring

ML/FT Risk Factors. Because domestic financial institutions must follow the same regulatory requirements, ML/FT risks in domestic correspondent banking are minimal in comparison to other types of financial services, especially for proprietary accounts (i.e., the domestic financial institution is using the correspondent account for its own transactions). Each financial institution, however, has its own Risk Mitigation. approach for conducting its AML/CFT Compliance Programme, including customer due diligence, MIS, account monitoring, and reporting suspicious transactions. Furthermore, while a domestic Overview of Correspondent Accounts (Foreign). correspondent account may not be considered higher risk, transactions through the account, which may be conducted on behalf of the respondent's customer, may be higher risk. ML/FT risks can be heightened when a respondent financial institution allows its customers to direct or execute transactions through the correspondent account, especially when such transactions are directed or executed through an ostensibly proprietary account.

The correspondent financial institution also faces heightened risks when providing direct currency shipments for customers of respondent financial institution. This is not to imply that such activities necessarily entail money laundering, but these direct currency shipments should be appropriately monitored for unusual and suspicious activity. Without such a monitoring system, the correspondent bank is essentially providing these direct services to an unknown customer.

Financial institutions that offer correspondent bank services to respondent banks should have policies, procedures and processes to manage the ML/FT risks involved in these correspondent relationships and to detect and report suspicious activities.

Financial institution should ascertain whether domestic correspondent accounts are proprietary or allow third-party transactions. When the respondent financial institution allows third-party customers to transact business through the correspondent account, the correspondent financial institution should ensure that it puts the necessary steps in understanding the due diligence and

procedures of the monitoring applied by the respondent on its customers that will be utilizing the account.

The level of risk varies depending on the services provided and the types of transactions conducted through the account and the respondent financial institution's AML/CFT Compliance Programme, products, services, customers, entities and geographic locations. Each financial institution should appropriately monitor transactions of domestic correspondent accounts relative to the level of assessed risk.

5.19. The Nigerian financial institution's systems are required to be adequate to manage the ML/FT risks associated with foreign correspondent banking and the management should have the ability to implement its due diligence, monitoring and reporting systems effectively.

Foreign financial institutions maintain accounts at Nigerian financial institutions to gain access to the Nigerian financial system and to take advantage of services and products that may not be available in the foreign financial institution's jurisdiction. These services may be performed more economically or efficiently by the Nigerian financial institutions or may be necessary for other reasons, such as the facilitation of international trade. Services may include :

- (i) Cash management services, including deposit accounts ;
- (ii) International funds transfers ;
- (iii) Check clearing ;
- (iv) Payable through accounts ;
- (v) Pouch activities ;
- (vi) Foreign exchange services ;
- (vii) Overnight investment accounts (sweep accounts) ; and
- (viii) Loans and letters of credit.

Each relationship that a Nigerian financial institution has with a foreign correspondent financial institution should be governed by an agreement or a contract describing each party's responsibilities and other relationship details (e.g., products and services provided, acceptance of deposits, clearing of items, forms of payment and

Contractual Agreements.  
ML/FT Risk Factors.

acceptable forms of endorsement). The agreement or contract should also consider the foreign financial institution's AML/CFT regulatory requirements, customer-base, due diligence procedures and permitted third-party usage of the correspondent account.

Nested  
Accounts.

Some foreign financial institutions are not subject to the same or similar regulatory guidelines as Nigerian financial institutions; therefore, these foreign institutions may pose a higher money laundering and financing terrorists risk to their respective Nigerian financial institutions correspondent(s). Investigations have disclosed that in the past, foreign correspondent accounts were used to launder funds.

Shell companies are sometimes used in the layering process to hide the true ownership of accounts at foreign correspondent financial institutions. Because of the large amount of funds, multiple transactions, and the Nigerian financial institution's potential lack of familiarity with the foreign correspondent financial institution's customer, criminals and terrorists can more easily conceal the source and use of illicit funds. Consequently, each Nigerian financial institution, including all overseas branches, offices and subsidiaries should closely monitor transactions related to foreign correspondent accounts.

Nested accounts occur when one foreign financial institution gains access to the financial system in Nigeria by operating through the correspondent account belonging to another foreign financial institution.

If the Nigerian financial institution is unaware that its foreign correspondent financial institution customer is providing such access to third-party foreign financial institutions, these third-party financial institutions can effectively gain anonymous access to the Nigerian financial system. Behaviour indicative of nested accounts and other accounts of concern includes transactions in jurisdictions in which the foreign financial institution has no known business activities or interests and transactions in which the total volume and frequency significantly exceed

expected activity for the foreign financial institution, considering its customer base or asset size.

Risk Nigerian financial institutions that offer foreign correspondent financial Mitigation. institution services should have policies, procedure, and processes to manage the ML/FT risks inherent with these relationships and should closely monitor transactions related to these accounts to detect and report suspicious transactions. The level of risk varies depending on the foreign financial institution's products, services, customers and geographic locations. The Nigerian financial institutions' policies, procedures and processes should :

- (i) Specify appropriate account-opening procedures and KYC requirements, which may include minimum levels of documentation to be obtained from prospective customers ; an account approval process independent of the correspondent account business line for potential higher-risk customers ; and a description of circumstances when the financial institution will not open an account ;
- (ii) Assess the risks posed by a prospective foreign correspondent customer relationship utilizing consistent, well-documented risk-rating methodologies, and incorporate that risk determination into the financial institution's suspicious transaction monitoring system ;
- (iii) Understand the intended use of the accounts and expected account activity (e.g., determine whether the relationship will serve as a payable through account) ;
- (iv) Understand the foreign correspondent financial institution's other correspondent relationships (e.g., determine whether nested accounts will be utilized) ;
- (v) Conduct adequate and ongoing due diligence on the foreign correspondent financial institution relationships, which may include periodic visits ;
- (vi) Establish a formalized process for escalating suspicious information on potential and existing customers to an appropriate management level for review ;
- (vii) Ensure that foreign correspondent financial institution relationships are appropriately included within the Nigerian financial institution's suspicious transaction monitoring and reporting systems ;
- (viii) Ensure that appropriate due diligence standards are applied to those accounts determined to be higher risk ; and

(ix) Establish criteria for closing the foreign correspondent financial institution account.

As a sound practice, Nigerian financial institutions are encouraged to communicate their AML/CFT-related expectations to their foreign correspondent financial institutions' customers. Moreover, the Nigerian financial institutions should generally understand the AML/CFT controls at the foreign correspondent financial institution, including customer due diligence practices and record keeping documentation.

5.20. The Nigerian financial institution's systems are required to be adequate to manage the risks associated with receiving bulk shipments of currency and management should have the ability to implement effective monitoring and reporting systems.

Overview of  
Bulk Shipments  
of Currency.

Risk Factors.

Bulk shipments of currency entail the use of common, independent, or Postal Service's air/land/sea carriers to transport large volumes of bank notes (Nigeria or foreign) from sources either inside or outside Nigeria to a bank in Nigeria. Often, but not always, shipments take the form of containerized cargo.

Shippers may be Currency Originators i.e., individuals or businesses that generate currency from cash sales of commodities or other products or services (including monetary instruments or exchanges of currency).

Shippers also may be intermediaries that ship currency gathered from their customers who are Currency Originators. Intermediaries may also ship currency gathered from other intermediaries. Intermediaries may be other financial institutions, central banks, non-deposit financial institutions or agents of these entities.

Financial institutions receive bulk shipments of currency directly when they take possession of an actual shipment. Financial institutions receive bulk shipments of currency indirectly when they take possession of the economic equivalent of a currency shipment, such as through a cash letter notification.

Bulk shipments of currency to financial institutions from shippers that are presumed to be reputable may nevertheless originate from illicit activity. The monetary proceeds of criminal activities, for example, often reappear in the financial system as seemingly legitimate funds that have been placed and finally integrated by flowing through numerous intermediaries and layered transactions that disguise the origin of the funds. Layering can include shipments to or through other jurisdictions. Accordingly, financial institutions that receive direct or indirect bulk shipments of currency risk becoming complicit in money laundering or terrorist financing schemes.

In recent years, the smuggling of bulk currency has become a preferred method for moving illicit funds across borders. However, the activity of shipping currency in bulk is not necessarily indicative of criminal or terrorist activity. Many individuals and businesses, both domestic and foreign, generate currency from legitimate cash sales of commodities or other products or services. Also, intermediaries gather and ship currency from single or multiple currency originators whose activities are legitimate. Financial institutions may legitimately offer services to receive such shipments. However, financial institutions should be aware of the potential misuse of their services by shippers of bulk currency. Financial institutions also should guard against introducing the monetary proceeds of criminal or terrorist activity into the financial system.

Risk Nigerian financial institutions that offer services to receive bulk shipments Mitigation. of currency should have policies, procedures and processes in place that mitigate and manage the ML/FT risks associated with the receipt of bulk currency shipments. Financial institutions should also closely monitor bulk currency shipment transactions to detect and report suspicious transaction, with particular emphasis on the source of funds and the reasonableness of transaction volumes from currency originators and intermediaries.

ML/FT risk mitigation begins with an effective risk assessment process that distinguishes relationships and transactions that present a higher risk of money laundering or terrorist financing. Risk assessment processes should consider currency originator's and intermediary's ownership, geographies and the nature, source, location and control of bulk currency.



Financial institution's policies, procedures and processes should :

- (i) Specify appropriate ML/FT risk-based relationship and account opening procedures which may include minimum levels of documentation to be obtained from prospective currency originators and intermediaries ;
- (ii) Specify relationship approval process that, for potential higher-risk relationships, is independent of the business line and may include a visit to the prospective shipper or shipping-preparation sites ;
- (iii) Describe the circumstances under which the financial institution will not open a relationship ;
- (iv) Determine the intended use of the relationship, the expected volumes, frequency of activity arising from transactions, sources of funds, reasonableness of volumes based on originators and shippers and any reporting requirements (CTRs, STRs, PEPs, etc) ;
- (v) Identify the characteristics of acceptable and unacceptable transactions, including circumstances when the bank will or will not accept bulk currency shipments ;
- (vi) Assess the risks posed by a prospective shipping relationship using consistent and well-documented risk-rating methodologies ;
- (vii) Incorporate risk assessments, as appropriate, into the financial institution's customer due diligence, EDD and suspicious transaction monitoring systems ;
- (viii) Once the relationship is established, require adequate and ongoing due diligence which, as appropriate, may include periodic visits to the shipper and to shipping-preparation sites and as necessary, scrutinize for legitimacy the root source of cash shipments, using risk-based processes ;
- (ix) Ensure that appropriate due diligence standards are applied to relationships determined to be higher risk ;
- (x) Include procedures for processing shipments, including employees' responsibilities, controls, reconciliation and documentation requirements, and employee/management authorizations ;
- (xi) Establish a process for escalating suspicious information on potential and existing currency originator and intermediary relationships and transactions to an appropriate management level for review ;
- (xii) Refuse shipments that have questionable or suspicious origins ;
- (xiii) Ensure that shipping relationships and comparisons of expected and actual shipping volumes are included, as appropriate, within the Nigerian financial institution's systems for monitoring and reporting suspicious transaction ; and

(xiv) Establish criteria for terminating a shipment relationship.

As a sound practice, financial institutions should inform currency originators and intermediaries of the AML/CFT-related requirements and expectations that apply to Nigerian financial institutions. The financial institutions also should understand the AML/CFT controls that apply to or are otherwise adopted by the currency originator or intermediary, including any customer due diligence and recordkeeping requirements or practices.

Other financial institutions' controls may also prove useful in protecting financial institution against illicit bulk shipments of currency. These may include effective controls over foreign correspondent banking activity, pouch activity, funds transfers, international automated clearing house transactions and remote deposit capture.

Financial institutions should establish agreements or contracts with currency originators or intermediaries. The agreement or contract should describe each party's responsibilities and other relevant details of the relationship. The agreement or contract should reflect and be consistent with any AML/CFT considerations that apply to the financial institution, the currency originator or intermediary and the currency originator or intermediary's customers. The agreement or contract should also address expectations about due diligence and permitted third-party usage of the shipper's services. While agreements and contracts should provide for respective AML/CFT controls, obligations and considerations, Nigerian financial institutions cannot shift their AML/CFT responsibilities to others.

Contractual Agreements.

Overview of Foreign Currency Denominated Drafts.

5.21. The financial institution's systems are required to be adequate to manage the ML/FT risks associated with foreign currency denominated drafts and the management should have the ability to implement its monitoring and reporting systems effectively.

A foreign currency draft is a financial institution's drafts or cheque denominated in foreign currency and made available at foreign financial institution. These drafts are drawn on a Nigerian correspondent account by a foreign financial institution. Such drafts are frequently purchased to pay for commercial or personal transactions and to settle overseas obligations.

ML/FT Risk Factors. Risk Mitigation. Overview of Payable Through Accounts. Most foreign currency denominated drafts could be legitimate. However, such drafts have proven to be vulnerable to money laundering abuse. Schemes involving foreign currency drafts could involve the smuggling of currency to a foreign financial institution for the purchase of a cheque or draft denominated in another foreign currency. The foreign financial institution accepts the draft denominated in a particular foreign currency and issues another draft denominated in a different foreign currency. Once the currency is in the form of a bank draft, the money launderer can more easily conceal the source of funds. The ability to convert illicit proceeds to a bank draft at a foreign financial institution makes it easier for a money launderer to transport the instrument either back into the originating country or to endorse it to a third party in a jurisdiction where money laundering laws or compliance are lax. In any case, when the individual has succeeded in laundering his illicit proceeds, the draft or cheque would be returned ultimately for processing in the originating country.

The financial institution's policies, procedures and processes should :

- (i) Outline criteria for opening a foreign currency denominated draftrelationship with a foreign financial institution or entity (e.g., jurisdiction, products, services, target market, purpose of account and anticipated activity or customer history) ;
- (ii) Detail acceptable and unacceptable transactions (e.g., structuringtransactions or the purchase of multiple sequentially numbered drafts for the same payee) ;
- (iii) Detail the monitoring and reporting of suspicious transaction associatedwith foreign currency denominated drafts ; and
- (iv) Discuss criteria for closing a foreign currency denominated draftrelationships.

5.22. The financial institution's systems are required to be adequate to manage the risks associated with payable through accounts (PTA), and the management should have the ability to implement its monitoring and reporting systems effectively.

Foreign financial institutions use PTAs, also known as pass-through or pass-by accounts to provide their customers with access to the Nigerian financial system. Some financial institutions in Nigeria also offer payable through accounts as a service to foreign financial institutions. The risk associated with money laundering/ financing of terrorism and other illicit activities is higher in PTAs that are not adequately controlled.

Generally, a foreign financial institution requests a PTA for its customers that want to conduct banking transactions in Nigeria through the foreign financial institution's account at financial institution in Nigeria. The foreign financial institution

provides its customers, commonly referred to as sub account holders, with cheques that allow them to draw funds from the foreign financial institution's account from a Nigerian financial institution. The sub account holders, which may number several hundred or in the thousands for one PTA, all become signatories on the foreign financial institution's account in a Nigerian financial institution. While payable through customers are able to write cheques and make deposits at a financial institution in Nigeria like any other account holder, they might not be directly subject to the financial institution's account opening requirements in Nigeria.

PTA activities should not be confused with traditional international correspondent banking relationships in which a foreign financial institution enters into an agreement with a Nigerian financial institution to process and complete transactions on behalf of the foreign financial institution and its customers. Under the latter correspondent arrangement, the foreign financial institution's customers do not have direct access to the correspondent account at the Nigerian financial institution, but they do transact business through the Nigerian financial institution. This arrangement differs significantly from a PTA with sub account holders who have direct access to the Nigerian financial system by virtue of their independent ability to conduct transactions with the Nigerian financial system through the PTA.

PTAs may be prone to higher risk because Nigerian financial institutions do not typically implement the same due diligence requirements for PTAs that they require of domestic customers who want to open current and other accounts.

ML/FT Risk  
Factors.  
Risk  
Mitigation.

Foreign financial institutions use of PTAs, coupled with inadequate oversight by Nigerian financial institutions, may facilitate unsound banking practices, including money laundering/ financing of terrorism and other related criminal activities. The potential for facilitating money laundering or terrorist financing, and other serious crimes increases when a Nigerian financial institution is unable to identify and adequately understand the transactions of the ultimate users (all or most of whom are outside of Nigeria) of its account with a foreign correspondent. PTAs used for illegal purposes can cause financial institutions serious financial losses in criminal and civil fines and penalties,

seizure or forfeiture of collateral and reputation damage.

Financial institutions offering PTA services should develop and maintain adequate policies, procedures and processes to guard against possible illicit use of these accounts. At a minimum, policies, procedures and processes should enable each Nigerian financial institution to identify the ultimate users of its foreign financial institution's PTA. This should include the financial institution's obtaining (or having the ability to obtain through a trusted third-party arrangement) substantially the same information on the ultimate PTA users as it obtains on its direct customers.

Policies, procedures and processes should include a review of the foreign financial institution's processes to identify and monitor the transactions of its sub-account holders and to comply with any AML/CFT statutory and regulatory requirements existing in Nigeria (as the host country). It should also review the foreign financial institution's master agreement with the Nigerian financial institutions on the PTAs. In addition, Nigerian financial institutions should have procedures for monitoring transactions conducted in the foreign financial institutions' PTAs.

In an effort to address the risk inherent in PTAs, financial institutions in Nigeria should have a signed contract (i.e., master agreement) that includes :

- (i) Roles and responsibilities of each party ;
- (ii) Limits or restrictions on transaction types and amounts (e.g., currency deposits, funds transfers, cheque cashing) ;
- (iii) Restrictions on some types of sub account holders (e.g., finance companies, funds remitters or other non-bank financial institutions) ;
- (iv) Prohibitions or restrictions on multi-tier sub account holders ; and
- (v) Access to the foreign financial institution's internal documents and audits that pertain to its PTA activity.

Financial institutions should consider closing the PTA in the following circumstances:

- (i) Insufficient information on the ultimate PTA users ;
- (ii) Evidence of substantive or ongoing suspicious activity ; and
- (iii) Inability to ensure that the PTAs are not being used for money laundering or other illicit purposes.

Overview of Pouch Activities. Risk Factors. 5.23. The financial institution's systems are required to be adequate to manage the ML/FT risks associated with pouch activities and the management should have the ability to implement its monitoring and reporting systems effectively.

Pouch activity entails the use of a carrier, courier (either independent or common) or a referral agent employed by the courier to transport currency, monetary instruments and other documents from foreign countries to financial institutions in Nigeria. Pouches can be sent by financial institution or individuals. Pouch services are commonly offered in conjunction with foreign correspondent banking services. Pouches can contain loan repayments, transactions for demand deposit accounts or other types of transactions.

Financial institutions should be aware that bulk amounts of monetary instruments purchased in Nigeria that appear to have been structured to avoid the AML/CFT-reporting requirements often have been found in pouches or cash letters received from foreign financial institutions. The monetary instruments involved are frequently traveller's cheques and bank cheques that usually have one or more of the following characteristics in common :

- (i) The instruments purchased on the same or consecutive days at different locations ;
- (ii) The payee lines are left blank or made out to the same person (or to only a few people) ;
- (iii) They contain little or no purchaser information ;
- (iv) They bear the same stamp, symbol or initials ;
- (v) They are purchased in round denominations or repetitive amounts ; and
- (vi) The depositing of the instruments is followed soon after by a fund transfer out in the same dollar amount.

Financial institutions should have policies, procedures and processes related to pouch activity that should :	Risk Mitigation.
(i) Outline criteria for opening a pouch relationship with an individual or a foreign financial institution (e.g., customer due diligence requirements, type of institution or person, acceptable purpose of the relationship) ;	Overview of Electronic Banking.
(ii) Detail acceptable and unacceptable transactions (e.g., monetary instruments with blank payees, unsigned monetary instruments and a large number of consecutively numbered monetary instruments) ;	ML/FT Risk Factors.
(iii) Detail procedures for processing the pouch including employee responsibilities, dual control, reconciliation, documentation requirements, and employee sign off ;	
(iv) Detail procedures for reviewing of unusual or suspicious transaction including elevating concerns to management. Contents of pouches may be subject to CTR, Report of International Transportation of Currency or Monetary Instruments (CMIR) ; and	
(v) Discuss criteria for closing pouch relationships.	

The above factors should be included within an agreement or contract between the financial institution and the courier that details the services to be provided and the responsibilities of both parties.

5.24. The financial institution's systems should be adequate to manage the risks associated with electronic banking (e-banking) customers including Remote Deposit Capture (RDC) activity and the management should have the ability to implement its monitoring and reporting systems effectively.

E-banking systems which provide electronic delivery of banking products to customers include automated teller machine (ATM) transactions; online account opening; internet banking transactions; and telephone banking. For example, credit cards, deposit accounts, mortgage loans and funds transfers can all be initiated online without face-to-face contact. Management needs to recognize this as a potentially higher-risk area and develop adequate policies,

procedures and processes for customer identification and monitoring for specific areas of banking.

Financial institutions should ensure that their monitoring systems adequately capture transactions conducted electronically. As with any account, they should be alert to anomalies in account behaviour. Red flags may include the velocity of funds in the account or in the case of ATMs, the number of debit cards associated with the account.

Accounts that are opened without face-to-face contact may be a higher risk for money laundering and terrorist financing for the following reasons :

- (i) More difficult to positively verify the individual's identity ;
- (ii) Customer may be out of the financial institution's targeted geographic area or country ;
- (iii) Customer may perceive the transactions as less transparent ;
- (iv) Transactions are instantaneous ; and
- (v) May be used by a front company or unknown third party.

**Risk Mitigation.** Financial institutions should establish AML/CFT monitoring, identification and reporting for unusual and suspicious transactions occurring through e-banking systems. Useful MIS for detecting unusual transaction in higher-risk accounts include ATM activity reports, funds Remote Deposit Capture. transfer reports, new account activity reports, change of internet address reports, Internet Protocol (IP) address reports and reports to identify related or linked accounts (e.g., common addresses, phone numbers, e-mail addresses and tax identification numbers).

**ML/FT Risk Factors in Remote Deposit Capture.** In determining the level of monitoring required for an account, financial institutions should include how the account was opened as a factor. Financial institutions engaging in transactional internet banking should have effective and reliable methods to authenticate a customer's identity when opening accounts online and should establish policies for when a customer should be required to open accounts on a face-to-face basis. Financial institutions may also institute other controls, such as establishing transaction dollar limits for large items that require manual intervention to exceed the pre-set



limit.

Remote Deposit Capture (RDC) is a deposit transaction delivery system that has made cheque and monetary instrument processing (e.g., traveller's cheques) more efficient.

In broad terms, RDC allows a financial institution's customers to scan a cheque or monetary instrument and then transmit the scanned or digitized image to the institution.

It should be noted that scanning and transmission activities can take place at remote locations including the financial institution's branches, ATMs, domestic and foreign correspondents, and locations owned or controlled by commercial or retail customers. By eliminating face-to-face transactions, RDC decreases the cost and volume of paper associated with physically mailing or depositing items. RDC also supports new and existing banking products and improves customers' access to their deposits.

RDC may expose financial institutions to various risks including money laundering, financing of terrorists, fraud and information security. Fraudulent, sequentially numbered or physically altered documents, particularly money orders and traveler's cheques may be more difficult to detect when submitted by RDC and not inspected by a qualified person. Financial institutions may face challenges in controlling or knowing the location of RDC equipment because the equipment can be readily transported from one jurisdiction to another.

This challenge is increased as foreign correspondents and foreign money services businesses are increasingly using RDC services to replace pouch and certain instrument processing and clearing activities. Inadequate controls could result in intentional or unintentional alterations to deposit item data, re-submission of a data file, or duplicate presentment of cheques and images at one or multiple financial institutions. In addition, original deposit items are not typically forwarded to financial institutions, but instead the customer or the customer's service provider retains them. As a result, record keeping, data safety and integrity issues may increase.

Higher-risk customers may be defined by industry, incidence of fraud or other criteria. Examples of higher-risk parties include online payment processors, certain credit-repair services, certain mail order and telephone order companies, online gambling operations, businesses located offshore and adult entertainment businesses.

Management should develop appropriate policies, procedures and processes Risk to mitigate the risks associated with RDC services and to effectively monitor for Mitigation. unusual or suspicious transactions. Examples of risk mitigants include :

- (i) Comprehensively identifying and assessing RDC risk prior to implementation. Senior management should identify AML/CFT operational, information security, compliance, legal, and reputation risks. Depending on the financial institution's size and complexity, this comprehensive risk assessment process should include staff from information technology and security, deposit operations, treasury or cash management sales, business continuity, audit, compliance, accounting and legal ;
- (ii) Conducting appropriate CDD and EDD ;
- (iii) Creating risk-based parameters that can be used to conduct Remote Deposit Capture (RDC) customer suitability reviews. Parameters may include a list of acceptable industries, standardized underwriting criteria (e.g., credit history, financial statements and ownership structure of business) and other risk factors. When the level of risk warrants, financial institutions' staff should consider visiting the customer's physical location as part of the suitability review. During these visits, the customer's operational controls and risk management processes should be evaluated ;
- (iv) Conducting vendor due diligence when financial institutions use a service provider for RDC activities. Management should ensure implementation of sound vendor management processes ;
- (v) Obtaining expected account activity from the RDC customer, such as the anticipated RDC transaction volume, and type (e.g., payroll cheques, third party cheques, or traveller's cheques), comparing it to actual transaction and resolving significant deviations.
- (vi) Comparing expected activity to business type to ensure they are reasonable and consistent ;
- (vii) Establishing or modifying customer Remote Deposit Capture transaction limits ;

- (viii) Developing well-constructed contracts that clearly identify each party's role, responsibilities and liabilities, and detail record retention procedures for RDC data. These procedures should include physical and logical security expectations for access, transmission, storage and ultimate disposal of original documents. The contract should also address the customer's responsibility for properly securing RDC equipment and preventing inappropriate use, including establishing effective equipment security controls (e.g., passwords and dual control access). In addition, contracts should detail the RDC customer's obligation to provide original documents to the financial institution in order to facilitate investigations related to unusual transactions or poor quality transmissions, or to resolve disputes. Contracts should clearly detail the authority of the financial institution to mandate specific internal controls, conduct audits or terminate the RDC relationship. Implementing additional monitoring or review when significant changes occur in the type or volume of transactions, or when significant changes occur in the underwriting criteria, customer base, customer risk management processes or geographic location that the bank relied on when establishing RDC services ;
- (ix) Ensuring that RDC customers receive adequate training. The training should include documentation that addresses issues such as routine operations and procedures, duplication and problem resolution ;
- (x) Using improved aggregation and monitoring capabilities as facilitated by the digitized data ; and
- (xi) As appropriate, using technology to minimize errors (e.g., the use of franking to stamp or identify a deposit as being processed).

Overview of Funds Transfers. 5.25. The financial institution's systems should be adequate to manage the ML/FT risks associated with funds transfers and the management should have ability to implement effective monitoring and reporting systems effectively.

Funds Transfer Services. Payment systems in Nigeria consist of numerous financial intermediaries, financial services companies and non-bank businesses that create process and distribute payments. The domestic and international expansion of the financial industry services has increased the importance of electronic funds transfers, including funds transfers made through the wholesale payment systems.

The vast majority of the value of Naira payments or transfers in Nigeria is ultimately processed through wholesale payment systems which generally handle large-value transactions between financial institutions. Financial institutions conduct these transfers on their own behalf as well as for the benefit of other financial service providers and financial institution customers, both consumer and corporate.

Related retail transfer systems facilitate transactions such as automated clearing houses (ACH); automated teller machines (ATM); point-of-sales (POS); telephone bill paying; home banking systems; and credit, debit, and prepaid cards.

Most of these retail transactions are initiated by customers rather than by financial institutions or corporate users. These individual transactions may then be batched in order to form larger wholesale transfers, which are the focus of this section.

The primary domestic wholesale payment system for interbank funds transfers is the Nigerian Inter-Bank Settlement System (NIBSS). The bulk of the Naira value of these payments is originated electronically to make large value, time-critical payments, such as the settlement of interbank purchases and sales of government funds, settlement of foreign exchange transactions, disbursement or repayment of loans; settlement of real estate transactions or other financial market transactions; and purchasing, selling or financing securities transactions. NIBSS and Real Time Gross Settlement System (RTGS) participants facilitate these transactions on their behalf and on behalf of their customers, including non-bank financial institutions, commercial businesses and correspondent banks that do not have direct access. Structurally, there are two components to funds transfers :

- (i) The instructions, which contain information on the sender and receiver of the funds ; and
- (ii) The actual movement or transfer of funds.

The instructions may be sent in a variety of ways, including by electronic access to networks operated by the NIBSS payment systems; by access to financial telecommunications systems such as Society for Worldwide Interbank Financial Telecommunication (SWIFT); or e-mail, facsimile, telephone or telex.

NIBSS and RTGS are used to facilitate funds transfers between two domestic endpoints or the fund segment of international transactions. SWIFT is an

international messaging service that is used to transmit payment instructions for the vast majority of international interbank transactions which can be denominated in numerous currencies.

The SWIFT network is a messaging infrastructure (not a payments system) which provides users with a private international communications-link among themselves.

Society for  
Worldwide  
Interbank  
Financial  
Tele-  
communic-  
ation.  
Cover  
Payments.

The actual funds movements (payments) are completed through correspondent financial institution relationship. Movement of payments denominated in different currencies occurs through correspondent financial institution relationships or over funds transfer systems in the relevant country. In addition to customer and financial institution funds transfers, SWIFT is used to transmit foreign exchange confirmations, debit and credit entry confirmations, statements, collections and documentary credits.

A typical funds transfer involves an originator instructing his financial institution (the originator's financial institution) to make payment to the account of a payee (the beneficiary) in the beneficiary's financial institution. A cover payment occurs when the originator's financial institution and the beneficiary's financial institution do not have a relationship that allows them to settle the payment directly.

In that case, the originator's financial institution instructs the beneficiary's financial institution to effect the payment and advises that transmission of funds to cover the obligation created by the payment order has been arranged through correspondent accounts at one or more intermediary financial institutions.

Cross-border cover payments usually involve multiple financial institutions in multiple jurisdictions.

Informal Value Transfer System. An Informal Value Transfer System (IVTS) is used to describe a currency or value transfer system that operates informally to transfer money as a business. In countries lacking a stable financial sector or with large areas not served by formal financial institutions, IVTS may be the only method for conducting financial transactions. Persons living in Nigeria may use IVTS to transfer funds to their home countries.

Payable Upon Proper Identification Transactions. One type of funds transfer transaction that carries particular ML/FT risk is the payable upon proper identification (PUPID) service. PUPID transactions are funds transfers for which there are no specific account to deposit the funds and the beneficiary of the funds is not a financial institution customer. For example, an individual may transfer funds to a relative or an individual who does not have an account relationship with the financial institution that receives the funds transfer. In this case, the beneficiary financial institution may place the incoming funds into a suspense account and ultimately release the funds when the individual provides proof of identity. In some cases, financial institutions permit noncustomers to initiate PUPID transactions. These transactions are considered extremely high risk and require strong controls.

ML/FT Risk Factors in Funds Transfer.

Funds transfers may present a heightened degree of ML/FT risk, depending on such factors as the number and Naira volume of transactions, geographic location of originators and beneficiaries, and whether the originator or beneficiary is a financial institution customer. The size and complexity of a financial institution's operation and the origin and destination of the funds being transferred will determine which type of funds transfer system the financial institution uses. The vast majority of funds transfer instructions are conducted electronically. However, Examiners need to be mindful that physical instructions may be transmitted by other informal methods, as described earlier.

Cover payments made through SWIFT pose additional risks for intermediary financial institutions that do not have facilities that identify the originator and beneficiary of the funds transfer. Without such facilities, the intermediary financial institution is unable to monitor or filter payment information. This lack of

transparency limits the Nigerian intermediary financial institution's ability to appropriately assess and manage the risk associated with correspondent and clearing operations and monitor suspicious transaction.

The risks of PUPID transactions to the beneficiary financial institution are similar to other transactions in which the financial institution does business with non-customers. However, the risks are heightened in PUPID transactions if the financial institution allows a non-customer to access the funds transfer system by providing minimal or no identifying information. Financial institutions that allow non-customers to transfer funds using the PUPID service pose significant risk to both the originating and beneficiary financial institution. In these situations, both financial institutions have minimal or no identifying information on the originator or the beneficiary.

Funds transfers can be used in the placement, layering and integration stages Risk of money laundering. Funds transfers purchased with currency are an example Mitigation.

of the placement stage. Detecting unusual transaction in the layering and integration stages is more difficult for a financial institution because transactions may appear legitimate. In many cases, a financial institution may not be involved in the placement of the funds or in the final integration, only the layering of transactions. Financial institutions should consider all three stages of money laundering when evaluating or assessing funds transfer risks.

Financial institutions need to have sound policies, procedures and processes to manage the ML/FT risks of its funds transfer activities. Funds transfer policies, procedures and processes should address all foreign correspondent banking transactions, including transactions in which Nigerian branches and agencies of foreign financial institutions are intermediaries for their head offices.

Obtaining CDD information is an important risk mitigant in providing funds transfer services. Because of the nature of funds transfers, adequate and effective CDD policies, procedures and processes are critical in detecting unusual and suspicious transactions. An effective risk-based suspicious transaction monitoring and reporting system is equally important. Whether this monitoring and reporting system is automated or manual, it should be sufficient to detect suspicious trends and patterns typically associated with money laundering.

Financial institutions involved in international payments transactions are encouraged to adhere to the following :

- (i) Financial institutions should not omit, delete or alter information in payment messages or orders for the purpose of avoiding detection of that information by any other financial institution in the payment process ;
- (ii) Financial institutions should not use any particular payment message for the purpose of avoiding detection of information by any other financial institution in the payment process ;
- (iii) Subject to all applicable laws, financial institutions should cooperate as fully as practicable with other financial institutions in the payment process when requested to provide information about the parties involved ; and
- (iv) Financial institutions should strongly encourage their correspondent financial institutions to observe these principles.

In addition, effective monitoring processes for cover payments include :

- (i) Monitoring funds transfers processed through automated systems in order to identify suspicious transactions. This monitoring may be conducted after the transfers are processed, on an automated basis, and may use a risk-based approach ; and
- (ii) Given the volume of messages and data for large Nigerian intermediary financial institutions, a manual review of every payment order may not be feasible or effective. However, intermediary financial institutions should have, as part of their monitoring processes, a risk-based method to identify incomplete fields or fields with meaningless data. Nigerian financial institutions engaged in processing cover payments should have policies to address such circumstances, including those that involve systems other than SWIFT.

Originating and beneficiary financial institutions should establish effective and appropriate policies, procedures and processes for PUPID transactions including :

- (i) Specifying the type of identification that is acceptable ;
- (ii) Maintaining documentation of individuals consistent with the bank's recordkeeping policies ;
- (iii) Defining which financial institution employees may conduct PUPID transactions ;
- (iv) Establishing limits on the amount of funds that may be transferred to or from the financial institution for non-customers ;
- (v) Monitoring and reporting suspicious transactions ;



- (vi) Providing enhanced scrutiny for transfers to or from certain jurisdictions ;and
- (vii) Identifying disbursement method for proceeds from a beneficiary financial institution.

Overview of Automated Clearing House (ACH) Transactions. 5.26. The financial institution's systems should be adequate to manage the risks associated with automated clearing house (ACH) and international ACH transactions (IAT) and the management should have the ability to implement its monitoring and reporting systems effectively.

ACH Payment Systems.

The use of the ACH has grown markedly over the last several years due to the increased volume of electronic cheque conversion and one-time ACH debits, reflecting the lower cost of ACH processing relative to cheque processing. Cheque conversion transactions as well as one-time ACH debits are primarily of low currency value used for consumer transactions for purchases of goods and services or payment of consumer bills. ACH is primarily used for domestic payments.

Traditionally, the ACH system has been used for the direct deposit of payroll and government benefit payments and for the direct payment of mortgages and loans. As noted earlier, the ACH has been expanding to include one-time debits and cheque conversion. ACH transactions are payment instructions to either credit or debit a deposit account. Examples of credit payment transactions include payroll direct deposit, social security, dividends and interest payments. Examples of debit transactions include mortgage, loan, insurance premium and a variety of other consumer payments initiated through merchants or businesses.

In the electronic cheque conversion process, merchants that receive a cheque for payment do not collect the cheque through the cheque collection system, either electronically or in paper form. Instead, merchants use the information on the cheque to initiate a type of electronic funds transfer known as an ACH debit to the cheque writer's account. The cheque is used to obtain the bank routing number, account number, cheque serial number and currency amount for the transaction.

The cheque itself is not sent through the cheque collection system in any form as a payment instrument. Merchants use electronic cheque conversion because it can be a more efficient way for them to obtain payment than collecting the cheque.

RTGS is a central clearing facility for transmitting and receiving ACH payments and SWIFT/ Interswitch which sends cross-border ACH credits and debit payments to some countries around the world.

A Third-Party Service Provider (TPSP) is an entity other than an Originator, Originating Depository Financial Institution (ODFI) or Receiving Depository Financial Institution (RDFI) that performs any functions on behalf of the Originator, the ODFI or the RDFI with respect to the processing of ACH entries.

The ACH system was designed to transfer a high volume of domestic currency transactions which pose lower ML/FT risks. Nevertheless, the ability to send high international currency transactions through the ACH may expose banks to higher ML/FT risks. Banks/Other financial institutions (OFIs) without a robust ML/FT monitoring system may be exposed to additional risk particularly when accounts are opened over the internet without face-to face contact.

ACH transactions that are originated through a TPSP (that is, when the originator is not a direct customer of the ODFI) may increase ML/FT risks, therefore, making it difficult for an ODFI to underwrite and review originator's transactions for compliance with AML/CFT rules. Risks are heightened when neither the TPSP nor the ODFI performs due diligence on the companies for whom they are originating payments.

Certain ACH transactions, such as those originated through the internet or the telephone may be susceptible to manipulation and fraudulent use. Certain practices associated with how the banking industry processes ACH transactions may expose banks/OFIs to ML/FT risks. These practices include :

- (i) An Originating Depository Financial Institution (ODFI) authorizing a Third Party Service Provider (TPSP) to send ACH files directly to an ACH Operator, in essence by-passing the ODFI ;

- (ii) ODFIs and Receiving Depository Financial Institutions (RDFIs) relying on each other to perform adequate due diligence on their customers ;
- (iii) Batch processing that obscures the identities of originators ; and
- (iv) Lack of sharing of information on or about originators and receivers inhibits a bank's/OFIs' ability to appropriately assess, monitor, control/manage and mitigate the risk associated with correspondent and ACH processing operations, monitor for suspicious activity and screen for MLPA 2011 and CBN AML/CFT Regulation 2009 (as amended) compliance.

Risk The BOFIA Cap. B3, Laws of the Federation of Nigeria, 2004, MLPA 2011 Mitigation. and CBN AML/CFT Regulation 2009 (as amended) require financial institutions to have AML/CFT Compliance Programmes and appropriate policies, procedures and processes in place to monitor and identify unusual activity, including ACH transactions. Obtaining CDD information in all operations is an important mitigant to ML/FT risk in ACH transactions. Because of the nature of ACH transactions and the reliance that ODFIs and RDFIs place on each other for regulatory reviews and other necessary due diligence information, it is essential that all parties have a strong CDD Programme for regular ACH customers. For relationships with TPSPs, CDD on the TPSP can be supplemented with due diligence on the principals associated with the TPSP and, as necessary, on the originators.

Adequate and effective CDD policies, procedures and processes are critical in detecting a pattern of unusual and suspicious activities because the individual ACH transactions are typically not reviewed. Equally important is an effective risk-based suspicious activity monitoring and reporting system. In cases where a financial institution is heavily reliant upon the TPSP, the financial institution may want to review the TPSP's suspicious activity monitoring and reporting Programme, either through its own or an independent inspection. The ODFI may establish an agreement with the TPSP, which delineates general TPSP guidelines, such as compliance with ACH operating requirements and responsibilities and meeting other applicable regulations. Financial institutions may need to consider controls to restrict or refuse ACH services to potential originators and receivers engaged in questionable or deceptive business practices.

ACH transactions can be used in the layering and integration stages of money laundering. Detecting unusual activity in the layering and integration stages can be a difficult task, because ACH may be used to legitimize frequent and recurring

transactions. Financial institutions should consider the layering and integration stages of money laundering when evaluating or assessing the ACH transaction risks of a particular customer.

The ODFI should be aware of IAT activity and evaluate the activity using a risk-based approach in order to ensure that suspicious activity is identified and monitored. The ODFI, if frequently involved in international transfers, may develop a separate process which may be automated for reviewing international transfers that minimizes disruption to general ACH processing, reconciliation and settlement.

The potentially higher risk inherent in international transfers should be considered in the financial institution's ACH policies, procedures and processes. The financial institution should consider its current, potential roles and responsibilities when developing internal controls to monitor and mitigate the risk associated with international transfers and to comply with the financial institution's suspicious activity reporting obligations.

In processing international transfers, financial institutions should consider the following :

- (i) Customers and transaction types and volume.
- (ii) Third-party payment processor relationships.
- (iii) Responsibilities, obligations and risks of becoming a Gateway Operator(GO).
- (iv) CIP, CDD and EDD standards and practices.
- (v) Suspicious activity monitoring and reporting.
- (vi) Appropriate MIS, including the potential necessity for systems upgrades or changes.
- (vii) Processing procedures (e.g., identifying and handling international transfers and handling non-compliant and rejected messages).
- (viii) Training Programmes for appropriate bank personnel (e.g., ACH personnel, operations, compliance audit, customer service, etc.).
- (ix) Legal agreements, including those with customers, third-party processors and vendors, and whether those agreements need to be upgraded or modified.

Financial institutions that have relationships with third-party service providers should assess the nature of those relationships and their related ACH transactions to ascertain the financial institution's level of ML/FT risk and to develop appropriate policies, procedures and processes to mitigate that risk.

5.27. The financial institution's systems should be adequate to manage the risks associated with electronic cash (e-cash) and the management should have the ability to implement its monitoring and reporting systems effectively.

Overview of  
Electronic  
Cash.  
Risk Factors.

E-cash (e-money) is a digital representation of money. E-cash comes in several forms including computer-based, mobile telephone-based and prepaid cards. Computer e-cash is accessed through personal computer hard disks via a modem or stored-in-an-online repository. Mobile telephone-based e-cash is accessed through an individual's mobile telephone. Prepaid cards, discussed in more detail below, are used to access funds generally held by issuing financial institutions in pooled accounts.

In the case of computer e-cash, monetary value is electronically deducted from the financial institution account when a purchase is made or funds are transferred to another person.

Transactions using e-cash may pose the following unique risks to the financial institution :

- (i) Funds may be transferred to or from an unknown third party ;
- (ii) Customers may be able to avoid border restrictions as the transactions can become mobile and may not be subject to jurisdictional restrictions ;
- (iii) Transactions may be instantaneous ;
- (iv) Specific cardholder activity may be difficult to determine by reviewing activity through a pooled account ; and
- (v) The customer may perceive the transactions as less transparent.

Risk Mitigation. Prepaid Cards/Stored Value Cards. Financial institutions should establish AML/CFT monitoring, identification and reporting for unusual and suspicious activities occurring through e-cash. Useful MIS for detecting unusual activity on higher-risk accounts include ATM activity reports (focusing on foreign transactions), funds transfer reports, new account activity reports, change of internet address reports, internet protocol (IP) address reports and reports to identify related or linked accounts (e.g., common addresses, phone numbers, e-mail addresses and taxpayer identification numbers). The financial institution also may institute other controls, such as establishing transaction and account/currency limits that require manual intervention to exceed the preset limit.

Consistent with industry practice, the term prepaid card is primarily used in this document. Although some sources use the term stored value card more broadly, it most commonly refers to cards where the monetary value is physically stored on the card.

The term prepaid card generally refers to an access device linked to funds held in a pooled account, which is the type of product most frequently offered by banking organizations. Prepaid cards can cover a variety of products, functionalities and technologies. Prepaid cards operate within either an open or closed system.

Open-system prepaid cards can be used for purchases at any merchant or to access cash at any automated teller machine (ATM) that connects to the affiliated global payment network. Examples of open system cards are payroll cards and gift cards that can be used anywhere a credit card can be used. Some prepaid cards may be reloaded, allowing the cardholder to add value.

Closed-system cards generally can only be used to buy goods or services from the merchant issuing the card or a select group of merchants or service providers that participate in a specific network. Examples of closed system cards include merchant-specific retail gift cards, mall cards and mass transit system cards.

Some prepaid card Programmes may combine multiple features, such as a flexible spending account card that can be used to purchase specific health services as

well as products at a variety of merchants. These Programmes are often referred to as hybrid cards.

Prepaid cards provide a compact and transportable way to maintain and access funds. They also offer individuals without bank accounts an alternative to cash and money orders. As an alternate method of cross-border funds transmittal, prepaid card Programmes may issue multiple cards per account, so that persons in another country or jurisdiction can access the funds loaded by the original cardholder via ATM withdrawals of cash or merchant purchases.

Many financial institution that offer prepaid card Programmes do so as issuer or issuing bank. Most payment networks require that their branded prepaid cards be issued by a bank that is a member of that payment network. In addition to issuing prepaid cards, banks may participate in other aspects of a card Programme such as marketing and distributing cards issued by another financial institution. Banks often rely on multiple third parties to accomplish the design, implementation and maintenance of their prepaid card Programmes. These third parties may include Programme managers, distributors, marketers, merchants and processors. Under payment network requirements, the issuing bank or other financial institution may have due diligence and other responsibilities relative to these third parties.

Each relationship that a Nigerian financial institution has with another financial institution or third party as part of a prepaid card Programme should be governed by an agreement or a contract describing each party's responsibilities and other relationship details, such as the products and services provided. The agreement or contract should also consider each party's AML/CFT compliance requirements, customer base, due diligence procedures and any payment network obligations. The issuing bank or financial institution maintains ultimate responsibility for AML/ CFT compliance whether or not a contractual agreement has been established.

Contractual  
Agreements.  
Risk Factors.  
Risk  
Mitigation.

Money laundering, terrorist financing and other criminal activities may occur through prepaid card Programmes if effective controls are not in place. Investigations have found that some prepaid cardholders used false identification and funded their initial deposits with stolen credit cards or purchased multiple cards under aliases. In

the placement phase of money laundering, because many domestic and offshore financial institutions offer cards with currency access through ATMs internationally, criminals may load cash from illicit sources onto prepaid cards through unregulated load points and send the cards to their accomplices inside or outside the country. Investigations have disclosed that both open and closed system prepaid cards have been used in conjunction with, or as a replacement to bulk cash smuggling. Third parties involved in prepaid card Programmes may or may not be subject to regulatory requirements, oversight and supervision. In addition, these requirements may vary by party.

Prepaid card Programmes are extremely diverse in the range of products and services offered and the customer bases they serve. In evaluating the risk profile of a prepaid card Programme, financial institutions should consider the Programme's specific features and functionalities. No single indicator is necessarily determinative of lower or higher ML/FT risk. Higher potential money laundering risk associated with prepaid cards results from the anonymity of the cardholder, fictitious cardholder information, cash access of the card (especially internationally) and the volume of funds that can be transacted on the card. Other risk factors include type and frequency of card loads and transactions, geographic location of card activity, relationships with parties in the card Programme, card value limits, distribution channels and the nature of funding sources.

Financial institutions that offer prepaid cards or otherwise participate in prepaid card Programmes should have policies, procedures and processes sufficient to control and manage the related ML/FT risks. Customer due diligence is an important mitigant of ML/FT risk in prepaid card Programmes. A financial institution's CDD Programme should provide for a risk assessment of all third parties involved in the prepaid card Programme, considering all relevant factors, including, as appropriate :

- (i) The identity and location of all third parties involved in the prepaid card Programme, including any sub-agents ;



- (ii) Corporate documentation, licences, references (including independent reporting services) and, if appropriate, documentation on principal owners ;
- (iii) The nature of the third-parties' businesses and the markets and customer bases served ;
- (iv) The information collected to identify and verify cardholder identity ;
- (v) The type, purpose and anticipated activity of the prepaid card Programme ;
- (vi) The nature and duration of the financial institution's relationship with third parties in the card Programme ; and
- (vii) The ML/FT risk obligations of third parties.

As part of their system of internal controls, financial institutions should establish a means for monitoring, identifying and reporting suspicious activity related to prepaid card Programmes. This reporting obligation extends to all transactions by, at or through the financial institution, including those in an aggregated form. Financial institutions may need to establish protocols to regularly obtain card transaction information from processors or other third parties. Monitoring systems should have the ability to identify foreign card activity, bulk purchases made by one individual and multiple purchases made by related parties. In addition, procedures should include monitoring for unusual activity patterns, such as cash card loads followed immediately by withdrawals of the full amount from another location.

Card features can provide important mitigation to the ML/FT risks inherent in prepaid card relationships and transactions and may include :

- (i) Limits or prohibitions on cash loads, access or redemption ;
- (ii) Limits or prohibitions on amounts of loads and number of loads/reloads within a specific time frame (velocity or speed of fund use) ;
- (iii) Controls on the number of cards purchased by one individual ;
- (iv) Maximum currency thresholds on ATM withdrawals and on the number of withdrawals within a specific time frame (velocity or speed of fund use) ;
- (v) Limits or prohibitions on certain usage (e.g., merchant type) and on geographic usage, such as outside Nigeria ; and (vi) Limits on aggregate card values.

Overview 5.28. The financial institution's systems should be adequate to manage the risks associated with its relationships with third-party Third-Party payment processors and the management should have the ability to Payment implement its monitoring and reporting systems effectively. Processors.

Non-bank or third-party payment processors (processors) are bank or other financial institution customers that provide payment-processing services to merchants and other business entities. Traditionally, processors primarily contract with retailers that have physical locations in order to process the retailers' transactions.

These merchant transactions primarily included credit card payments but also covered automated clearing house (ACH) transactions, Remotely Created Cheques (RCCs), debit and prepaid cards transactions. With the expansion of the internet, retail borders have been eliminated. Processors now provide services to a variety of merchant accounts, including conventional retail and internet-based establishments, prepaid travel, telemarketers and internet gaming enterprises.

Third-party payment processors often use their commercial bank accounts to conduct payment processing for their merchant clients. For example, the processor may deposit into its account RCCs generated on behalf of a merchant client, or act as a third-party sender of ACH transactions. In either case, the financial institution does not have a direct relationship with the merchant. The increased use by processor customers, particularly telemarketers of RCCs also raises the risk of fraudulent payments being processed through the processor's bank account.

Processors generally are not subject to AML/CFT compliance and Risk Factors. regulatory requirements. As a result, some processors may be vulnerable to money laundering, identity theft, fraud schemes and illicit transactions or transactions prohibited by MLPA 2011.

Risk

The financial institution's ML/FT risks when dealing with a processor account are similar to risks from other activities in which the financial institution's customer conducts transactions through the bank on behalf of the customer's clients. When the financial institution is unable to identify and understand the nature and source of the transactions processed through an account, the risks to the financial institution and the likelihood of suspicious activity can increase. If a financial institution has not implemented an adequate processor-approval Programme that goes beyond credit risk management, it could be vulnerable to processing illicit or sanction-able transactions.

Mitigation.

Financial institutions offering account services to processors should develop and maintain adequate policies, procedures and processes to address risks related to these relationships. At a minimum, these policies should authenticate the processor's business operations and assess their risk level. A financial institution may assess the risks associated with payment processors by considering the following :

- (i) Implementing a policy that requires an initial background check of the processor (using for example, state incorporation departments, internet searches and other investigative processes) and of the processor's underlying merchants on a risk-adjusted basis in order to verify their creditworthiness and general business practices ;
- (ii) Reviewing the processor's promotional materials, including its Website to determine the target clientele. A financial institution may develop policies, procedures and processes that restrict the types of entities for which it will allow processing services. These entities may include higher risk entities such as offshore companies, online gambling-related operations, telemarketers and online pay lenders. These restrictions should be clearly communicated to the processor at account opening stage ;

- (iii) Determining whether the processor re-sells its services to a third party who may be referred to as an agent or provider of independent sales institution opportunities or internet service provider (gateway) arrangements ;
- (iv) Reviewing the processor's policies, procedures and processes to determine the adequacy of its due diligence standards for new merchants ;
- (v) Requiring the processor to identify its major customers by providing information such as the merchant's name, principal business activity and geographic location ;
- (vi) Verifying directly or through the processor that the merchant is operating a legitimate business by comparing the merchant's identifying information against public record databases, fraud and financial institution check databases ;
- (vii) Reviewing corporate documentation including independent reporting services and, if applicable, documentation on principal owners ; and
- (viii) Visiting the processor's business operations centre.

Financial institutions which provide account services to third-party payment processors should monitor their processor relationships for any significant changes in the processor's business strategies that may affect their risk profile. Financial institutions should periodically re-verify and update the processors' profiles to ensure the risk assessment is appropriate.

In addition to adequate and effective account opening and due diligence procedures for processor accounts, management should monitor these relationships for unusual and suspicious activities. To effectively monitor these accounts, the financial institution should have an understanding of the following processor information :

- (i) Merchant base ;
- (ii) Merchant activities ;
- (iii) Average number of dollar/Naira volume and number of transactions ;
- (iv) Swiping versus keying volume for credit card transactions ;
- (v) Charge-back history, including rates of return for ACH debit transactions and Remotely Created Cheques (RCCs) ; and
- (vi) Consumer complaints that suggest a payment processor's merchant clients are inappropriately obtaining personal account information and using it to create unauthorized RCCs or ACH debits.

With respect to account monitoring, a financial institution should thoroughly investigate high levels of returns and should not accept high levels of returns on the basis that the processor has provided collateral or other security to the financial institution. A financial institution should implement appropriate policies, procedures and processes that address compliance and fraud risks. High levels of RCCs or ACH debits returned for insufficient funds or as unauthorized can be an indication of fraud or suspicious activity.

5.29. The financial institution's systems should be adequate to manage the risks associated with monetary instrument and the management should have the ability to implement its monitoring and reporting systems effectively.

Monetary instruments are products provided by financial institutions and include cashier's cheques, traveller's cheques, and money orders. Monetary instruments are typically purchased to pay for commercial or personal transactions and, in the case of traveller's cheques, as a form of stored value for future purchases.

The purchase or exchange of monetary instruments at the placement and layering stages of money laundering can conceal the source of illicit proceeds. As a result, financial institutions have been major targets in laundering operations because they provide and process monetary instruments through deposits. For example, customers or non-customers have been known to purchase monetary instruments in amounts below the reportable currency threshold to avoid having to provide adequate identification. Subsequently, monetary instruments are then placed into deposit accounts to circumvent the CTR filing threshold.

Financial institutions selling monetary instruments should have appropriate policies, procedures and processes in place to mitigate risk. Policies should define:

- (i) Acceptable and unacceptable monetary instrument transactions (e.g., non-customer transactions, monetary instruments with blank payees, unsigned monetary instruments,

Overview of Purchase and Sale of Monetary Instruments. Risk Factors. Risk Mitigation.

Overview of Brokered Deposits.

identification requirements for structured transactions, or the purchase of multiple sequentially numbered monetary instruments for the same payee) ;

(ii) Procedures for reviewing for unusual or suspicious activity, including elevating concerns to management ; and

(iii) Criteria for closing relationships or refusing to do business with noncustomers who have consistently or egregiously been involved in suspicious activity.

5.30. The financial institution's systems should be adequate to manage the risks associated with brokered deposit relationship and the management should have the ability to implement its due diligence, monitoring and reporting systems effectively.

The use of brokered deposits is a common funding source for many banks and other financial institutions. Recent technology developments allow brokers to provide bankers with increased access to a broad range of potential investors who have no relationship with the bank and/or other financial institutions. Deposits can be raised over the internet through certificates of deposit listing services or through other advertising methods.

Deposit brokers provide intermediary services for financial institutions and investors. This activity is considered higher risk because each deposit broker operates under its own guidelines for obtaining deposits. The level of regulatory oversight over deposit brokers varies, as the applicability of AML/CFT Regulatory requirements directly on the deposit broker varies. However, the deposit broker is subject to other statutory requirements regardless of its regulatory status. Consequently, the deposit broker may not be performing adequate customer due diligence. The financial institution accepting brokered deposits depends on the deposit broker to sufficiently perform required account opening procedures and to follow applicable AML/CFT Compliance Programme requirements.

Risk Factors. Money laundering and terrorist financing risks arise because the financial institution may not know the ultimate beneficial owners or the source of funds. The deposit broker could represent a range of clients that may be of higher risk for money laundering and terrorist financing (e.g., non-resident or offshore customers, Politically Exposed Persons (PEP) or foreign shell banks).

Financial institutions which accept deposit broker accounts or funds should develop appropriate policies, procedures and processes that establish minimum CDD procedures for all deposit brokers providing deposits to the bank or other financial institution. The level of due diligence performed by a financial institution should be commensurate with its knowledge of the deposit broker and the deposit broker's known business practices and customer base.

In an effort to address the risk inherent in certain deposit broker relationships, financial institutions may want to consider having a signed contract that sets out the roles and responsibilities of each party and restrictions on types of customers (e.g., non-resident or offshore customers, PEPs or foreign shell banks). Financial institutions should conduct sufficient due diligence on deposit brokers, especially unknown, foreign, independent or unregulated deposit brokers. To manage the ML/FT risks associated with brokered deposits, the financial institution should :

- (i) Determine whether the deposit broker is a legitimate business in all operating locations where the business is conducted ;
- (ii) Review the deposit broker's business strategies, including targeted customer markets (e.g., foreign or domestic customers) and methods for soliciting clients;
- (iii) Determine whether the deposit broker is subject to regulatory oversight ;
- (iv) Evaluate whether the deposit broker's AML/CFT compliance policies, procedures, and processes are adequate (e.g., ascertain whether the deposit broker performs sufficient CDD including CIP procedures) ; and
- (v) Evaluate the adequacy of the deposit broker's AML/CFT audits and ensure that they address compliance with applicable regulations and requirements.

Financial institutions should take particular care in their oversight of deposit brokers who are not adequately regulated entities and :

- (i) Are unknown to the financial institution ;
- (ii) Conduct business or obtain deposits primarily in other jurisdictions ;

- (iii) Use unknown businesses and financial institutions for references ;
- (iv) Provide other services that may be suspect, such as creating shell companies for foreign clients ;
- (v) Refuse to provide requested audit and due diligence information or insist on placing deposits before providing this information ; and (vi) Use technology that provides anonymity to customers.

Financial institutions should also monitor existing deposit broker relationships for any significant changes in business strategies that may influence the broker's risk profile. As such, financial institutions should periodically re-verify and update each deposit broker's profile to ensure an appropriate risk assessment.

5.31. The financial institution's systems should be adequate to manage the risks associated with both networking and in-house non-deposit investment products (NDIP) and the management should have the ability to implement its monitoring and reporting systems effectively.

Overview of Non-Deposit Investment Products. In-House Sales and Proprietary Products.

NDIP include a wide array of investment products (e.g., securities, bonds and fixed or variable annuities). Sales Programmes may also include cash management sweep accounts to retail and commercial clients; these Programmes are offered by the bank directly. Banks and other financial institutions offer these investments to increase fee income and provide customers with additional products and services. The manner in which the NDIP relationship is structured and the methods with which the products are offered substantially affect the bank's/ other financial institution's ML/FT risks and responsibilities.

The financial institution is fully responsible for in-house NDIP transactions completed on behalf of its customers either with or without the benefit of an internal broker/dealer employee. In addition, the bank or other financial institution may also offer its own proprietary NDIPs which can be created and offered by the bank or other financial institution, its subsidiary or affiliate.



With in-house sales and proprietary products, the entire customer relationship and all ML/FT risks may need to be managed by the financial institution, depending on how the products are sold.

Financial institution management should assess risk on the basis of a variety of factors such as :

- (i) Type of NDIP purchased and the size of the transactions ;
- (ii) Types and frequency of transactions ;
- (iii) Country of residence of the principals or beneficiaries, the country of incorporation or the source of funds ; and
- (iv) Accounts and transactions that are not usual and customary for the customer or for the financial institution.

For customers that management considers higher risk for money laundering and terrorist financing, more stringent documentation, verification and transaction monitoring procedures should be established. EDD may be appropriate in the following situations :

- (i) Financial institution is entering into a relationship with a new customer ;
- (ii) Non-discretionary accounts have a large asset size or frequent transactions ;
- (iii) Customer resides in a foreign jurisdiction ;
- (iv) Customer is a PIC or other corporate structure established in a high risk jurisdiction ;
- (v) Assets or transactions are typical for the customer ;
- (vi) Investment type, size, assets or transactions are typical for the financial institution ;
- (vii) International funds transfers are conducted, particularly from offshore funding sources ;
- (viii) The identities of the principals or beneficiaries in investments or relationships are unknown or cannot be easily determined ; and
- (ix) Politically Exposed Persons (PEPs) are parties to any investments or transactions.

Risk Factors. ML/FT risks arise because NDIP can involve complex legal arrangements, large amounts and the rapid movement of funds.

Risk Mitigation. NDIP portfolios managed and controlled directly by clients pose a greater money laundering risk than those managed by the bank or other financial services provider. Sophisticated clients may create ownership structures to obscure the ultimate control and ownership of these investments. For example, customers can retain a certain level of anonymity by creating Private Investment Companies (PIC), offshore trusts or other investment entities that hide the customer's ownership or beneficial interest.

Networking Arrangements.

Management should develop risk-based policies, procedures and processes that enable the bank/other financial institution to identify unusual account relationships and circumstances, questionable assets and sources of funds and other potential areas of risk (e.g., offshore accounts, agency accounts and unidentified beneficiaries). Management should be alert to situations that need additional review or research.

Before entering into a networking arrangement, financial institutions should conduct an appropriate review of the broker/dealer. The review should include an assessment of the broker/dealer's financial status, management experience, Securities Dealers status, reputation and ability to fulfil its AML/CFT compliance responsibilities as regards the financial institution's customers. Appropriate due diligence would include a determination that the broker/dealer has adequate policies, procedures and processes in place to enable the broker/dealer meet its legal obligations. The financial institution should maintain documentation on its due diligence of the broker/dealer. Furthermore, detailed written contracts should address the AML/CFT responsibilities, including suspicious activity monitoring and reporting of the broker/dealer and its registered representatives.

A financial institution may also want to mitigate risk exposure by limiting certain investment products offered to its customers. Investment products such as PICs,

offshore trusts or offshore hedge funds (may involve international funds transfers) are offered to customers as a way to obscure ownership interests.

Financial institution management should develop and put in place structure that can update due diligence information on the broker/dealer. Such structures should include a periodic review of information on the broker/dealer's compliance with its AML/CFT responsibilities, verification of the broker/dealer's record in meeting testing requirements and a review of consumer complaints. Financial institution management is also encouraged, when possible, to review AML/CFT reports generated by the broker/dealer. This review could include information on account openings, transactions, investment products sold and suspicious activity monitoring and reporting.

5.32. The financial institution's systems should be adequate to manage the AML/CFT risks associated with concentration accounts and the management should have the ability to implement its monitoring and reporting systems effectively.

Overview of Concentration Accounts. Risk Factors. Risk Mitigation.

Concentration accounts are internal accounts established to facilitate the processing and settlement of multiple or individual customer transactions within the financial institution, usually on the same day. These accounts may also be known as special-use, omnibus, suspense, settlement, intra-day, sweep, or collection accounts. Concentration accounts are frequently used to facilitate transactions for private banking, trust and custody accounts, funds transfers and international affiliates.

Money laundering risk can arise in concentration accounts if the customer identifying information such as name, transaction amount and account number are separated from the financial transaction. If separation occurs, the audit trail is lost and accounts may be misused or administered improperly. Financial institution that use concentration accounts should implement adequate policies, procedures and processes covering the operation and recordkeeping for these accounts. Policies should establish guidelines to identify, measure, monitor and control the risks.

Because of the risks involved, management should be familiar with the nature of their customers' businesses and with the transactions flowing through the financial institution's concentration accounts. Additionally, the monitoring of concentration account transactions is necessary to identify and report unusual or suspicious transactions.

Internal controls are necessary to ensure that processed transactions include the identifying customer information. Retaining complete information is crucial for compliance with regulatory requirements as well as ensuring adequate transaction monitoring. Adequate internal controls may include :

- (i) Maintaining a comprehensive system that identifies (institution-wide) the general ledger accounts used as concentration accounts, as well as the departments and individuals authorized to use those accounts ;
- (ii) Requiring dual signatures on general ledger tickets ;
- (iii) Prohibiting direct customer access to concentration accounts ;
- (iv) Capturing customer transactions in the customer's account statements ;
- (v) Prohibiting customer's knowledge of concentration accounts or their ability to direct employees to conduct transactions through the accounts ;
- (vi) Retaining appropriate transaction and customer identifying information ;
- (vii) Frequent reconciliation of the accounts by an individual who is independent from the transactions ;
- (viii) Establishing timely discrepancy resolution process ; and
- (ix) Identifying recurring customer names, institution's involvement in trade finance minimizes payment risk to importers and exporters.

The nature of trade finance activities, however, requires the active involvement of multiple parties on both sides of the transaction. In addition to the basic exporter or importer relationship at the center of any particular trade activity, relationships may exist between the exporter and its suppliers and between the importer and its customers.

Both the exporter and importer may also have other banking relationships. Furthermore, many other intermediary financial and non-financial institutions may provide conduits and services to expedite the underlying documents and payment flows associated with trade transactions. Financial institutions can participate in trade financing by, among other things, providing pre-export financing, helping in the collection process, confirming or issuing letters of credit,

discounting drafts and acceptances or offering fee-based services such as providing credit and country information on buyers. Although most trade financing is short-term and self-liquidating in nature, medium-term loans (one to five years) or long-term loans (more than five years) may be used to finance the import and export of capital goods such as machinery and equipment.

In transactions that are covered by letters of credit, financial institutions are required to take the following roles :

*Applicant*—The buyer or party who requests the issuance of a letter of credit.

*Issuing Bank*—The bank that issues the letter of credit on behalf of the applicant and advises it to the beneficiary either directly or through an advising financial institution. The applicant is the issuing bank's customer.

*Confirming Bank*—Typically, is in the home country of the beneficiary and at the request of the issuing bank. It is the financial institution that adds its commitment to honour draws made by the beneficiary, provided the terms and conditions of the letter of credit are met.

*Advising Bank*—The bank that advises the credit at the request of the issuing bank. The issuing bank sends the original credit to the advising bank for onward forwarding to the beneficiary. The advising bank authenticates the credit and advises it to the beneficiary. There may be more than one advising bank in a letter of credit transaction. The advising bank may also be a confirming bank.

*Beneficiary*—The seller or party to whom the letter of credit is addressed.

*Negotiation*—The purchase by the nominated bank of drafts (drawn on a bank other than the nominated bank) or documents under a complying presentation by advancing or agreeing to advance funds to the beneficiary on or before the banking day on which reimbursement is due to the nominated bank.

*Nominated Bank*—The bank with which the credit is available or any bank in which the credit is available.

*Accepting Bank*—The bank that accepts a draft, providing a draft is called for by the credit. Drafts are drawn on the accepting bank that dates and signs the instrument.

*Discounting Bank*—The bank that discounts a draft for the beneficiary after it has been accepted by the accepting bank. The discounting bank is often the accepting bank.

*Reimbursing Bank*—The bank authorized by the issuing bank to reimburse the paying bank submitting claims under the letter of credit.

*Paying Bank*—The bank that makes payment to the beneficiary of the letter of credit. As an example, in a letter of credit arrangement, a bank can serve as the issuing bank, allowing its customer (the buyer) to purchase goods locally or internationally, or the bank can act as an advising bank, enabling its customer (the exporter) to sell its goods locally or internationally. The relationship between any two banks may vary and could include any of the roles listed above.

The international trade system is subject to a wide range of risks and Risk Factors.

vulnerabilities that provide criminal organizations with the opportunity to launder the proceeds of crime and move funds to terrorist organizations with a relatively low risk of detection. The involvement of multiple parties on both sides of any international trade transaction can make the process of due diligence more difficult. Also, because trade finance can be more document-based than other banking activities, it can be susceptible to documentary fraud which can be linked to money laundering, terrorist financing or the circumvention of sanctions or other restrictions (such as export prohibitions, licensing requirements or controls).

While financial institutions should be alert to transactions involving high-risk goods (e.g., trade in weapons or nuclear equipment), they need to be aware that goods may be over or undervalued in an effort to evade AML/CFT requirements or customs regulations, or to move funds or value across national borders. For example, an importer may pay a large sum of money from the proceeds of an illegal activity for goods that are essentially worthless and are subsequently discarded. Alternatively, trade documents such as invoices may be fraudulently altered to hide the scheme. Variations on this theme include inaccurate or double invoicing, partial shipment of goods (short shipping) and the use of fictitious goods. Illegal proceeds transferred in such transactions thereby appear sanitized and enter the realm of legitimate commerce. Moreover, many suspect trade finance transactions also involve collusion between buyers and sellers.

The applicant's true identity or ownership may be disguised by the use of certain corporate forms such as shell companies or offshore front companies. The use of these types of entities results in a lack of transparency, effectively hiding the identity of the purchasing party and thus increasing the risk of money laundering and terrorist financing.

**Risk** Sound CDD procedures are needed to gain a thorough understanding of the

Mitigation. customer's underlying business and locations served. The financial institutions in the letter of credit process need to undertake varying degrees of due diligence depending upon their role in the transaction. For example, issuing bank should conduct sufficient due diligence on a prospective customer before establishing the letter of credit. The due diligence should include gathering sufficient information on the applicants and beneficiaries including their identities, nature of business and sources of funding. This may require the use of background checks or investigations, particularly in higher-risk jurisdictions. As such, financial institutions should conduct a thorough review and reasonably know their customers prior to facilitating trade-related activity and should have a thorough understanding of trade finance documentation.

Likewise, guidance provided by the Financial Action Task Force (FATF) on money laundering has helped in setting important industry standards and is a resource for financial institutions that provide trade finance services. The Wolfsberg Group also has published suggested industry standards and guidance for financial institutions that provide trade finance services.

Financial institutions taking other roles in the letter of credit process should complete due diligence that is commensurate with their roles in each transaction. Financial institutions need to be aware that because of the frequency of transactions in which multiple banks are involved, issuing banks may not always have correspondent relationships with the advising or confirming bank.

To the extent feasible, financial institutions should review documentation, not only for compliance with the terms of the letter of credit, but also for anomalies or red flags that could indicate unusual or suspicious transaction. Reliable documentation is critical in identifying potentially suspicious transaction. When

analyzing trade transactions for unusual or suspicious transaction, financial institutions should consider obtaining copies of official Nigerian or foreign government import and export forms to assess the reliability of documentation provided. These anomalies could appear in shipping documentation, obvious under or over-invoicing, government licences (when required) or discrepancies in the description of goods on various documents. Identification of these elements may not, in itself, require the filing of STRs, but may suggest the need for further research and verification. In circumstances where STRs are warranted, the financial institution is not expected to stop trade or discontinue processing the transaction. However, stopping the trade may be required to avoid a potential violation of the Money Laundering (Prohibition) Act.

Trade finance transactions frequently use Society for Worldwide Interbank Financial Telecommunication (SWIFT) messages. Nigerian financial institutions must comply with relevant regulations and when necessary, provide funding in advance of consummating the deal involved. Financial institutions should monitor the names of the parties contained in these messages and compare the names against terrorist lists. Financial institutions with a high volume of SWIFT messages should determine whether their monitoring efforts are adequate to detect suspicious transaction, particularly if the monitoring mechanism is not automated.

Policies, procedures and processes should also require a thorough review of all applicable trade documentation (e.g., customs declarations, trade documents, invoices, etc) to enable the financial institution to monitor and report unusual and suspicious transactions based on the role played by the financial institution in the letter of credit process. The sophistication of the documentation review process and MIS should be commensurate with the size and complexity of the financial institution's trade finance portfolio and its role in the letter of credit process. The monitoring process should give greater scrutiny to :

- (i) Items shipped that are inconsistent with the nature of the customer's business (e.g., a steel company that starts dealing in paper products or an information technology company that starts dealing in bulk pharmaceuticals) ;
- (ii) Customers conducting business in higher-risk jurisdictions ;
- (iii) Customers shipping items through higher-risk jurisdictions including transit through non-cooperative countries ;



- (iv) Customers involved in potentially higher-risk activities including activities that may be subject to export/import restrictions (e.g., equipment for military or police organizations of foreign governments, weapons, ammunition, chemical mixtures, classified defense articles, sensitive technical data, nuclear materials, precious gems, or certain natural resources such as metals, ore and crude oil) ;
- (v) Obvious over or under-pricing of goods and services ;
- (vi) Obvious misrepresentation of quantity or type of goods imported or exported;
- (vii) Transaction structure appears unnecessarily complex and designed to obscure the true nature of the transaction ;
- (viii) Customer directs payment of proceeds to an unrelated third party ;
- (ix) Shipment locations or description of goods not consistent with letter of credit; and
- (x) Significantly amended letters of credit without reasonable justification or changes to the beneficiary or location of payment.

Unless customer behaviour or transaction documentation appears unusual, the financial institution should not be expected to spend undue time or effort reviewing all information. The examples above, particularly for an issuing bank, may be included as part of its routine CDD process. Financial institution with robust CDD Programmes may find that less focus is needed on individual transactions as a result of their comprehensive knowledge of the customer's activities.

Overview 5.33. The financial institution's systems should be adequate to manage of the risks associated with private banking activities and the Private management should have the ability to implement its due diligence, Banking monitoring and reporting systems effectively. Activities.

Private banking activities are generally defined as providing personalized services to higher net worth customers (e.g., estate planning, financial advice, lending, investment management, bill paying, mail forwarding and maintenance of a residence). Private banking has become an increasingly important business line for large and diverse banking organizations and a source of enhanced fee income.

Nigerian financial institution manage private banking relationships for both domestic and international customers. Typically, thresholds of private banking service are based on the amount of assets for management and on the need for

specific products or services (e.g., real estate management, closely held company oversight, money management). The fees charged are ordinarily based on asset thresholds and the use of specific products and services.

Private banking arrangements are typically structured to have a central point of contact (i.e., relationship officer/manager) that acts as a liaison between the client and the financial institution and facilitates the client's use of the financial institution's financial services and products.

Typical products and services offered in a private banking relationship include :

- (i) Cash management (e.g., cheque-accounts, overdraft privileges, cashsweeps and bill-paying services) ;
- (ii) Funds transfers ;
- (iii) Asset management (e.g., trust, investment advisory, investmentmanagement and custodial and brokerage services) ;
- (iv) The facilitation of shell companies and offshore entities (e.g., PrivateInvestment Companies (PIC), International Business Corporations (IBC) and trusts) ;
- (v) Lending services (e.g., mortgage loans, credit cards, personal loansand letters of credit) ;
- (vi) Financial planning services including tax and estate planning ;
- (vii) Custody services ; and
- (viii) Other services as requested (e.g., mail services).

Privacy and confidentiality are important elements of private banking relationships. Although customers may choose private banking services simply to manage their assets, they may also seek a confidential, safe and legal haven for their capital. When acting as a fiduciary, financial institution have statutory, contractual and ethical obligations to uphold.

Private banking services can be vulnerable to money laundering schemes and past money laundering prosecutions have demonstrated that vulnerability. Vulnerabilities to money laundering include the following :

- (i) Private bankers as client advocates ;
- (ii) Powerful clients including politically exposed persons, industrialists and entertainers ;
- (iii) Culture of confidentiality and the use of secrecy jurisdictions or shell companies ;
- (iv) Private banking culture of lax internal controls ;
- (v) Competitive nature of the business ; and
- (vi) Significant profit potential for the financial institution.

Effective policies, procedures and processes can help protect financial institutions from becoming conduits for or victims of money laundering, terrorist financing and other financial crimes that are perpetrated through private banking relationships. Illicit activities through the private banking unit could result in significant financial costs and reputational risk to the financial institution. Financial impacts could include regulatory sanctions and fines, litigation expenses, the loss of business, reduced liquidity, asset seizures and freezes, loan losses and remediation expenses.

Financial institutions should assess the risks its private banking activities pose on the basis of the scope of operations and the complexity of the financial institution's customer relationships. Management should establish a risk profile for each customer to be used in prioritizing oversight resources and for ongoing monitoring of relationship activities.

The following factors should be considered when identifying risk characteristics of private banking customers :

- (i) Nature of the customer's wealth and the customer's business - The source of the customer's wealth, the nature of the customer's business and the extent to which the customer's business history presents an increased risk for money laundering and terrorist financing. This factor should be considered for private banking accounts opened for politically exposed persons (PEP).

- (ii) Purpose and anticipated activity — The size, purpose, types of accounts, products and services involved in the relationship, and the anticipated activity of the account.
- (iii) Relationship — The nature and duration of the financial institution's relationship (including relationships with affiliates) with the private banking customer.
- (iv) Customer's corporate structure — Type of corporate structure (Private, public, holding, etc).
- (v) Geographic location and jurisdiction — The geographic location of the private banking customer's domicile and business (domestic or foreign). The review should consider the extent to which the relevant jurisdiction is internationally recognized as presenting a greater risk for money laundering or conversely, is considered to have robust AML/CFT standards.
- (vi) Public information — Information known or reasonably available to the financial institution about the private banking customer. The scope and depth of this review should depend on the nature of this relationship and the risks involved.

Customer Due Diligence. Bearer Shares of Shell Companies. Customer Due Diligence (CDD) is essential when establishing any customer relationship and it is critical for private banking clients. Financial institutions should take reasonable steps to establish the identity of their private banking clients and as appropriate, the beneficial owners of accounts. Adequate due diligence should vary based on the risk factors identified previously. Policies, procedures and processes should define acceptable CDD for different types of products, services and account holders. As due diligence is an ongoing process, a financial institution should take measures to ensure account profiles are current and monitoring should be risk-based. Financial institutions should consider whether risk profiles should be adjusted or suspicious transaction reported when the activity is inconsistent with the profile.

For purposes of the customer identification Programme (CIP), the financial institution is not required to search the private banking account to verify the identities of beneficiaries. Instead, it is required to verify the identity of the named account holder only. However, the CIP rule also provides that based on the financial institution's risk assessment of a new account opened by a customer that is not an

individual (e.g., private banking accounts opened for a PIC), the institution may need to obtain information about individuals with authority or control over such an account, including signatories in order to verify the customer's identity to determine whether the account is maintained for non-Nigerians.

Before opening accounts, financial institutions should collect the following information from the private banking clients :

- (i) Purpose of the account ;
- (ii) Type of products and services to be used ;
- (iii) Anticipated account activity ;
- (iv) Description and history of the source of the client's wealth ;
- (v) Client's estimated net worth, including financial statements ;
- (vi) Current source of funds for the account ; and
- (vii) References or other information to confirm the reputation of the client.

Some shell companies issue bearer shares. Bearer shares allow their ownership to be vested on their bearer and the ownership of the company to therefore be conveyed by simply transferring of the physical possession of the shares. Risk mitigation of shell companies that issue bearer shares may include maintaining control of the bearer shares, entrusting the shares with a reliable independent third party or requiring periodic certification of ownership. Financial institutions should assess the risks these relationships pose and determine the appropriate controls. For example, in most cases, financial institutions should choose to maintain (or have an independent third party maintain) bearer shares for their customers. In rare cases that involve lower-risk, well-known, long-time customers, financial institutions may find that periodically re-certifying of the beneficial ownership is effective. A strong CDD Programme is an effective underlying control through which financial institutions can determine the nature, purpose and expected use of shell companies and apply appropriate monitoring and documentation standards.

The board of directors' and senior management's active oversight of private banking activities and the creation of an appropriate corporate governance oversight culture are crucial elements of a sound risk management and control environment. The purpose and objectives of the institution's private banking activities should be clearly identified and communicated by the board and senior management. Well-developed goals and objectives should describe the target client base in terms of minimum net worth, investable assets, types of products and services sought. Goals and objectives should also specifically describe the types of clients the financial institution will and will not accept and should establish appropriate levels of authorization for new-client acceptance. Board and senior management should also be actively involved in establishing control and risk management goals for private banking activities, including effective audit and compliance reviews. Each financial institution should ensure that its policies, procedures and processes for conducting private banking activities are evaluated and updated regularly and ensure that roles, responsibilities and accountability are clearly delineated.

Board of Directors and Senior Management Oversight of Private Banking Activities.

Employee compensation plans are often based on the number of new accounts established or on an increase in the managed assets. Board and senior management should ensure that compensation plans do not create incentives for employees to ignore appropriate due diligence and account opening procedures or possible suspicious activity relating to the account. Procedures that require various levels of approval for accepting new private banking accounts can minimize such opportunities.

Given the sensitive nature of private banking and the potential liability associated with it, financial institutions should thoroughly investigate the background of newly hired private banking relationship managers. During the course of employment, any indications of inappropriate activities should be promptly investigated by the financial institution.

Additionally, when private banking relationship managers change employers, their customers often move with them. Financial institutions bear the same potential liability for the existing customers of newly hired officers as they do for any new,

private banking relationship. Therefore, those accounts should be promptly reviewed using the financial institution's procedures for establishing new account relationships.

MIS and reports are also important in effectively supervising and managing private banking relationships and risks. Board and senior management should review relationship manager compensation reports, budget or target comparison reports and applicable risk management reports. Private banker MIS reports should enable the relationship manager to view and manage the whole client and any related client relationships.

Overview of Trust and Asset Management Services Customer Identification Program. 5.34. OBJECTIVE

The financial institution's policies, procedures, processes and systems to manage the ML/FT risks associated with trust and asset management services should be adequate and the management should have the ability to implement effective due diligence, monitoring and reporting systems effectively.

Trust accounts are generally defined as a legal arrangement in which one party (the trustor or grantor) transfers ownership of assets to a person or bank/ other financial institution (the trustee) to be held or used for the benefit of others. These arrangements include the broad categories of court-supervised accounts (e.g., executorships and guardianships), personal trusts (e.g., living trusts, trusts established under a will, charitable trusts) and corporate trusts (e.g., bond trusteeships).

Agency accounts are established by contract and governed by contract law. Assets are held under the terms of the contract and legal title or ownership does not transfer to the financial institution as agent. Agency accounts include custody, escrow, investment management and safekeeping relationships. Agency products and services may be offered in a traditional trust department or through other financial institution departments.

Customer identification Programme (CIP) rules apply to all financial institutions' accounts. The CIP rule defines an account to include

cash management, safekeeping, and custodian and trust relationships but excludes employee benefit accounts.

For purposes of the CIP, the financial institution is not required to search the trust, escrow or similar accounts to verify the identities of beneficiaries. Instead, it is required to verify the identity of the named account holder (the trust) only. In the case of a trust account, the customer is the trust whether or not the financial institution is the trustee for the trust. However, the CIP rule also provides that, based on the financial institution's ML/FT risk assessment of a new account opened by a customer that is not an individual, the financial institution may need to obtain information about individuals with authority or control over such an account, including the signatories in order to verify the customer's identity.

For example, in certain circumstances involving revocable trusts, the financial institution may need to gather information about the settlor, grantor, trustee, or other persons with the authority to direct the trustee and who thus have authority or control over the account in order to establish the true identity of the customer. In the case of an escrow account, if a financial institution establishes an account in the name of a third party such as a real estate agent (who is acting as agent) then, the financial institution's customer is the escrow agent.

If the financial institution is the escrow agent, then the person who establishes the account is the financial institution's customer. For example, if the purchaser of real estate directly opens an escrow account and deposits funds to be paid to the seller upon satisfaction of specified conditions, the financial institution's customer will be the purchaser. Further, if a company in formation establishes an escrow account for investors to deposit their subscriptions pending receipt of a required minimum amount, the financial institution's customer will be the company in formation (or if not yet a legal entity, the person opening the account on its behalf).

However, the CIP rule also provides that, based on the financial institution's ML/FT risk assessment of a new account opened by a customer that is not an individual, the financial institution may need to obtain information about individuals with authority or control over such an account including the signatories in order to verify the customer's identity.



Trust and asset management accounts including agency relationships present ML/FT Risk ML/FT concerns similar to those of deposit taking, lending and other traditional Factors.

financial institution's activities. Concerns are primarily due to the unique relationship structures involved when the financial institution handles trust and agency activities, such as :

- (i) Personal and court-supervised accounts ;
- (ii) Trust accounts formed in the private banking department ;
- (iii) Asset management and investment advisory accounts ;
- (iv) Global and domestic custody accounts ;
- (v) Securities lending ;
- (vi) Employee benefit and retirement accounts ;
- (vii) Corporate trust accounts ;
- (viii) Transfer Agent Accounts ; and (ix) Other related business lines.

As in any account relationship, money laundering risk may arise from trust and asset management activities. When misused, trust and asset management accounts can conceal the sources and uses of funds as well as the identity of beneficial and legal owners. Customers and account beneficiaries may try to remain anonymous in order to move illicit funds or avoid scrutiny.

For example, customers may seek a certain level of anonymity by creating private investment companies offshore trusts or other investment entities that hide the true ownership or beneficial interest of the trust.

Risk Mitigation. Customer Comparison Against Various Lists. Management should develop policies, procedures and processes that enable the financial institution to identify unusual account relationships and circumstances, questionable assets and sources of assets and other potential areas of ML/FT risk (e.g., Offshore Accounts, PICs, Asset Protection Trusts (APT), agency accounts and unidentified beneficiaries). While the majority of traditional trust and asset management accounts will not need EDD, management should be alert to those situations that need additional review or research.

The financial institution must maintain required CIP information and complete the required one-time check of trust account names against VIS search requests. The financial institution should also be

able to identify customers who may be politically exposed persons (PEP), doing business with or located in a jurisdiction designated as primary money laundering concern. The financial institution should also determine the identity of other parties that may have control over the account, such as grantors or co-trustees.

#### CIRCUMSTANCES WARRANTING ENHANCED DUE DILIGENCE.

(i) Management should assess account risk on the basis of a variety of factors which may include :

- (a) Type of trust or agency account and its size ;
- (b) Types and frequency of transactions ;
- (c) Country of residence of the principals or beneficiaries or the country where established or source of funds ;
- (d) Accounts and transactions that are not usual and customary for the customer or for the financial institution ; and
- (e) Stringent documentation, verification and transaction monitoring procedures should be established for accounts that the management considers as higher risk, (typically, employee benefit accounts and court-supervised accounts are among the lowest ML/FT risks).

(ii) Circumstance in which EDD may be appropriate :

The financial institution is entering into a relationship with a new customer.

- (a) Account principals or beneficiaries reside in a foreign jurisdiction or the trust or its funding mechanisms are established offshore ;
- (b) Assets or transactions are not typical for the type and character of the customer ;
- (c) Account type, size, assets or transactions are atypical for the financial institution ;
- (d) International funds transfers are conducted particularly through offshore funding sources ;
- (e) Accounts are funded with easily transportable assets such as gemstones, precious metals, coins, artwork, rare stamps or negotiable instruments ;
- (f) Accounts or relationships are maintained in way that the identities of the principals, beneficiaries, sources of funds are unknown or cannot be easily determined ;

- (g) Accounts transactions are for the benefit of charitable organizations or other Non-Governmental Organizations (NGOs) that may be used as a conduit for illegal activities ;
- (h) Interest on Lawyers' Trust Accounts (IOLTA) holding are processing significant currency/dollar amounts ;
- (i) Account assets that include PICs ; and
- (j) PEPs are parties to the accounts or transactions.

### 5.35. OVERVIEW OF NON-RESIDENT ALIENS AND FOREIGN INDIVIDUALS

The financial institution's systems to manage the risks associated with transactions involving accounts held by non-resident aliens (NRA) and foreign individuals should be adequate and the management should have the ability to implement its due diligence, monitoring and reporting systems effectively.

Foreign individuals maintaining relationships with Nigerian financial institutions can be divided into two categories of resident aliens and non-resident aliens.

For definitional purposes, a NRA is a non-Nigerian citizen who :

- (i) is not a lawful permanent resident of Nigeria during the calendar year and who does not meet the substantial presence test or
- (ii) has not been issued an alien registration permit. The FIRS determines the tax liabilities of a foreign person and officially defines the person as a resident or non-resident.

Although NRAs are not permanent residents, they may have a legitimate need to establish an account relationship with a Nigerian financial institution. NRAs can use bank products and services for asset preservation (e.g., mitigating losses due to exchange rates), business expansion and investments.

Financial institutions may find it more difficult to verify and authenticate an NRA account holder's identification, source of funds and source of wealth which may result in ML/FT risks. The NRA's home country may also heighten the account risk,

Overview of Expanded Examination and Procedures for Persons and Entities.  
Risk Factors of NRA Account Holder.  
Risk Mitigation.

depending on the secrecy laws of that country. Because the NRA is expected to reside outside of Nigeria, funds transfers or the use of foreign automated teller machines (ATM) may be more frequent. The ML/FT risk may be further heightened if the NRA is a Politically Exposed Person (PEP).

Financial institutions should establish policies, procedures and processes that provide for sound due diligence and verification practices, adequate risk assessment of NRA accounts, ongoing monitoring and reporting of unusual or suspicious activities. The following factors are to be considered when determining the risk level of an NRA account :

- (i) Account-holder's home country ;
- (ii) Types of products and services used ;
- (iii) Forms of identification ;
- (iv) Source of wealth and funds ; and
- (v) Unusual account activity.

The financial institution's CIP should detail the identification requirements for opening an account for a non-Nigerian person, including a NRA. The Programme should include the use of documentary and non-documentary methods to verify a customer. In addition, financial institutions must maintain due diligence procedures for private banking accounts for non-Nigerian persons, including those held for PEPs or senior foreign political figures.

Overview 5.36. The financial institution's systems to manage the risks associated of with senior local/foreign political figures, often referred to as politically Politically exposed persons (PEP) should be adequate and the management Exposed should have the ability to implement its risk-based due diligence, Persons. monitoring and reporting systems effectively.

Financial institution should take all reasonable steps to ensure that they do not knowingly or unwittingly assist in hiding or moving the proceeds of corruption by senior local/foreign political figures, their families and associates. Because the risks presented by PEPs will vary by customer, product, service, country and industry, identifying, monitoring and designing controls for these accounts and transactions should be risk-based.

The term politically exposed persons generally include individuals who are or have been entrusted with prominent public functions in Nigeria and/or foreign countries and people/entities associated with them. As specified in the CBN AML/CFT Regulation 2009, examples of PEPs include but not limited to :

- (i) Heads of State or government ;
- (ii) State Governors ;
- (iii) Local Government Chairmen ;
- (iv) Senior Politicians ;
- (v) Senior government officials ;
- (vi) Judicial or military officials ;
- (vii) Senior executives of state owned corporations ;
- (viii) Important political party officials ;
- (ix) Family members or close associates of PEPs ; and(x) Members of Royal Families.

In addition to performing CDD measures, financial institutions are required to put in place appropriate risk management systems and procedures that include reasonable steps to determine and ascertain whether a potential customer or existing customer or the beneficial-owner is a politically exposed person. Risk will vary depending on other factors such as products and services used and size or complexity of the account relationship. Financial institutions also should consider various factors when determining if an individual is a PEP, including :

- (i) Official responsibilities of the individual's office ;
- (ii) Nature of the title (e.g., honorary or salaried) ;
- (iii) Level and nature of authority or influence over government activities or other officials ; and
- (iv) Access to significant government assets or funds.

Financial institutions are also required to obtain senior management approval before they establish business relationships with a PEP and to render monthly returns on all their transactions with PEPs to the CBN.

In determining the acceptability of higher-risk accounts, a financial institution should be able to obtain sufficient information to determine whether an individual is or is not a PEP. For example, when conducting due diligence on a higher-risk account, it would be usual for a financial institution to review a customer's income sources, financial information and professional background. These factors would

likely require some review of past and present employment as well as general references that may identify a customer's status as a PEP. Moreover, a financial institution should always keep in mind that identification of a customer's status as a PEP should not automatically result in a higher-risk determination. It is not only one factor that the institution should consider in assessing the risk of such a relationship.

Ascertaining whether a customer has a close association with a senior local/foreign political figure could be difficult. Moreover, focusing on the relationships that are widely and publicly known may also provide a reasonable limitation on expectation to identify close associates of PEPs. However, financial institution that has actual knowledge of close associations of its customer should consider such a customer as PEP, even if such association is not otherwise widely or publicly known. Financial institutions are expected to follow reasonable steps to ascertain the status of an individual. The regulatory agencies recognize that these steps may not uncover all close associations of PEPs.

In high-profile cases over the past few years, PEPs have used financial Risk Factors. institutions as conduits for their illegal activities, including corruption, bribery and money laundering. However, not all PEPs present the same level of risk. This risk will vary depending on numerous factors, including the PEP's geographic location, industry, sector, position and level or nature of influence or authority. Risk may also vary depending on factors such as the purpose of the account, the actual or anticipated activity, products and services used, and size or complexity of the account relationship.

As a result of these factors, some PEPs may be of lower risk and some may be of higher risk for local/foreign corruption or money laundering. Financial institutions that conduct business with dishonest PEPs face substantial reputational risk, additional regulatory scrutiny and possible supervisory action. Financial institution also should be alert to a PEP's access to, control of or influence over government or corporate accounts; the level of involvement of intermediaries, vendors, suppliers, and agents in the industry or sector in which the PEP operates; and the improper use of corporate vehicles and other legal entities to obscure ownership. Risk Section 1.10.5 of the CBN AML/CFT Regulation 2009 (as amended), requires Mitigation. financial institutions to take reasonable measures to establish the source of wealth and the source of funds of customers and beneficial owners identified as PEPs . Financial institutions should exercise reasonable judgment in designing and

implementing policies, procedures and processes regarding PEPs. Financial institution should obtain risk-based due diligence information on PEPs and establish policies, procedures and processes that provide for appropriate scrutiny and monitoring. It is critical and in order to have appropriate risk-based account opening procedures for big ticket transaction or higher-risk products and services. The opening of an account is the prime opportunity for the financial institution to gather information for all customers, including PEPs. Commensurate with the identified level of risk, due diligence procedures should include, but are not necessarily limited to, the following :

- (i) Identify the account-holder and beneficial owner, including the nominal and beneficial owners of companies, trusts, partnerships, private investment companies, or other legal entities that are account holders ;
- (ii) Seek information directly from the account holder and beneficial owner regarding possible PEP status ;
- (iii) Identify the account holder's and beneficial owner's country(ies) of residence and the level of risk for corruption and money laundering associated with these jurisdictions ;
- (iv) Obtain information regarding employment including industry and sector, and the level of risk for corruption associated with the industries and sectors ;
- (v) Check references (as appropriate) to determine whether the account holder and beneficial owner is or has been a PEP ;
- (vi) Identify the account holder's and beneficial owner's source of wealth and funds ;
- (vii) Obtain information on immediate family members or close associates that have the account ;
- (viii) Determine the purpose of the account, the expected volume and nature of account activity ; and
- (ix) Make reasonable efforts to review public sources of information. These sources will vary depending upon each situation. However, financial institutions should check the account-holder and any beneficial owners of legal entities against reasonably accessible public sources of information (e.g., government databases, major news publications, commercial databases and other databases available on the internet, as appropriate).

PEP accounts are not limited to large or internationally focused financial institutions. A PEP can open an account at any financial institution, regardless of its

size or location. Financial institutions should have risk-based procedures for identifying PEP accounts and assessing the degree of risks involved and the latter will vary. Senior management should be involved in the decision to accept a PEP account. If management determines after-the-fact that an account is a PEP account, it should evaluate the risks and take appropriate steps. The financial institution should exercise additional, reasonable due diligence with regard to such accounts.

For example, the financial institution may increase reference inquiries, obtain additional background information on the PEP from branches or correspondents operating in the client's home country, and make reasonable efforts to consult publicly available information sources. On-going risk-based monitoring of PEP accounts is critical to ensuring that the accounts are being used as anticipated.

5.37. The financial institution's systems to manage the risks associated with transactions involving embassy and foreign consulate accounts should be adequate and the management should have the ability to implement its due diligence, monitoring and reporting systems effectively.

Overview of Embassy and Foreign Consulate Accounts. Risk Factors.

Embassies contain the offices of the foreign ambassador, the diplomatic representative and their staff. The embassy, led by the ambassador, is a foreign government's official representation in the Nigeria (or other country).

Foreign consulate offices act as branches of the embassy and perform various administrative and governmental functions (e.g., issuing visas and handling immigration matters). Foreign consulate offices are typically located in major metropolitan areas. In addition, foreign ambassadors' diplomatic representatives, their families and associates may be considered politically exposed persons (PEP) in certain circumstances.

Embassies and foreign consulates in Nigeria require access to the banking system to meet many of their day-to-day financial responsibilities. Such services can range from account relationships for operational expenses (e.g., payroll, rent and utilities) to inter and



intra-governmental transactions (e.g., commercial and military purchases). In addition to official embassy accounts, some financial institutions provide ancillary services or accounts to embassy staff, families and current or prior foreign government officials. Each of these relationships poses different levels of risk to the financial institution.

Embassy accounts, including those accounts for a specific embassy office such as a cultural or education ministry, a defence attaché or ministry, or any other account should have a specific operating purpose, stating the official function of the foreign government office. Consistent with established practices for business relationships, these embassy accounts should have written authorization by the foreign government.

To provide embassy and foreign consulate services, a Nigerian financial institution may need to maintain a foreign correspondent relationship with the embassy's or foreign consulate's financial institution. Financial institutions conducting business with foreign embassies or consulates should assess and understand the potential risks of these accounts and should develop appropriate policies, procedures and processes. Embassy or foreign consulate accounts may pose a higher risk in the following circumstances :

- (i) Accounts are from countries that have been designated as higher risk ;
- (ii) Substantial currency transactions take place in the accounts ;
- (iii) Account activity is not consistent with the purpose of the account(e.g., pouch activity or payable upon proper identification transactions) ;
- (iv) Accounts directly fund personal expenses of foreign nationals includingbut not limited to expenses for college students ; and Official embassy business is conducted through personal accounts.

Risk Mitigation. Financial institutions should obtain comprehensive due diligence information on embassy and foreign consulate account relationships.  
Overview For private banking accounts for non-Nigerian persons specifically,

of financial institutions must obtain due diligence information. The Designated financial institution's due diligence related to embassy and foreign Non- consulate account relationships should be commensurate with the Financial risk levels presented. In addition, financial institutions are expected to Institutions. establish policies, procedures and processes that provide for greater Risk scrutiny and monitoring of all embassy and foreign consulate Factors. account relationships. Management should fully understand the purpose of the account and the expected volume and nature of account activity. On-going monitoring of embassy and foreign consulate account relationships is critical to ensuring that the account relationships are being used as anticipated.

5.38. The financial institution's systems to manage the risks associated with accounts of designated non- financial institutions (DNFI) should be adequate and the management should have the ability to implement its monitoring and reporting systems effectively.

Common examples of DNFI include but not limited to :

- (i) Casinos, hotels, supermarkets and card clubs ;
- (ii) Dealers in cars, luxury goods, chartered accountants, audit firms, clearing and settlement companies, legal practitioners ; and
- (iii) Dealers in precious metals, stones or jewellery.

Some DNFI are currently required to develop an AML/CFT Programme, comply with the reporting and recordkeeping requirements of the MLPA, 2011 and report suspicious activity to Federal Ministry of Commerce as the regulatory authority. DNFI typically need access to banking services in order to operate. While financial institutions are expected to manage risk associated with all accounts including DNFI accounts, the institution will not be held responsible for their customers' non-compliance with the MLPA and other relevant laws and regulations.

DNFI industries are extremely diverse, ranging from large multi-national corporations to small, independent businesses that offer financial services only as an ancillary component to their primary business (e.g., grocery store that offers cheque- cashing).

The range of products and services offered and the customer bases served by DNFI are equally diverse. As a result of this diversity, some DNFI may be of lower risk and some may be of higher risk for money laundering. Financial institutions that maintain account relationships with DNFI may be exposed to a higher risk for potential money laundering activities because many DNFI :

- (i) Lack ongoing customer relationships and require minimal or no identification by customers ;
- (ii) Maintain limited or inconsistent record-keeping on customers and transactions ;
- (iii) Engage in frequent currency transactions ;
- (iv) Are subject to varying levels of regulatory requirements and oversight ;
- (v) Can quickly change their product mix or location and quickly enter or exit an operation ; and
- (vi) Sometimes operate without proper registration or licensing.

Financial institutions that maintain account relationships with DNFI should Risk develop policies, procedures and processes to : Mitigation.

- (i) Identify DNFI relationships ;
- (ii) Assess the potential risks posed by the DNFI relationships ;
- (iii) Conduct adequate and ongoing due diligence on the DNFI relationships when necessary ; and
- (iv) Ensure DNFI relationships are appropriately considered within the financial institution's suspicious activity monitoring and reporting systems.

Risk assessment factors of financial institutions assess the risks posed by their DNFI customers and direct their resources most appropriately to those accounts that pose a more significant money laundering risk.

Risk factors may be used to help identify the relative risks within the DNFI portfolio. Nevertheless, management should weigh and evaluate each risk assessment factor to arrive at a risk determination for each customer and to prioritize oversight resources. Relevant risk factors include :

- (i) Types of products and services offered by the DNFI ;
- (ii) Locations and markets served by the DNFI ;
- (iii) Anticipated account activity ; and (iv) Purpose of the account.

A financial institution's due diligence should be commensurate with the level of risk of the DNFI customer identified through its risk assessment. If a financial institution's

risk assessment indicates potential for a heightened risk of money laundering or terrorist financing, it will be expected to conduct further due diligence in a manner commensurate with the heightened risk.

Providing Banking Services to Money Businesses. MSB Risk Assessment. MSB Risk Mitigation.

Money Services Businesses (MSBs) are subject to the full range of MLPA regulatory requirements, including the anti-money laundering Programme rule, suspicious activity and currency transaction reporting rules and various other identification and record-keeping rules. The following regulatory expectations apply to financial institution with MSB customers :

- (i) The MLPA does not require financial institutions to serve as the de facto regulator of any type of DNFI industry or individual DNFI customer, including MSBs ;
- (ii) While financial institutions are expected to manage risk associated with all accounts including MSB accounts, they will not be held responsible for the MSB not having AML/CFT Programme ; and
- (iii) Not all MSBs pose the same level of risk and not all MSBs will require the same level of due diligence. Accordingly, if a financial institution's assessment of the risks of a particular MSB relationship indicates a lower risk of money laundering or other illicit activity, a financial institution is not routinely expected to perform further due diligence (such as reviewing information about an MSB's AML/CFT Programme) beyond the minimum due diligence expectations. Unless indicated by the risk assessment of the MSB, financial institutions are not expected to routinely review an MSB's AML/CFT Programme.

An effective risk assessment should be a composite of multiple factors and depending upon the circumstances, certain factors may be given more weight than others. The following factors may be used to help identify the level of risk presented by each MSB customer :

- (i) Purpose of the account ;
- (ii) Anticipated account activity (type and volume) ;
- (iii) Types of products and services offered by the MSB ; and
- (iv) Locations and markets served by the MSB.

Financial institution management may tailor these factors based on

their customer base or the geographic locations in which the financial institution operates. Management should weigh and evaluate each risk assessment factor to arrive at a risk determination for each customer. A bank's due diligence should be commensurate with the level of risk assigned to the MSB customer, after consideration of these factors. If a bank's risk assessment indicates potential for a heightened risk of money laundering or terrorist financing, the bank will be expected to conduct further due diligence in a manner commensurate with the heightened risk.

A financial institution's policies, procedures and processes should provide for sound due diligence and verification practices, adequate risk assessment of MSB accounts and ongoing monitoring and reporting of unusual or suspicious transactions. A financial institution that establishes and maintains accounts for MSBs should apply appropriate, specific risk-based and where necessary, EDD policies, procedures, and controls.

The factors below, while not all inclusive may reduce or mitigate the risk in some MSB accounts :

- (i) MSB is registered and licensed with the CBN ;
- (ii) MSB confirms it is subject to examination for AML compliance ;
- (iii) MSB affirms the existence of a written AML/CFT Programme and provides its CCO's name and contact information ;
- (iv) MSB has an established banking relationship and/or account activity consistent with expectations ;
- (v) MSB is an established business with an operating history ;
- (vi) MSB is a principal with one or few agents, or is acting as an agent for one principal ;
- (vii) MSB provides services only to local residents ;
- (viii) Most of the MSB's customers conduct routine transactions in not too much amounts ;
- (ix) The expected (lower-risk) transaction activity for the MSB's business operations is consistent with information obtained by the financial institution at account opening. Examples include the following :
  - (a) Cheque-cashing activity is limited to payroll or government cheques ; and

- (b) Cheque-cashing service is not offered for third-party or out-of-state cheques.
- (x) Money-transmitting activities are limited to domestic entities (e.g., domestic bill payments).

Given the importance of licensing and registration requirements, a MSB Due financial institution should file a STR if it becomes aware that a Diligence customer is operating in violation of the registration or licensing Expectations requirements. The decision to maintain or close an account should be made by financial institution senior management under standards and guidelines approved by its board of directors.

The extent to which the financial institution should perform further due diligence beyond the minimum due diligence obligations set forth below will be dictated by the level of risk posed by the individual MSB customer. Because not all MSBs present the same level of risk, not all MSBs will require further due diligence. For example, a local grocer that also cashes payroll cheques for customers purchasing groceries may not present the same level of risk as a money transmitter specializing in cross-border funds transfers. Therefore, the customer due diligence requirements will differ based on the risk posed by each MSB customer. Based on existing AML/CFT Regulation requirements applicable to financial institutions, the minimum due diligence expectations associated with opening and maintaining accounts for any MSB are :

- (i) Apply the financial institution's CIP.
- (ii) Confirm registration renewal.
- (iii) Confirm compliance with licensing requirements, if applicable.
- (iv) Confirm agent status, if applicable.
- (v) Conduct a basic ML/FT risk assessment to determine the level of risk associated with the account and whether further due diligence is necessary.

If the institution determines that the MSB customer presents a higher level of money laundering or terrorist financing risk, EDD measures should be conducted in addition to the minimum due diligence procedures. Depending on the level of perceived risk, the size and sophistication of the particular MSB, banking organizations may pursue some or all of the following actions as part of an appropriate EDD review :

- (i) Review the MSB's AML/CFT Programme.

- (ii) Review results of the MSB's independent testing of its AMLCFT Programme.
- (iii) Review written procedures for the operation of the MSB.
- (iv) Conduct on-site visits.
- (v) Review list of agents, including locations within or outside Nigeria which will be receiving services directly or indirectly through the MSB account.
- (vi) Review written agent management and termination practices for the MSB.
- (vii) MSB.
- (viii) Review written employee screening practices for the MSB.

Overview of 5.39. The financial institution's systems to manage the risks associated with professional service provider relationships should be adequate and the management should have the ability to implement its due diligence, monitoring and reporting systems effectively.

Risk Factors. A professional service provider acts as an intermediary between its client and the financial institution. Professional service providers include lawyers, accountants, investment brokers and other third parties that act as financial liaisons for their clients. These providers may conduct financial dealings for their clients. For example, an attorney may perform services for a client or arrange for services to be performed on the client's behalf. Such services include settlement of real estate transactions, asset transfers, management of client monies, investment services and trust arrangements.

In contrast to escrow accounts that are set up to serve individual clients, professional service provider accounts allow for ongoing business transactions with multiple clients. Generally, a financial institution has no direct relationship with or knowledge of the beneficial owners of these accounts who may be a constantly changing group of individuals and legal entities.

As with any account that presents third-party risk, the financial institution could be more vulnerable to potential money laundering abuse. Some potential examples of abuse could include :

- (i) Laundering illicit currency ;
- (ii) Structuring currency deposits and withdrawals ; and
- (iii) Opening any third-party account for the primary purpose of masking the underlying client's identity.

As such, the financial institution should establish an effective due diligence Programme for the professional service provider.

When establishing and maintaining relationships with professional service providers, financial institutions should adequately assess account risk and monitor the relationship for suspicious or unusual activity. At account opening, the financial institution should have an understanding of the intended use of the account, including anticipated transaction volume, products and services used, and geographic locations involved in the relationship.

5.40. The financial institution's systems to manage the risks associated with accounts of non-governmental organizations (NGO) should be adequate and charities and the management should have the ability to implement its due diligence, monitoring and reporting systems effectively.

NGOs are private non-profit organizations that pursue activities intended to serve the public good. NGOs may provide basic social services work to relieve suffering, promote the interests of the poor, bring citizen concerns to governments, encourage political participation, protect the environment, or undertake community development to serve the needs of citizens, organizations or groups in one or more of the communities that the NGO operates. An NGO can be any non-profit organization that is independent from government.

NGOs can range from large regional, national or international charities to community-based self-help groups. NGOs may also include research institutes, churches, professional associations and lobby groups. NGOs typically depend (in whole or in part) on charitable donations and voluntary service for support.

Because NGOs can be used to obtain funds for charitable organizations, the flow of funds both into and out of the NGO can be complex, making them susceptible to abuse by money launderers and terrorists. Guidelines will be issued to assist charities in



adopting practices to reduce the risk of terrorist financing or abuse.

To assess the risk of NGO customers, a financial institution should conduct adequate due diligence on the organization. In addition to required CIP information, due diligence for NGOs should focus on other aspects of the organization, such as the following :

- (i) Purpose and objectives of their stated activities ;
- (ii) Geographic locations served including headquarters and operational areas ;
- (iii) Organizational structure ;
  - (i) Donor and volunteer base ;
  - (ii) Funding and disbursement criteria including basic beneficiary information ;
  - (iii) Record keeping requirements ;
  - (iv) Its affiliation with other NGOs, governments or groups ; and
  - (v) Internal controls and audits.

For accounts that financial institution management considers to be higher risk, stringent documentation, verification and transaction monitoring procedures should be established. NGO accounts that are at higher risk for ML/FT concerns include those operating or providing services internationally, conducting unusual or suspicious activities or lacking proper documentation. EDD for these accounts should include :

- (i) Evaluating the principals ;
- (ii) Obtaining and reviewing the financial statements and audits ;
- (iii) Verifying the source and use of funds ; and
- (iv) Evaluating large contributors or grantors to the NGO.

Overview of Business Entities (Domestic and Foreign). 5.41. The financial institution's systems to manage the risks associated with transactions involving domestic and foreign business entities should be adequate and the management should have the ability to implement its due diligence, monitoring and reporting systems effectively.

The term business entities refers to limited liability companies, corporations, trusts, and other entities that may be used for many purposes such as tax and estate planning. Business entities are relatively easy to establish. Individuals, partnerships and existing

corporations establish business entities for legitimate reasons but the entities may be abused for money laundering and terrorist financing. Nigeria has statutes governing the incorporation and operation of business entities, including limited liability companies, corporations, general partnerships, limited partnerships and trusts.

Shell companies registered in Nigeria are a type of domestic business entity that may pose heightened risks. Shell companies can be used for money laundering and other crimes because they are easy and inexpensive to form and operate. In addition, ownership and transactional information can be concealed from regulatory agencies and law enforcement in large part because it requires minimal disclosures of such information during the formation process.

The term *domestic* refers to entities formed or organized in Nigeria. These entities may have no other connection to Nigeria and ownership and management of the entities may reside abroad.

The term *shell company* generally refers to an entity without a physical presence in any country.

Shares of shell companies can be publicly traded or privately held. Although publicly traded shell companies can be used for illicit purposes, the vulnerability of the shell company is compounded when it is privately held and beneficial ownership can more easily be obscured or hidden. Lack of transparency of beneficial ownership can be a desirable characteristic for some legitimate uses of shell companies, but it is also a serious vulnerability that can make some shell companies ideal vehicles for money laundering and other illicit financial activity. In some, only minimal information is required to register articles of incorporation or to establish and maintain good standing for business entities - increasing the potential for their abuse by criminal and terrorist organizations.

Frequently used foreign entities include trusts, investment funds and insurance companies. Two foreign entities that can pose particular money laundering risk are International Business Corporations (IBC) and Private Investment Companies (PIC) opened in Offshore Financial Centres (OFCs). Many OFCs have limited organizational disclosure and record-keeping requirements for establishing foreign business entities, creating an opportune environment for money

Foreign Business Entities.  
International Business Corporations.  
Private

laundering.

Investment  
Companies.

IBCs are entities formed outside of a person's country of residence which can be used to maintain confidentially or hide assets. IBC ownership can, based on jurisdiction, be conveyed through registered or bearer shares. There are a variety of advantages to using an IBC which include, but are not limited to, the following :

- (i) Asset protection ;
- (ii) Estate planning ;
- (iii) Privacy and confidentiality ; and
- (iv) Reduction of tax liability.

Through an IBC, an individual is able to conduct the following :

- (i) Open and hold bank accounts ;
- (ii) Hold and transfer funds ;
- (iii) Engage in international business and other related transactions ;
- (iv) Hold and manage offshore investments (e.g., stocks, bonds, mutual funds and certificates of deposit) many of which may not be available to individuals depending on their location of residence ; and
- (v) Hold corporate debit and credit cards, thereby allowing convenient access to funds.

PICs are separate legal entities. They are essentially subsets of IBCs. Determining whether a foreign corporation is a PIC is based on identifying the purpose and use of the legal vehicle. PICs are typically used to hold individual funds and investments, and ownership can be vested through bearer shares or registered shares. Like IBCs, PICs can offer confidentiality of ownership, hold assets centrally and may provide intermediaries between private banking customers and the potential beneficiaries of the PICs. Shares of a PIC may be held by a trust, which further obscures beneficial ownership of the underlying assets. IBCs, including PICs, are incorporated frequently in countries that impose low or no taxes on company assets and operations or are bank secrecy havens.

Risk Factors. Money laundering and terrorist financing risks arise because business entities can hide the true owner of assets or property derived from or associated with criminal activity. The privacy and confidentiality surrounding some business entities may be exploited by criminals, money launderers and terrorists. Verifying the grantors and beneficial owner(s) of some business entities may be extremely difficult, as the characteristics of these entities shield the legal identity of the owner. Few public records will disclose true ownership. Overall, the lack of ownership transparency; minimal or no record-keeping requirements, financial disclosures and supervision; and the range of permissible activities all increase money laundering risk.

While business entities can be established in most international jurisdictions, many are incorporated in OFCs that provide ownership privacy and impose few or no tax obligations. To maintain anonymity, many business entities are formed with nominee directors, office-holders and shareholders. In certain jurisdictions, business entities can also be established using bearer shares; ownership records are not maintained, rather ownership is based on physical possession of the stock certificates. Revocable trusts are another method used to insulate the grantor and beneficial owner and can be designed to own and manage the business entity, presenting significant barriers to law enforcement.

The following indicators of potentially suspicious activity may be commonly associated with shell company activity :

- (i) Insufficient or no information available to positively identify originator or beneficiaries of funds transfers (using internet, commercial database searches or direct inquiries to a respondent bank) ;
- (ii) Payments have no stated purpose, do not reference goods or services. They identify only a contract or invoice number ;
- (iii) Goods or services, if identified, do not match profile of company provided by respondent bank or character of the financial activity; a company references remarkably dissimilar goods and services in related funds transfers; explanation given by foreign respondent bank is inconsistent with observed funds transfer activity ;
- (iv) Transacting businesses share the same address, provide only a registered agent's address or other inconsistent addresses ;
- (v) Many or all of the funds transfers are sent in large, round amounts ;
- (vi) Unusually large number and variety of beneficiaries receiving fund transfers from one company ;

- (vii) Frequent involvement of multiple jurisdictions or beneficiaries located in higher-risk OFCs ;
  - (viii) A foreign correspondent bank exceeds the expected volume in its client profile for funds transfers, or an individual company exhibits a high volume and pattern of funds transfers that is inconsistent with its normal business activity ;
  - (ix) Multiple high-value payments or transfers between shell companies with no apparent legitimate business purpose ; and
- (vi) Purpose of the shell company is unknown or unclear.

Management should develop policies, procedures and processes that enable Risk the financial institution to identify account relationships in particular deposit Mitigation. accounts, with business entities and monitor the risks associated with these accounts in all the financial institution's departments. Business entity customers may open accounts within the private banking department, within the trust department, or at local branches. Management should establish appropriate due diligence at account opening and during the life of the relationship to manage risk in these accounts. The financial institution should gather sufficient information on the business entities and their beneficial owners to understand and assess the risks of the account relationship. Important information for determining the valid use of these entities includes the type of business, the purpose of the account, the source of funds and the source of wealth of the owner or beneficial owner.

The financial institution's CIP should detail the identification requirements for opening an account for a business entity. When opening an account for a customer that is not an individual, financial institution should obtain information about the individuals who have authority and control over such accounts in order to verify the customer's identity (the customer being the business entity). Required account opening information may include articles of incorporation, a corporate resolution by the directors authorizing the opening of the account, or the appointment of a person to act as a signatory for the entity on the account. Particular attention should be paid to articles of association that allow for nominee shareholders, board members and bearer shares.

If the financial institution, through its trust or private banking departments, is facilitating the establishment of a business entity for a new or existing customer, the money laundering risk to the financial statement is typically mitigated. Because the financial institution is aware of the parties (e.g., grantors, beneficiaries and shareholders) involved in the business entity, initial due diligence and verification is easier to obtain. Furthermore, in such cases, the financial institution frequently has ongoing relationships with the customers initiating the establishment of a business entity.

Risk assessments may include a review of the domestic or international jurisdiction where the business entity was established, the type of account (or accounts) and expected versus actual transaction activities, the types of products that will be used, and whether the business entity was created in-house or externally. If ownership is held in bearer share form, financial institution should assess the risks these relationships pose and determine the appropriate controls. In most cases, financial institutions should choose to maintain (or have an independent third party maintain) bearer shares for customers. In rare cases involving lower-risk, well-known, established customers, financial institutions may find that periodically re-certifying beneficial ownership is effective. The financial institution's risk assessment of a business entity customer becomes more important in complex corporate formations. For example, a foreign IBC may establish a series of layered business entities with each entity naming its parent as its beneficiary.

On-going account monitoring is critical to ensure that the accounts are reviewed for unusual and suspicious activity. The financial institution should be aware of higher-risk transactions in these accounts, such as activity that has no business or apparent lawful purpose, funds transfer activity to and from higherrisk jurisdictions, currency intensive transactions and frequent changes in the ownership or control of the non-public business entity.

Overview 5.42. The financial institution's systems to manage the risks associated of with cash-intensive businesses and entities should be adequate and Cash- the management should have the ability to implement its due Intensive diligence, monitoring and reporting systems effectively. Businesses. Risk Cash-intensive businesses and entities cover various industry sectors. Factors. Most of these outfits conduct legitimate business. However, some

Risk aspects of these businesses may be susceptible to money laundering  
Mitigation. or terrorist financing. Common examples include but are not limited to,  
the following :

- (i) Convenience stores ;
- (ii) Restaurants ;
- (iii) Retail stores ;
- (iv) Liquor stores ;
- (v) Cigarette distributors ;
- (vi) Privately owned automated teller machines (ATM) ;
- (vii) ending machine operators ; and
- (viii) Parking garages.

Some businesses and entities may be misused by money launderers to legitimize their illicit proceeds. For example, a criminal may own a cash-intensive business such as a restaurant and use it to launder currency from illicit criminal activities. The restaurant's currency deposits with its bank do not, on the surface, appear unusual because the business is legitimately a cash-generating entity. However, the volume of currency in a restaurant used to launder money will most likely be higher in comparison with similar restaurants in the area. The nature of cash-intensive businesses and the difficulty in identifying unusual activity may cause these businesses to be considered higher risk.

When establishing and maintaining relationships with cash-intensive businesses, financial institution should establish policies, procedures and processes to identify higher-risk relationships; assess ML/FT risks; complete due diligence at account opening and periodically throughout the relationship; and include such relationships in appropriate monitoring for unusual or suspicious activity. At the time of account opening, the financial institution should have an understanding of the customer's business operations; the intended use of the account including anticipated transaction volume, products and services used; and the geographic locations involved in the relationship.

When conducting a risk assessment of cash-intensive businesses, financial institution should direct their resources to those accounts that pose the greatest risk of money laundering or terrorist financing. The following factors may be used to identify the risks :

- (i) Purpose of the account ;
- (ii) Volume, frequency and nature of currency transactions ;
- (iii) Customer history (e.g., length of relationship, CTR and STR filings) ;
- (iv) Primary business activity, products and services offered ;(v) Business or business structure ;
- (v) Geographic locations and jurisdictions of operations ; and
- (vi) Availability of information and cooperation of the business in providing information. For those customers deemed to be particularly higher risk management may consider implementing sound practices such as periodic on-site visits, interviews with the business's management or closer reviews of transactional activity.



## **GLOSARY OF TERMS**

**6.0.** “Account”—A formal, continuing banking or business relationship established to provide regular services, dealings and other financial transactions.

“Alternative remittance system” means transferring of funds and sometimes gold through traditional “underground” banking networks by which trading companies accept money at one location and make it available in another.

“Beneficial Owner” means the natural person(s) who ultimately owns or controls a customer and/or the person on whose behalf a transaction is being conducted and who has the authority to fund, direct or manage the account. It also incorporates those persons who exercise ultimate and effective control over a legal person or arrangement.

“Channeling account” is used to receive, consolidate and retransfer laundered funds.

“Core Principles” refers to the Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision, the Objectives and Principles for Securities Regulation issued by the International Organization of Securities Commissions and the Insurance Supervisory Principles issued by the International Association of Insurance Supervisors.

“Concentration account” is the account in which funds of one or more customers are consolidated, pooled or commingled.

“Correspondent Account”—an account established to receive deposits from, make payments on behalf of a foreign financial institution or handles other financial transactions that relate to such institution.

“Correspondent Banking” is the provision of banking services by one bank (the correspondent bank ) to another bank (the respondent bank ).

“Cross-border Transfer” is any wire transfer where the originator and beneficiary institutions are located in different jurisdictions. It also refers to any chain of wire transfers that has at least one cross-border element.

“Currency Transaction Report (CTR)” is the report filed with NFIU to report cash transactions of over N5,000,000 for individual and N10,000,000 for body corporate in compliance with section 10(1) of MLPA, 2011.

“Customer Due Diligence” means identification and verification of customers’ identity.

“Customer Identification Programme (CIP)” An Anti-Money Laundering provision requiring in part that companies must check their customers against lists of known money launderers, such as the OFAC-SDN list.

“Designated non-financial businesses and professions” are defined by section 25 of MLPA, 2011 to include :

- (i) Casinos
- (ii) Real estate agents
- (iii) Dealers in precious metals
- (iv) Dealers in Precious stones
- (v) Lawyers, notaries, other independent legal professionals and accountants (within professional firms)
- (vi) Trust Company Service Providers

“Designated Threshold”—Amount of transaction above which might be reported to authorities and be subject to analysis as money-laundering or terrorist finance.

“Enhanced Due Diligence” refers to additional steps of examination and caution that financial institutions are required to obtain or take to identify their customers and confirm that their activities and funds are legitimate.

“Egmont Group”—An unofficial forum for Financial Intelligence Units to establish standards and mechanisms for cooperation and establish protocols for exchanging of information.

“Escalation”—When an employee is required to report suspicious activity to the AML Compliance Officer, a senior manager or enforcement agency.

“Extradition”—Persons are surrendered by one country to another according to terms of bilateral treaties. Often, an accused or convicted person is returned to the country in which he or she is a national.

“Financial Action Task Force on Money Laundering (FATF)”—

International anti-money laundering organization with legal, financial and law enforcement expertise. It monitors AML policies in different countries, sets AML standards, etc.

“Financial Action Task Force Recommendations” refers to the Forty Recommendations and the 9 Special Recommendations on Terrorist Financing. “Financial Crimes Enforcement Network (FinCEN)”—A Bureau in the U.S. Department of the Treasury formed in 1990 to oversee, centralize and coordinate financial intelligence gathering, regulatory compliance, government initiatives, criminal prosecution and enforcement having to do with laundering and associated foreign financial transactions and relationships, information on currency flows and financial criminal activities.

“Financial institutions”—Defined in section 25 of the MLPA, 2011 as any person or entity who conducts as a business one or more of the following activities or operations for or on behalf of a customer :

- (i) Acceptance of deposits and other repayable funds from the public.
- (ii) Lending.
- (iii) Financial leasing.
- (iv) The transfer of money or value.
- (v) Issuing and managing means of payment (e.g. credit cards, checks)
- (vi) Financial guarantees and commitments.
- (vii) Trading in : money market instruments ; foreign exchange ; exchange, interest rate and index instruments ; transferable securities ; commodity futures trading.
- (viii) Participation in securities issues and the provision of financial services related to such issues.
- (ix) Individual and collective portfolio management.
- (x) Safekeeping and administration of cash or liquid securities on behalf of other persons.

- (x) Investing, administering or managing funds or money on behalf of other persons.
- (xi) Underwriting and placement of life insurance and other investment-related insurance.
- (xii) Money and currency changing.

“Financial Intelligence Unit (FIU)”—A centralized Government agency that collects, records, analyzes, disseminates and sometimes investigates suspicious financial activity and STRs.

“Foreign Counterparts” refers to the authorities in another country that exercise similar responsibilities and functions.

“Freeze”—This means to prohibit the transfer, conversion, disposition or movement of funds or other assets on the basis of, and for the duration of the validity of, an action initiated by a competent authority or a court under a freezing mechanism.

“Funds Transfers”—The terms funds transfer refers to any transaction carried out on behalf of an originator person (both natural and legal) through a financial institution by electronic means with a view to making an amount of money available to a beneficiary person at another financial institution. The originator and the beneficiary may be the same person.

“Integration”—Mentioned in the USA PATRIOT Act as the third and final stage of money laundering in which funds introduced into the financial system are invested or applied. The stages are Placement, Layering and Integration.

“Interbank account”—An account held by one financial institution at another, primarily for facilitating customer transactions.

“Know Your Customer (KYC)” is used to describe a set of money laundering control policies and procedures that are employed to determine the true identity of a customer/client and the type of activity that will be 'normal and expected' for the customer, as well as to detect activity that should be considered 'unusual' for the particular customer.

“Know Your Customer’s Customer (KYCC)” is a term used to describe a set of money laundering control policies and procedures used to determine the identities

of the account holders of a respondent bank in a correspondent banking relationship or of the sub-account holders of a payable-through account.

“KYE”—Know your employee means understanding an employee's background, conflicts of interest and their susceptibility to money laundering complicity.

“Law or Regulation”—Law or regulation refers to primary and secondary legislation, such as laws, decrees, implementing regulations or other similar requirements, issued or authorized by a legislative body, and which impose mandatory requirements with sanctions for non-compliance.

“Legal persons” are bodies corporate, foundations, partnerships, associations, or any similar bodies that can establish a permanent customer relationship with a financial institution or otherwise own property.

“Money Launderers” are those who participate in money laundering activities and attempt to hide illegally obtained funds from the authorities.

“Money Laundering” has no single definition. In general, hiding the existence, origin, use, movement or disposition of illegally derived funds to make them appear legitimate.

“Money or Value Transfer Service (MVTs)”—Money or value transfer service refers to a financial service that accepts cash, cheques, other monetary instruments or other stores of value in one location and pays a corresponding sum in cash or other form to a beneficiary in another location by means of a communication, message, transfer or through a clearing network to which the money/value transfer service belongs.

“Mutual Legal Assistance Treaty (MLAT)” is a term used to describe the treaty, usually between two countries, that allows for mutual assistance in legal proceedings from private and public sources for use in official investigations and prosecutions.

“Memorandum of Understanding (MOU)” means an agreement between two parties establishing a set of principles within which they will govern their relationship on a particular matter.

“Non-cooperative countries or territories (NCCT)” are countries designated by the FATF as consistently ignoring money laundering within their jurisdiction or unwilling to pass or enforce laws to prevent money laundering. The “black list” is revised annually.

“Offshore banking license” is licence to conduct banking activities, but prohibiting the licensee from banking with citizens or currency of the country granting or that issued the licence.

“Placements” is mentioned in the USA PATRIOT Act as the initial money laundering stage in which criminally derived funds are introduced into the financial system. The stages are Placement, Layering and Integration.

“Politically Exposed Person (PEP)” are individuals who are or have been entrusted with prominent public functions in a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.

“Predicate Offences” are crimes underlying money laundering or terrorist finance activity. Initially, these were drug-related offences, which continue to be the primary predicate offences. Most countries have broadened the definition of predicate offences to include any serious crime.

“Private Banking Account” is a special account for high-net worth individuals in which an individual “private banker” coordinates the financial institution's services with the customer's requirements.

“Transactions” tend to be marked with confidentiality, complex beneficial ownership arrangements, offshore investment vehicles, tax shelters, and credit extension services.

“Red Flag” is an alert that signals possible money-laundering or terrorist financing. Red flags require investigation and possibly filing of STR.

“Risk Matrix” means a document or chart that allows financial institutions to perform a money laundering risk assessment at the start of a business or customer relationship.

“Seize” means to prohibit the transfer, conversion, disposition or movement of funds or other assets on the basis of an action initiated by a competent authority or a court under a freezing mechanism.

“Self-Regulatory Organization (SRO)” is a body that represents a profession (e.g. lawyers, notaries, other independent legal professionals or accountants), and which is made up of member professionals, has a role in regulating the persons that are qualified to enter and who practise in the profession, and also performs certain supervisory or monitoring type functions.

“Shell Bank” is a bank incorporated in a jurisdiction in which it has no physical presence and which is unaffiliated with a regulated group.

“Smurfing” means using structured transactions or multiple small bank accounts to evade reporting requirements.

“Structured transaction” attempts to evade cash or other reporting requirements by a composite of small transactions or by other devices.

“Supervisors” are the designated competent authorities responsible for ensuring compliance by financial institutions with requirements to combat money laundering and terrorist financing

“Suspicion” is doubt based on some foundation extending beyond speculation but not necessarily sufficient to constitute a belief.

“Suspicious Transaction” relates to funds from illegal activity, hiding the source of funds, or circumventing reporting requirements or activity inconsistent with a customer’s business or industry practice.

“Suspicious Transaction Report (STR)” is filed with NFIU to report suspected money laundering activity.

“Terrorist financing” is funding source(s) and infrastructure used by terrorist **B 197** groups. Characterized by hiding sources and divorcing them from the terrorist activity they support.

“Willful blindness” means deliberate avoidance of knowledge or facts. Permitting illegal activity after knowing it was taking place.

## 7.0. APPENDIX A

Appendices.

AML/CFT Laws and Regulations Statutes on Money Laundering

- (i) Money Laundering (Prohibition) Act, 2011 (MLP Act) ;
- (ii) The Economic and Financial Crimes Commission Act, 2004 (EFCC Act) ;
- (iii) The National Drug Law Enforcement Agency Act (NDLEA) 1989  
as amended ;
- (iv) The Independent Corrupt Practices (and Other Related Offences)  
Commission, (ICPC) Act, 2000 ; and
- (v) Terrorism (Prevention) Act, 2011 (TP Act).

REGULATIONS

- CBN AML/CFT Regulation, 2009 (as amended)

### APPENDIX B

Supervisory and Regulatory Circulars are issued by the CBN to address significant policy and procedural matters related to its AML/CFT supervisory responsibilities. The circulars are issued by the various departments in CBN as important means of disseminating AML/CFT information to financial institutions. The applicable CBN AML/CFT Circulars are available at [www.cenbank.gov.ng](http://www.cenbank.gov.ng) web site.

AML/CFT  
Directives by  
the Central  
Bank of  
Nigeria.



## APPENDIX C

AML/CFT references web sites. Manuals or Handbooks. Other Materials.

Central Bank of Nigeria: [www.cenbank.gov.ng](http://www.cenbank.gov.ng)

Nigerian Financial Intelligence Unit ;

Nigerian Deposit Insurance Corporation ;

Economic and Financial Crimes Commission ;

National Drug Law Enforcement Agency ;

Independent Corrupt Practices Commission ;

Board of Governors of the Federal Reserve System :  
[www.federalreserve.gov](http://www.federalreserve.gov)

Federal Deposit Insurance Corporation : [www.fdic.gov](http://www.fdic.gov)

National Credit Union Administration : [www.ncua.gov](http://www.ncua.gov)

Office of the Comptroller of the Currency : [www.occ.treas.gov](http://www.occ.treas.gov)

Office of Thrift Supervision : [www.ots.treas.gov](http://www.ots.treas.gov)

Financial Crimes Enforcement Network : [www.fincen.gov](http://www.fincen.gov)

Office of Foreign Assets Control :  
[www.treasury.gov/offices/enforcement/ofac](http://www.treasury.gov/offices/enforcement/ofac)

Federal Financial Institutions Examination Council : [www.ffiec.gov](http://www.ffiec.gov)

Central Bank of Nigeria AML/CFT RBS On-Site Bank Examination Manual for Bank Examination

Central Bank of Nigeria Bank Examiners Code of Conduct for Bank Examiners

Federal Government of Nigeria

Interagency Committee on Anti Money Laundering/Combating Financing of Terrorism Annual Report

National Focal Point Periodic and Annual Reports

Nigeria Financial Intelligence Unit (NFIU)

NFIU's web site contains the following materials :

- (i) AML/CFT Statutory Material, Regulations and Notices—Links to legislation and regulations, as well as to proposed regulations.
- (ii) AML/CFT Reporting Formats—Links to AML/CFT reporting forms and corresponding preparation and filing instructions.
- (iii) AML/CFT Guidance—NFIU issues interpretations of AML/CFT regulations as well as guidance to financial institutions on complying with the same.
- (iv) Reports—NFIU periodically initiates and develops reports and publications covering AML issues, including the STR Activity Review.
- (v) Advisories—NFIU issues advisories to financial institutions concerning money laundering or terrorist financing threats and vulnerabilities, for the purpose of enabling financial institutions to

guard against such threats.

(vi) Enforcement actions—NFIU issues releases involving the assessment of civil money penalties against financial institutions for systemic noncompliance with the AML/CFT.

The BCBS Web site (on the Bank for International Settlements website, ([www.bis.org](http://www.bis.org))) contains the following publications :

- (i) Due Diligence and Transparency Regarding Cover Payment Messages Related to Cross-Border Wire Transfers.
- (ii) Consolidated Know Your Customer Risk Management.
- (iii) Sharing of Financial Records between Jurisdictions in Connection with the Fight Against Terrorist Financing.
- (iv) General Guide to Account Opening and Customer Identification.
- (v) Customer Due Diligence for Banks.
- (vi) Prevention of Criminal Use of the Banking System for the Purpose of Money-Laundering.
- (vii) Banking Secrecy and International Cooperation in Banking Supervision.

FATF's Web site ([www.fatf-gafi.org](http://www.fatf-gafi.org)) contains the following publications :

- (i) Forty Recommendations to Combat Money Laundering and Terrorism.
- (ii) Special Recommendations Against Terrorist Financing.
- (iii) Interpretive Notes to FATF Recommendations.
- (iv) Non-cooperative Countries or Territories.
- (v) Typologies on Money Laundering Risk.
- (vi) Trade Based Money Laundering.
- (vii) New Payment Methods.
- (viii) The Misuse of Corporate Vehicles, Including Trust and Company Service Providers
- (ix) Complex Money Laundering Techniques—Regional Perspectives Report

The NACHA's Web site ([www.nacha.org](http://www.nacha.org)) contains the following :

- (i) The Next Generation ACH Task Force: Future Vision of the ACH Network.
- (ii) NACHA Operating Rules.

The Wolfsberg Group's Web site ([www.wolfsberg-principles.com](http://www.wolfsberg-principles.com))

Basel  
Committee on  
Banking  
Supervision  
(BCBS).  
Financial  
Action Task  
Force on  
Money  
Laundering  
(FATF)  
The Nigerian  
Electronic  
Payments  
Association.  
The Wolfsberg  
Group.

contains the following :

- (i) Wolfsberg AML Principles on Private Banking.
- (ii) Wolfsberg Statement on the Suppression of the Financing of Terrorism.
- (iii) Wolfsberg Statement on Payment Message Standards.
- (iv) Wolfsberg AML Principles for Correspondent Banking.
- (v) Wolfsberg Statement on Monitoring Screening and Searching.
- (vi) Wolfsberg Guidance on Risk Based Approach for Managing Money Laundering Risks
- (vii) Wolfsberg FAQs on Correspondent Banking.
- (viii) Wolfsberg Trade Finance Principles.
- (ix) Wolfsberg Statement on AML Screening, Monitoring and Searching 2009

#### **APPENDIX D**

The term financial institution includes the following :

- (i) Discount house.
- (ii) Insurance institutions.
- (iii) Debt factorization and conversion firms.
- (iv) Bureau de change.
- (v) Finance company.
- (vi) Money brokerage firms.
- (vii) Deposit Money Banks.
- (viii) Micro-finance Banks.
- (ix) Finance Companies.
- (x) Primary Mortgage Institutions.
- (xi) A licensed sender of money or any other person who engages as a business in the transmission of funds, including any person who engages as a business in an informal money transfer system or any network of people who engage as a business in facilitating the transfer of money domestically or internationally outside of the conventional financial institutions system.

Statutory  
Definition of  
Financial  
Institution.

## **APPENDIX E**

International Money laundering and terrorist financing have a widespread international Organizations impact. Money launderers have been found to transfer funds and maintain assets on a global level, which makes tracing funds through various countries a complex and challenging process. Most countries support the fight against money laundering and terrorist funding. However, because of the challenges in creating consistent laws or regulations between countries, international groups have developed model recommendations for governments and financial institutions. The two key international bodies in this area are as follows:

- (i) The Financial Action Task Force on Money Laundering (FATF) is an inter-governmental body established for the development and promotion of policies to combat money laundering and terrorist financing. The FATF has developed recommendations on various money laundering and terrorist financing issues published in the FATF 40 (forty) Recommendations and the Nine (9) Special Recommendations on Terrorist Financing.
- (ii) The Basel Committee on Banking Supervision is a committee of central banks and bank supervisors and regulators from numerous jurisdictions that meets at the Bank for International Settlements (BIS) in Basel, Switzerland to discuss issues related to prudential banking supervision. The Basel Committee formulates broad standards and guidelines and makes recommendations regarding sound practices, including those on customer due diligence.

In addition, other global organizations are becoming increasingly involved in combating money laundering. The International Monetary Fund (IMF) and the World Bank have integrated AML and counter-terrorist financing issues into their financial sector assessments, surveillance and diagnostic activities. Furthermore, various FATF-style regional bodies exist. These groups participate as observers in FATF meetings; assess their members against the FATF standards; and, like FATF members, frequently provide input to the IMF and World Bank assessment Programme.

## APPENDIX F

The following are examples of potentially suspicious activities or red flags for both money laundering and terrorist financing. Although these lists are not all-inclusive, they may help banks and Examiners to recognize possible money laundering and terrorist financing schemes. Management's primary focus should be on reporting suspicious activities, rather than on determining whether the transactions are in fact linked to money laundering, terrorist financing or a particular crime.

The following examples are red flags that, when encountered, may warrant additional scrutiny. The mere presence of a red flag is not by itself evidence of criminal activity. Closer scrutiny should help to determine whether the activity is suspicious or one for which there does not appear to be a reasonable business or legal purpose.

### 1. Customers Who Provide Insufficient or Suspicious Information—

- (i) A customer uses unusual or suspicious identification documents that cannot be readily verified.
- (ii) A customer provides an individual tax identification number after having previously used a Social Security number.
- (iii) A customer uses different tax identification numbers with variations of his or her name.
- (iv) A business is reluctant when establishing a new account to provide complete information about the nature and purpose of its business, anticipated account activity, prior banking relationships, the names of its officers and directors or information on its business location.
- (v) A customer's home or business telephone is disconnected.
- (vi) The customer's background differs from that which would be expected on the basis of his or her business activities.
- (vii) A customer makes frequent or large transactions and has no record of past or present employment experience.
- (viii) A customer is a trust, shell company or Private Investment Company that is reluctant to provide information on controlling parties and underlying beneficiaries. Beneficial owners may hire nominee incorporation services to establish shell companies and open bank accounts for those shell companies while shielding the owner's identity.

### 2. Efforts to Avoid Reporting or Record-keeping Requirement—

- (i) A customer or group tries to persuade a bank employee not to file required reports or maintain required records.

Money  
Laundering  
and Terrorist  
Financing  
Red Flags  
(See AML/  
CFT  
Regulation,  
2009 (as  
amended)).  
Potentially  
suspicious  
activity that  
may indicate  
Money  
Laundering.

- (ii) A customer is reluctant to provide information needed to file a mandatory report, to have the report filed or to proceed with a transaction after being informed that the report must be filed.
- (iii) A customer is reluctant to furnish identification when purchasing negotiable instruments in recordable amounts.
- (iv) A business or customer asks to be exempted from reporting or recordkeeping requirements.
- (v) A person customarily uses the automated teller machine to make several bank deposits below a specified threshold.
- (vi) A customer deposits funds into several accounts, usually in amounts of less than USA \$10,000, which are subsequently consolidated into a master account and transferred outside of the country, particularly to or through a location of specific concern (e.g., countries designated by national authorities and Financial Action Task Force on Money Laundering (FATF) as noncooperative countries and territories).
- (vii) A customer accesses a safe deposit box after completing a transaction involving a large withdrawal of currency or accesses a safe deposit box before making currency deposits structured at or just under USA \$10,000, to evade CTR filing requirements.

### 3. Funds Transfers—

- (i) Many funds transfers are sent in large and rounded amounts.
- (ii) Funds transfer activity occurs to or from a financial secrecy haven, or to or from a higher-risk geographic location without an apparent business reason or when the activity is inconsistent with the customer's business or history.
- (iii) Many small, incoming transfers of funds are received, or deposits are made using cheques and money orders. Almost immediately, all or most of the transfers or deposits are wired to another city or country in a manner inconsistent with the customer's business or history.
- (iv) Large, incoming funds transfers are received on behalf of a foreign client with little or no explicit reason.
- (v) Funds transfer activity is unexplained, repetitive or shows unusual patterns.
- (vi) Payments or receipts with no apparent links to legitimate contracts, goods or services are received.
- (vii) Funds transfers are sent or received from the same person to or from different accounts.
- (viii) Funds transfers contain limited content and lack related party

information.

#### 4. Activity Inconsistent with the Customer's Business—

- (i) The currency transaction patterns of a business show a sudden change inconsistent with normal activities.
- (ii) A large volume of cashier's cheques, money orders, or funds transfers is deposited into or purchased through an account when the nature of the account holder's business would not appear to justify such activity.
- (iii) A retail business has dramatically different patterns of currency deposits from similar businesses in the same general location.
- (iv) Unusual transfers of funds occur among related accounts or among accounts that involve the same or related principals.
- (v) The owner of both retail business and a cheque-cashing service does not ask for currency when depositing cheques, possibly indicating the availability of another source of currency.
- (vi) Goods or services purchased by the business do not match the customer's stated line of business.

Payments for goods or services are made by cheques, money orders, or bank drafts not drawn from the account of the entity that made the purchase.

#### 5. Lending Activity—

- (i) Loans secured by pledged assets are held by third parties unrelated to the borrower.
- (ii) Loan secured by deposits or other readily marketable assets, such as securities, particularly when owned by apparently unrelated third parties.
- (iii) Borrower defaults on a cash-secured loan or any loan that is secured by assets which are readily convertible into currency.
- (iv) Loans are made for or are paid on behalf of a third party with no reasonable explanation.
- (v) To secure a loan, the customer purchases a certificate of deposit using an unknown source of funds, particularly when funds are provided via currency or multiple monetary instruments.
- (vi) Loans that lack a legitimate business purpose, provide the bank with significant fees for assuming little or no risk, or tend to obscure the movement of funds (e.g., loans made to a borrower and immediately sold to an entity related to the borrower).

#### 6. Changes in Bank-to-Bank Transactions—

- (i) The size and frequency of currency deposits increase rapidly with no corresponding increase in non-currency deposits.

- (ii) A bank is unable to track the true account-holder of correspondent or concentration account transactions.
- (iii) The turnover in large-denomination bills is significant and appears uncharacteristic, given the bank's location.
- (iv) Changes in currency-shipment patterns between correspondent banks are significant.

#### 7. Trade Finance—

- (i) Items shipped that are inconsistent with the nature of the customer's business (e.g., a steel company that starts dealing in paper products, or an information technology company that starts dealing in bulk pharmaceuticals).
- (ii) Customers conducting business in higher-risk jurisdictions.
- (iii) Customers shipping items through higher-risk jurisdictions, including transit through non-cooperative countries.
- (iv) Customers involved in potentially higher-risk activities, including activities that may be subject to export/import restrictions (e.g., equipment for military or police organizations of foreign governments, weapons, ammunition, chemical mixtures, classified defense articles, sensitive technical data, nuclear materials, precious gems, or certain natural resources such as metals, ore and crude oil).
- (v) Obvious over or under-pricing of goods and services.
- (vi) Obvious misrepresentation of quantity or type of goods imported or exported.
- (vii) Transaction structure appears unnecessarily complex and designed to obscure the true nature of the transaction.
- (viii) Customer requests payment of proceeds to an unrelated third party.
- (ix) Shipment locations or description of goods not consistent with letter of credit.
- (x) Significantly amended letters of credit without reasonable justification or changes to the beneficiary or location of payment. Any changes in the names of parties should prompt additional review.

#### 8. Privately Owned Automated Teller Machines—

- (i) Automated teller machine (ATM) activity levels are high in comparison with other privately owned or bank-owned ATMs in comparable geographic and demographic locations.
- (ii) Sources of currency for the ATM cannot be identified or confirmed through withdrawals from account, armoured car



contracts, lending arrangements, or other appropriate documentation.

9. Insurance—

- (i) A customer purchases products with termination features without concern for the product's investment performance.
- (ii) A customer purchases insurance products using a single, large premium payment, particularly when payment is made through unusual methods such as currency or currency equivalents.
- (iii) A customer purchases a product that appears outside the customer's normal range of financial wealth or estate planning needs.
- (iv) A customer borrows against the cash surrender value of permanent life insurance policies, particularly when payments are made to apparently unrelated third parties.
- (v) Policies are purchased that allow for the transfer of beneficial ownership interests without the knowledge and consent of the insurance issuer. This would include second-hand endowment and bearer insurance policies.
- (vi) A customer is known to purchase several insurance products and use the proceeds from an early policy surrender to purchase other financial assets.
- (vii) A customer uses multiple currency equivalents (e.g., cashier's checks and money orders) from different banks and money services businesses to make insurance policy or annuity payments.

10. Shell Company Activity—

- (i) A bank is unable to obtain sufficient information or information is unavailable to positively identify originators or beneficiaries of accounts or other banking activity (using internet, commercial database searches or direct inquiries to a respondent bank).
- (ii) Payments to or from the company have no stated purpose, do not reference goods or services or identify only a contract or invoice number.
- (iii) Goods or services, if identified, do not match profile of company provided by respondent bank or character of the financial activity; a company references remarkably dissimilar goods and services in related funds transfers; explanation given by foreign respondent bank is inconsistent with observed funds

transfer activity.

(iv) Transacting businesses share the same address, provide only a registered agent's address or have other address inconsistencies.

(v) Unusually large number and variety of beneficiaries are receiving fund transfers from one company.

(vi) Frequent involvement of multiple jurisdictions or beneficiaries located in higher-risk offshore financial centres.

(vii) A foreign correspondent bank exceeds the expected volume in its client profile for funds transfers, or an individual company exhibits a high volume and pattern of funds transfers that is inconsistent with its normal business activity.

(viii) Multiple high-value payments or transfers between shell companies with no apparent legitimate business purpose.

(ix) Purpose of the shell company is unknown or unclear.

#### 11. Embassy and Foreign Consulate Accounts—

(i) Official embassy business is conducted through personal accounts.

(ii) Account activity is not consistent with the purpose of the account, such as pouch activity or payable upon proper identification transactions.

(iii) Accounts are funded through substantial currency transactions.

(iv) Accounts directly fund personal expenses of foreign nationals without appropriate controls, including, but not limited to, expenses for college students.

#### 12. Employees—

(i) Employee exhibits a lavish lifestyle that cannot be supported by his or her salary.

(ii) Employee fails to conform to recognized policies, procedures and processes, particularly in private banking.

(iii) Employee is reluctant to take a vacation.

#### 13. Other Unusual or Suspicious Customer Activity—

(i) Customer frequently exchanges small-dollar denominations for large dollar denominations.

(ii) Customer frequently deposits currency wrapped in currency straps or currency wrapped in rubber bands that is disorganized and does not balance when counted.

(iii) Customer purchases a number of cashier's cheques, money

orders, or traveller's cheques for large amounts under a specified threshold.

- (iv) Customer purchases a number of open-end prepaid cards for large amounts. Purchases of prepaid cards are not commensurate with normal business activities.
  - (v) Customer receives large and frequent deposits from online payment systems yet has no apparent online or auction business.
  - (vi) Monetary instruments deposited by mail are numbered sequentially or have unusual symbols or stamps on them.
  - (vii) Suspicious movements of funds occur from one bank to another, and then funds are moved back to the first bank.
  - (viii) Deposits are structured through multiple branches of the same bank or by groups of people who enter a single branch at the same time.
  - (ix) Currency is deposited or withdrawn in amounts just below identification or reporting thresholds.
  - (x) Customer visits a safe deposit box or uses a safe custody account on an unusually frequent basis.
  - (xi) Safe deposit boxes or safe custody accounts opened by individuals who do not reside or work in the institution's service area, despite the availability of such services at an institution closer to them.
  - (xii) Customer repeatedly uses a bank or branch location that is geographically distant from the customer's home or office without sufficient business purpose.
  - (xiii) Customer exhibits unusual traffic patterns in the safe deposit box area or unusual use of safe custody accounts. For example, several individuals arrive together, enter frequently, or carry bags or other containers that could conceal large amounts of currency, monetary instruments, or small valuable items.
  - (xiv) Customer rents multiple safe deposit boxes to store large amounts of currency, monetary instruments, or high-value assets awaiting conversion to currency, for placement into the banking system. Similarly, a customer establishes multiple safe custody accounts

to park large amounts of securities awaiting sale and conversion into currency, monetary instruments, outgoing funds transfers, or a combination thereof, for placement into the banking system.

(xv) Unusual use of trust funds in business transactions or other financial activity.

(xvi) Customer uses a personal account for business purposes.

(xvii) Customer has established multiple accounts in various corporate or individual names that lack sufficient business purpose for the account complexities or appear to be an effort to hide the beneficial ownership from the bank.

(xviii) Customer makes multiple and frequent currency deposits to various accounts that are purportedly unrelated.

(xix) Customer conducts large deposits and withdrawals during a short time period after opening and then subsequently closes the account or the account becomes dormant. Conversely, an account with little activity may suddenly experience large deposit and withdrawal activity.

(xx) Customer makes high-value transactions not commensurate with the customer's known incomes.

#### 14. Potentially Suspicious Activity That May Indicate Terrorist Financing—

The following examples of potentially suspicious activity that may indicate terrorist financing are primarily based on guidance provided by the FATF. FATF is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels to combat money laundering and terrorist financing.

#### 15. Activity Inconsistent With the Customer's Business—

(i) Funds are generated by a business owned by persons of the same origin or by a business that involves persons of the same origin from higher-risk countries (e.g., countries designated by national authorities and FATF as noncooperative countries and territories).

(ii) The stated occupation of the customer is not commensurate with the type or level of activity.

(iii) Persons involved in currency transactions share an address or

phonenummer, particularly when the address is also a business location or does not seem to correspond to the stated occupation (e.g., student, unemployed or self-employed).

(iv) Regarding non-profit or charitable organizations, financial transactions occur for which there appears to be no logical economic purpose or in which there appears to be no link between the stated activity of the organization and the other parties in the transaction.

(v) A safe deposit box opened on behalf of a commercial entity when the business activity of the customer is unknown or such activity does not appear to justify the use of a safe deposit box.

#### 16. Funds Transfers—

- (i) A large number of incoming or outgoing funds transfers take place through a business account and there appears to be no logical business or other economic purpose for the transfers, particularly when this activity involves higher-risk locations.
- (ii) Funds transfers are ordered in small amounts in an apparent effort to avoid triggering identification or reporting requirements.
- (iii) Funds transfers do not include information on the originator, or the person on whose behalf the transaction is conducted, when the inclusion of such information would be expected.
- (iv) Multiple personal and business accounts or the accounts of non-profit organizations or charities are used to collect and funnel funds to a small number of foreign beneficiaries.
- (v) Foreign exchange transactions are performed on behalf of a customer by a third party, followed by funds transfers to locations having no apparent business connection with the customer or to higher-risk countries.

#### 17. Other Transactions That Appear Unusual or Suspicious—

- (i) Transactions involving foreign currency exchanges are followed within a short time by funds transfers to higher-risk locations.
- (ii) Multiple accounts are used to collect and funnel funds to a small number of foreign beneficiaries, both persons and businesses, particularly in high-risk locations.
- (iii) A customer obtains a credit instrument or engages in commercial financial transactions involving the movement of funds to or from higher-risk locations when there appear to be no logical business reasons for dealing with those locations.

- (iv) Banks from higher-risk locations open accounts.
- (v) Funds are sent or received via international transfers from or to higherrisk locations.
- (vi) Insurance policy loans or policy surrender values that are subject to a substantial surrender charge.

## **APPENDIX G**

Structuring transactions to evade AML/CFT reporting and certain record structuring. keeping requirements can result in civil and criminal penalties under the MLPA, 2011.

Structuring is when a person structures a transaction if that person, acting alone, or in conjunction with, or on behalf of other persons, conducts or attempts to conduct one or more transactions in currency in any amount at one or more financial institutions on one or more days, in any manner for the purpose of evading the CTR filing requirements.

Bank employees should be aware of and alert to structuring schemes. For example, a customer may structure currency deposit or withdrawal transactions, so that each is less than the USA \$10,000 CTR filing threshold; use currency to purchase official bank cheques, money orders, or traveller's cheques with currency in amounts less than USA \$10,000 (and possibly in amounts less than the \$5,000 recordkeeping threshold for the currency purchase of monetary instruments to avoid having to produce identification in the process); or exchange small bank notes for large ones in amounts less than USA \$10,000.

However, two transactions slightly under the USA \$10,000 threshold conducted days or weeks apart may not necessarily be structuring. For example, if a customer deposits USA \$9,900 in currency on Monday and deposits USA \$9,900 in currency on Wednesday, it should not be assumed that structuring has occurred. Instead, further review and research may be necessary to determine the nature of the transactions, prior account history and other relevant customer information to assess whether the activity is suspicious. Even if structuring has not occurred, the bank should review the transactions for suspicious activity.

In addition, structuring may occur before a customer brings the funds to a bank. In these instances, a bank may be able to identify the aftermath of structuring. Deposits of monetary instruments that may have been purchased

elsewhere might be structured to evade the CTR filing requirements or the record-keeping requirements for the currency purchase of monetary instruments. These instruments are often numbered sequentially in groups totaling less than USA \$10,000 or USA \$5,000; bear the same handwriting (for the most part) and often the same small mark, stamp, or initials; or appear to have been purchased at numerous places on the same or different days.

## **APPENDIX H**

Request Letter Items for Core/Expanded Examination Procedures. AML/CFT Compliance Program. Independent Testing. Training. Risk Assessment.	<p>As part of the examination planning process, the Examiner should prepare a request letter. The list below includes materials that Examiners may request or request access to in a financial institution during AML/CFT examination. This list should be tailored for the specific financial institution's risk profile and the planned examination scope. Additional materials may be requested as needed.</p> <p>1.—</p> <p>(i) Name and title of the designated CCO and (if different) the name and title of the person responsible for monitoring AML/CFT compliance.</p> <p>(a) Organization charts showing direct and indirect reporting lines.</p> <p>(b) Copies of résumés and qualifications of new person(s) to the financial institution serving in AML/CFT Compliance Programme oversight capacities.</p> <p>(ii) Make available copies of the most recent written AML/CFT Compliance Programme approved by board of directors (or the statutory equivalent of such a Programme for foreign-owned financial institutions operating in Nigeria) including CIP requirements with date of approval noted in the board minutes.</p> <p>(iii) Make available copies of the policy and procedures relating to all thereporting and recordkeeping requirements including STR filing.</p> <p>(iv) Correspondence addressed between the financial institution, its personnel or agent, and its branches, FIRS, CBN, NFIU or law enforcement authorities since the previous AML/CFT examination. For example, please make available NFIU correspondence related to CTR errors or omissions.</p> <p>2.—</p> <p>(i) Make available copies of the results of any internally or externally sourced independent audits or tests performed since the previous</p>
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AML/CFT examination including the scope or engagement letter, management's responses and access to the work-papers.

(ii) Make available access to the auditor's risk assessment, audit plan (schedule), and Programme used for the audits or tests.

3.—

(i) Training documentation (e.g., materials used for training since the previous AML/CFT examination).

(ii) AML/CFT training schedule with dates, attendees and topics. A list of persons in positions for which the financial institution typically requires AML/ CFT training but who did not participate in the training.

4.—

(i) Make available copies of management's AML/CFT risk assessment of products, services, customers and geographic locations.

(ii) List of financial institutions identified as having higher-risk accounts.

5.—

(i) List of accounts without taxpayer identification numbers (TIN).

(ii) File of correspondence requesting TINs for bank customers.

(iii) A copy of any account opening forms (e.g., for loans, deposits or other accounts) used to document CIP/Customer Due Diligence information.

(iv) Written description of the financial institution's rationale for CIP exemptions for existing customers who open new accounts.

(v) List of new accounts covering all product lines (including accounts opened by third parties) and segregating existing customer accounts from new customers for the period between..... and ..... The Examiner should indicate by inserting the period of time appropriate for the size and complexity of the financial institution.

(vi) List of any accounts opened for a customer that provides an application for a TIN.

(vii) List of any accounts opened in which verification has not been completed or any accounts opened with exceptions to the CIP.

(viii) List of customers or potential customers for whom the financial institution took adverse action on the basis of its CIP.

(ix) List of all documentary and non-documentary methods the bank uses to verify a customer's identity.

(x) Make available customer notices and a description of their



timing and delivery by product.

(xi) List of the financial institutions on which the bank/ financial institution is relying on for identification purpose, if the bank/financial institution is using the reliance provision. The list should note if the relied-upon financial institutions are subject to a rule requiring the implementation of the AML/CFT Compliance Programme of MPLA and AML/CFT Regulation issued by the CBN.

(xii) Provide the following :

- (a) Copies of any contracts signed between the parties.
- (b) Copies of the CIP or procedures used by the other party.
- (c) Any certifications made by the other party.

Copies of contracts with financial institutions and with third parties that perform all or any part of the financial institution's CIP.

6.—

Suspicious

(i) Provide access to STRs rendered to NFIU during the review period and the supporting documentation. Include copies of any filed STRs that were related to requests for information or to information sharing requests.

(ii) Any analysis or documentation of any activity for which a STR was considered but not filed, or for which the financial institution is actively considering filing a STR.

(iii) Description of expanded monitoring procedures applied to higher-risk accounts.

(iv) Determination of whether the bank uses a manual or an automated account monitoring system, or a combination of the two. If an automated system is used, determine whether the system is proprietary or vendor supplied. If the system was provided by an outside vendor, request

- (i) a list that includes the vendor,
- (ii) application names, and
- (iii) installation dates of any automated account monitoring system provided by an outside vendor.

Request a list of the algorithms or rules used by the systems and copies of the independent validation of the software against these rules.

(v) Make available copies of reports used for identification of and monitoring for suspicious transactions. These reports include, but are not limited to suspected kiting reports, CTRs, monetary instrument records and funds transfer reports. These reports can

be generated from specialized AML/CFT software, the financial institution's general data processing systems or both.

- (vi) If not already provided, copies of other reports that can pinpoint unusual transactions warranting further review. Examples include non-sufficient funds (NSF) reports, account analysis fee income reports and large item reports.
- (vii) Provide name, purpose, parameters and frequency of each report.
- (viii) Correspondence received from law enforcement authorities concerning the disposition of accounts reported for suspicious activity.
- (ix) Make available copies (or a log) of criminal subpoenas received by the financial institution since the previous examination or inspection.

Make available copies of policies, procedures and processes used to comply with all criminal subpoenas related to MPLA and AML/CFT Regulation.

Currency 7.—

Transaction Reporting. (i) Provide information on and access to CTR filed for the review period.

Currency Transaction Reporting (ii) Provide information on and access to internal reports used to identify reportable currency transactions for the review period.

Exemptions (iii) Make the list of products or services that may involve currency transactions.

(Not Applicable). 8.—

Information Sharing. (i) Access to filed Designation of Exempt Person form(s) for current exemptions.

(ii) List of customers exempted from CTR filing and the documentation to support the exemption (e.g., currency transaction history or, as applicable, risk-based analysis).

(iii) Access to documentation of required annual reviews for CTR exemptions.

9.—

(i) Make available documentation demonstrating that required searches have been performed.

(ii) Make available any vendor-confidentiality agreements, if applicable.

(iii) Make available copies of policies, procedures and processes for complying with Information Sharing Between Law Enforcement Agencies and Financial Institutions.

- (iv) If applicable, a copy of the financial institution's most recent notification form to voluntarily share information with other financial institutions – Voluntary Information Sharing Among Financial Institutions, or a copy of the most recent correspondence received from NFIU or CBN that acknowledges receipt of the financial institution's notice to voluntarily share information with other financial institutions.
- (v) If applicable, make available copies of policies, procedures and processes for complying.

- |  |   |
|--|---|
| <p>10. Access to records of sales of monetary instruments in amounts between N2 million and N5 million (if maintained with individual transactions, provide samples of the record made in connection with the sale of each type of monetary instrument).</p>   | <p>Purchase and Sale of Monetary Instruments.</p>                     |
| <p>11. Access to records of funds transfers, including incoming, intermediary and outgoing transfers of N10 million or more.</p>   | <p>Funds Transfers</p>  |
| <p>12.—</p>  | <p>Recordkeeping.</p>   |
| <p>(i) List of all foreign correspondent bank accounts, including a list of foreign financial institutions for which the financial institution provides or provided regular services and the date on which the required information was received (either by completion of a certification or by other means).</p>  | <p>Foreign Correspondent Account Recordkeeping and Due Diligence.</p> |
| <p>(ii) If applicable, documentation to evidence compliance— Prohibition on Correspondent Accounts for Foreign Shell Banks; Records Concerning Owners of Foreign Banks and Agents for Service of Legal Process and Summons or Subpoena of Foreign Bank Records; Termination of Correspondent Relationship for foreign correspondent bank accounts and shell banks.</p> |   |
| <p>(iii) List of all payable through relationships with foreign financial institutions.</p>  |   |
| <p>(iv) Access to contracts or agreements with foreign financial institutions that have payable through accounts.</p>  |   |
| <p>(v) List of the bank's foreign branches and the steps the financial institution has taken to determine whether the accounts with its branches are not used to indirectly provide services to foreign shell banks.</p>   |   |
| <p>(vi) List of all foreign correspondent bank accounts and relationships with foreign financial institutions that have been closed or terminated in compliance with the conditions (service to foreign shell banks, records of owners and agents).</p>  |   |
| <p>(vii) List of foreign correspondent bank accounts that have been</p>  |   |

the subject of Information Sharing Between Law Enforcement Agencies and Financial Institutions or any other information request from law enforcement officers for information regarding foreign correspondent bank accounts and evidence of compliance.

(viii) Any directive/notice to close foreign correspondent bank accounts from the CBN.

(ix) List of all the bank's embassy or consulate accounts, or other accounts maintained by foreign government, foreign embassy, or foreign political figure.

(x) List of all account-holders and borrowers domiciled outside Nigeria, including those with Nigeria power of attorney.

<p>Currency- Shipment Activity. Other MPLA Reporting and Recordkeeping Requirements. Expanded Examination Procedures. Correspondent Accounts (Domestic). Correspondent Accounts (Foreign). Bulk Shipments of Currency.</p>	<p>13. Make available records reflecting currency shipped to and received from the CBN or correspondent banks or reflecting currency shipped between branches and the bank's central currency vaults for the previous _____ months. Examiner is to insert a period of time appropriate for the size and complexity of the financial institution.</p> <p>14.—</p> <p>(i) Record retention schedule and procedural guidelines.</p> <p>(ii) File of Reports of International Transportation of Currency or Monetary Instruments (CMIR)</p> <p>(iii) Records of Report of Foreign Bank and Financial Accounts.</p> <p>15. As part of the examination planning process, the Examiner should prepare a request letter. The listing below includes materials that may be requested for a financial institution AML/CFT examination. This list should be tailored for the specific institution profile and the planned examination scope. Additional materials may be requested as needed.</p> <p>16.—</p> <p>(i) Make available copies of policies, procedures and processes specifically for correspondent bank accounts, including procedures for monitoring for suspicious activity.</p> <p>(ii) Make available a list of domestic correspondent bank accounts.</p> <p>(iii) Provide a list of STRs filed relating to domestic correspondent bank accounts.</p> <p>17.—</p> <p>(i) Make available copies of policies, procedures and processes specifically for foreign correspondent financial institution accounts,</p>
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including procedures for monitoring for suspicious activity.

- (ii) Make available a list of foreign correspondent financial institution accounts.
- (iii) Provide risk assessments covering foreign correspondent financial institution account relationships.
- (iv) Provide a list of STRs filed relating to foreign correspondent financial institution accounts.

18.—

- (i) Make available copies of policies, procedures and processes related to receiving shipments of bulk currency. Describe expanded monitoring procedures applied to currency originators and intermediaries.
- (ii) Make available a list of currency originators, intermediaries, including referral agents, and foreign and domestic customers that send bulk currency shipments to the financial institution.
- (iii) Provide a list of all foreign and domestic correspondent bank accounts, including a list of foreign financial institutions from which the financial institution receives or sends bulk currency shipments.
- (iv) Provide a copy of management's risk assessment of relationships and transactions of currency originators and intermediaries.
- (v) Make available copies of reports used for identification of and monitoring for suspicious transactions related to currency originators and intermediaries. Make available agreements or contracts with currency originators or intermediaries. Provide a list of STRs filed related to shipping relationships and transactions.

<p>19.—</p> <p>(i) Make available copies of policies, procedures and processes specifically for Naira drafts including procedures for monitoring for suspicious activity.</p> <p>(ii) Make available a list of foreign correspondent bank accounts that offer Naira drafts. If possible, include the volume by number and Naira amount of monthly transactions for each account.</p> <p>(iii) Provide a list of STRs filed relating to Nigeria Naira drafts.</p>	<p>Nigeria Naira Drafts. Payable Through Accounts. Pouch Activities. Foreign Branches and Offices of Nigerian Banks.</p>
<p>20.—</p> <p>(i) Make available copies of policies, procedures and processes specifically for payable through accounts (PTA) including procedures for monitoring for suspicious activity.</p> <p>(ii) Make available a list of foreign correspondent bank accounts with PTAs. Include a detailed summary (number and monthly naira volume) of sub-account-holders for each PTA.</p> <p>(iii) Provide a list of STRs filed relating to PTAs.</p>	
<p>21.—</p> <p>(i) Make available copies of pouch activity policies, procedures and processes including procedures for monitoring for suspicious activity.</p> <p>(ii) Provide a list of customer accounts permitted to use pouch services.</p> <p>(iii) Provide a list of CTRs, CMIRs or STRs filed relating to pouch activity.</p> <p>(iv) As needed, provide a copy of pouch logs.</p>	
<p>22.—</p> <p>(i) Make available copies of policies, procedures and processes specific to the foreign branch or office, if different from the parent's policies, procedures and processes.</p> <p>(ii) Provide most recent management reports received on foreign branches and offices.</p> <p>(iii) Make available copies of the bank's tiering or organizational structure report.</p> <p>(iv) Provide AML/CFT audit reports, compliance reports and supporting documentation for the foreign branches and offices.</p> <p>(v) Provide a list of the types of products and services offered at the foreign branches and offices and information on new products or services offered by the foreign branch, including those that are not already offered by the parent financial institution.</p> <p>(vi) Provide a description of the method for aggregating each customer relationship across business units and geographic locations throughout the organization.</p>	

(vii) Provide the code of ethics for foreign branches or offices, if it is different from the financial institution's standard policy.

(viii) When testing will be performed, provide a list of accounts originated or serviced in the foreign branch or office. Examiners should try to limit this request and focus on accounts for specific products or services, higher-risk accounts only, or accounts for which exceptions or audit concerns have been noted.

(ix) Provide a list of the locations of foreign branches and offices, including, if possible, the host country regulatory agency and contact information.

(x) Provide the organizational structure of the foreign branches and offices, including reporting lines to the Nigerian financial institution level.

Parallel Banking. Electronic Banking. Funds Transfers. 23.—  
(i) Provide a list of any parallel banking relationships.  
(ii) Make available copies of policies, procedures and processes specifically for parallel banking relationships, including procedures relating to higher-risk money laundering activities. Such policies and procedures should include those that are specific to the relationship with the parallel entity.

- (iii) Provide a list of STRs filed relating to parallel banking relationships.
- (iv) Make available documents that specify limits or procedures that should be followed when dealing with the parallel entity.
- (v) Provide a list of directors or officers of the financial institution who are also associated with the foreign parallel bank.

24.—

- (i) Make available copies of any policies and procedures related directly to electronic banking (e-banking) that are not already included in the AML/ CFT policies.
- (ii) Provide management reports that indicate the monthly volume of ebanking activity.
- (iii) Provide a list of business customers regularly conducting e-banking transactions, including the number and Naira volume of transactions.
- (iv) Make available a list of service providers related to Remote Deposit Capture (RDC) activities.
- (v) Make available copies of contracts related to RDC activities.

25.—

- (i) Provide funds transfer activity logs, including funds transfers that involved cover payments, including transfers into and out of the financial institution. Include the number and Naira volume of funds transfer activity for the month.
- (ii) Provide a list of funds transfers purchased with currency over a specified time period.
- (iii) Provide a list of non-customer transactions over a specified time period.
- (iv) If not already included in the AML/CFT policies, make available copies of any policies, procedures and processes related to funds transfers, including transfers that involve cover payments or payable upon proper identification (PUPID).
- (v) Provide a list of suspense accounts used for PUPID proceeds.
- (vi) Provide a list of PUPID transactions completed by the financial institution, either as the beneficiary financial institution or as the originating financial institution.

26.—

- (i) Make available copies of any policies and procedures related directly to automated clearing house (ACH) and international ACH transactions (IAT) that are not already included in the AML/CFT policies.
- Automated  
Clearing  
House  
Transactions.  
Electronic



- (ii) Make available copies of management reports that indicate the monthly volume of ACH activity, including IATs. Cash. Third-Party
- (iii) Make available a list of large or frequent ACH transactions or IATs. Payment Processors.
- (iv) Make available a list of IATs (both those originated from or received by the financial institution). Purchase and Sale of
- (v) Make available a list of customer complaints regarding ACH transactions and IATs. Monetary Instruments.

27.—

- (i) Make available copies of any policies and procedures related directly to electronic cash (e-cash), including prepaid cards that are not already included in the AML/CFT policies.
- (ii) Provide management reports that indicate the monthly volume of e-cash activity, including prepaid cards.
- (iii) Provide a list of business customers regularly conducting e-cash transactions, including prepaid cards, the number and Naira volume of transactions.

28.—

- (i) If not already included in the AML/CFT policies, make available copies of any policies, procedures and processes related to third-party payment processors.
- (ii) Provide a list of third-party payment processor relationships. Include the number and Naira volume of payments processed per relationship.
- (iii) Provide a list of STRs filed on third-party payment processor relationships.

29.—

- (i) If not already included in the AML/CFT policies, make available copies of any policies, procedures and processes related to the sale of monetary instruments for currency. In particular, include policies, procedures and processes related to the monitoring sales of monetary instruments in order to detect unusual activities.
- (ii) Provide monetary instrument logs or other MIS reports used for the monitoring and detection of unusual or suspicious activities relating to the sales of monetary instruments.
- (iii) Provide a list of non-customer transactions over a specified period of time.
- (iv) Provide a list of monetary instruments purchased with currency over a specified time period.
- (v) Provide a list of STRs filed related to the purchase or sale of monetary instruments.

Brokered Deposits. 30.—  
 Privately Owned Automated Teller Machines. (i) Make available copies of specific policies and procedures specifically for brokered.  
 Non-deposit Investment Products. (ii) Deposits, including procedures for monitoring for suspicious activity.  
 (iii) Provide risk assessment covering brokered deposits.  
 (iv) Provide internal audits covering brokered deposits.  
 (v) Provide a list of approved deposit brokers.  
 (vi) Provide management reports covering non-relationship funding programmes (including reports on balances, concentrations, performance or fees paid).  
 (vii) Provide STRs and subpoenas related to brokered deposit relationships.  
 (viii) Provide a copy of account documentation or agreements for deposit broker arrangements.

31.—

(i) Provide a risk assessment covering privately owned automated teller machines (ATM) and Independent Sales Organizations (ISO) including a list of higher-risk privately owned ATM relationships.  
 (ii) Make available copies of policies, procedures and processes for privately owned ATM and ISO account acceptance, due diligence and ongoing monitoring.  
 (iii) Provide a list of ISO clients and balances.  
 (iv) Provide STRs and subpoenas related to privately owned ATMs and ISOs.

32.—

(i) Make available copies of policies, procedures and processes relating to non-deposit investment products (NDIP) and relationships with any independent NDIP providers.  
 (ii) Provide internal audits covering NDIP sales and provider relationships.  
 (iv) Provide a risk assessment covering NDIP customers and transactions.  
 (iv) If available, provide a list of NDIP clients and balances.  
 (v) Provide a list of suspense, concentration or omnibus accounts used for NDIP. Describe the purpose for and controls surrounding each account.  
 (vi) Provide management reports covering 25 to 50 of the largest most active and most profitable NDIP customers.  
 (vii) Provide STRs and subpoenas related to NDIP customers.

(viii) Make available a copy of account opening documentation or agreements for NDIP.

(ix) Make available a copy of contracts or agreements between the bank and third-party NDIP providers for the completion of CIP, due diligence and ongoing monitoring of NDIP customers.

33.— Insurance.

(i) Make available copies of AML/CFT policies and procedures related to the sale of insurance. Concentration

(ii) Provide risk assessment covering insurance products. Accounts.

(iii) Make available MIS reports related to the sales of insurance products. Reports may include large transaction reports, single Lending premium payments, early cancellation, premium overpayments Activities. and assignments of claims.

(iv) Make available a copy of contracts or agreements between the financial institution and insurance providers for the completion of CIP, due diligence and ongoing monitoring of insurance customers.

(v) Provide a list of insurance products approved for sale at the financial institution.

(vi) Provide management reports covering insurance products (including large transactions, funds transfers, single premium payments and early cancellations).

(vii) Provide STRs or subpoenas related to insurance clients.

(viii) Provide a copy of account documentation requirements and applications for insurance products.

34.—

(i) Make available copies of AML/CFT policies, procedures and processes that are specific to concentration accounts (also known as special use, omnibus, suspense, settlement, intraday, sweep or collection accounts).

(ii) Provide a list of all concentration accounts and each account's most recent reconciliation statements.

(iii) Provide account activity reports for concentration accounts for \_\_\_\_\_. Examiner to insert a period of time appropriate for the size and complexity of the financial institution.

35.—

(i) Make available copies of AML/CFT policies and procedures specific to lending.

(ii) Provide a risk assessment relating to the lending function, including a list of any higher-risk lending relationships identified by the financial institution.

(iii) For loans secured by cash collateral, marketable securities or

cash surrender value of life insurance products :

- (a) Provide a list of all loans that have defaulted since the previous AML/CFT examination including those that were charged off. Provide a list of all loans that have been extended since the previous AML/CFT examination.

36.—(i) Make available copies of AML/CFT policies and procedures specific to trade finance activities.

- (ii) Provide a risk assessment relating to trade finance activities including a list of any higher-risk trade finance transactions, accounts or relationships identified by the financial institution.

- (iii) Provide a list of customers involved in transactions with higher-risk geographic locations or for whom the financial institution facilitates trade finance activities with higher-risk geographic locations.

37.—(i) Make available copies of policies, procedures and controls used to manage AML/CFT risks in the private banking department.

- (ii) Make available business or strategic plans for the private banking department.

- (iii) Provide the most recent version of management reports on private banking activity such as customer aggregation reports, policy exception reports, client concentrations, customer risk classification reports and unusual account activity.

- (iv) Provide recent private banking reports from compliance, internal audit, risk management and external auditors or consultants that cover AML/CFT.

- (v) Provide a list of products and services offered to private banking clients. Information on new products and services offered to private banking clients and the financial institution's process for approving new activities.

- (vi) Provide a description of the method for aggregating customer holdings and activities across business units throughout the organization.

- (vii) Provide a description of account officer and manager positions and the compensation, recruitment and training Programme for these positions.

- (viii) Make available the code of ethics policy for private banking officers.

- (ix) Provide a risk assessment covering private banking customers and transactions.

- (x) Provide a list of suspense, concentration or omnibus accounts used for private banking transactions. Describe the purpose for each account and the controls governing it.
- (xi) Provide management reports covering 25 to 50 of the largest most active or most profitable private banking customers.
- (xii) Provide a list of the financial institution's private banking account holders who meet the following criteria :
  - (a) Politically exposed persons (PEP), export or import business owners, money transmitters, Private Investment Companies (PIC), financial advisers, offshore entities or money managers (when an intermediary is acting on behalf of customers).
  - (b) Customers who were introduced to the financial institution by individuals previously employed by other financial institutions.
  - (c) Customers who were introduced to the financial institution by a third-party investment adviser.
  - (d) Customers who use nominee names.
  - (e) Customers who are from or do business with a higher-risk geographic location.
  - (f) Customers who are involved in cash-intensive businesses.
  - (g) Customers who were granted exceptions to policies, procedures and controls.
  - (h) Customers who frequently appear on unusual activity monitoring reports.
- (xiii) Provide STRs and subpoenas related to private banking customers.
- (xiv) Make available a copy of account-opening documentation or agreements for private banking customers.

38.—

- (i) Make available copies of AML/CFT policies, procedures and processes for trust and asset management services.
- (ii) Make available trust and asset management procedures and guidelines used to determine when EDD is appropriate for higher-risk accounts and parties to the relationship. These should include methods for identifying account interested parties (i.e., individual grantors, co-trustees or outside investment managers).

- (iii) Provide a list of politically exposed persons (PEP), export or import business owners, money transmitters, Private Investment Companies (PIC), financial advisers, offshore entities or money managers (when an intermediary is acting on behalf of customers).
- (iv) Provide a list of financial institution's trust and asset management account-holders who meet the following criteria :
  - (a) Customers who were introduced to the financial institution by individuals previously employed by other financial institutions.
  - (b) Customers who were introduced to the financial institution by a third-party investment adviser.
  - (c) Customers who use nominee names.
  - (d) Customers who are from or do business with a higher-risk geographic location.
  - (e) Customers who are involved in cash-intensive businesses.
  - (f) Customers who were granted exceptions to policies, procedures and controls.
  - (g) Customers who frequently appear on unusual activity monitoring reports.
- (v) Make available reports and minutes submitted to the board of directors or its designated committee relating to AML/CFT matters pertaining to trust and asset management business lines and activities.
- (vi) Provide an organizational chart for the AML/CFT compliance function as it relates to the trust and asset management services.
- (vii) Provide a risk assessment of trust and asset management services that identifies those customers, prospective customers or products the financial institution has determined to be higher risk.

36.—

- (i) Make available copies of AML/CFT policies and procedures specific to trade finance activities.
- (ii) Provide a risk assessment relating to trade finance activities including a list of any higher-risk trade finance transactions, accounts or relationships identified by the financial institution.
- (iii) Provide a list of customers involved in transactions with higher-risk geographic locations or for whom the financial institution facilitates trade finance activities with higher-risk geographic locations.

37.—

- (i) Make available copies of policies, procedures and controls used to manage AML/CFT risks in the private banking department.
- (ii) Make available business or strategic plans for the private banking department.
- (iii) Provide the most recent version of management reports on private banking activity such as customer aggregation reports, policy exception reports, client concentrations, customer risk classification reports and unusual account activity.
- (iv) Provide recent private banking reports from compliance, internal audit, risk management and external auditors or consultants that cover AML/CFT.
- (v) Provide a list of products and services offered to private banking clients. Information on new products and services offered to private banking clients and the financial institution's process for approving new activities.
- (vi) Provide a description of the method for aggregating customer holdings and activities across business units throughout the organization.
- (vii) Provide a description of account officer and manager positions and the compensation, recruitment and training Programme for these positions.
- (viii) Make available the code of ethics policy for private banking officers.
- (ix) Provide a risk assessment covering private banking customers and transactions.
- (x) Provide a list of suspense, concentration or omnibus accounts used for private banking transactions. Describe the purpose for each account and the controls governing it.
- (xi) Provide management reports covering 25 to 50 of the largest most active or most profitable private banking customers.
- (xii) Provide a list of the financial institution's private banking account holders who meet the following criteria :
  - (a) Politically exposed persons (PEP), export or import business owners, money transmitters, Private Investment Companies (PIC), financial advisers, offshore entities or money managers (when an intermediary is acting on behalf of customers).
  - (b) Customers who were introduced to the financial institution by individuals previously employed by other financial institutions.
  - (c) Customers who were introduced to the financial institution

- by a third-party investment adviser.
- (d) Customers who use nominee names.
- (e) Customers who are from or do business with a higher-risk geographic location.
- (f) Customers who are involved in cash-intensive businesses.
- (g) Customers who were granted exceptions to policies, procedures and controls.
- (h) Customers who frequently appear on unusual activity monitoring reports.
- (xiii) Provide STRs and subpoenas related to private banking customers.
- (xiv) Make available a copy of account-opening documentation or agreements for private banking customers.

38.—

- (i) Make available copies of AML/CFT policies, procedures and processes for trust and asset management services.
  - (ii) Make available trust and asset management procedures and guidelines used to determine when EDD is appropriate for higher-risk accounts and parties to the relationship. These should include methods for identifying account interested parties (i.e., individual grantors, co-trustees or outside investment managers).
  - (iii) Provide a list of politically exposed persons (PEP), export or import business owners, money transmitters, Private Investment Companies (PIC), financial advisers, offshore entities or money managers (when an intermediary is acting on behalf of customers).
  - (iv) Provide a list of financial institution's trust and asset management account-householders who meet the following criteria :
    - (a) Customers who were introduced to the financial institution by individuals previously employed by other financial institutions.
    - (b) Customers who were introduced to the financial institution by a third-party investment adviser.
    - (c) Customers who use nominee names.
    - (d) Customers who are from or do business with a higher-risk geographic location.
    - (e) Customers who are involved in cash-intensive businesses.
    - (f) Customers who were granted exceptions to policies, procedures and controls.



- (g) Customers who frequently appear on unusual activity monitoring reports.
  - (v) Make available reports and minutes submitted to the board of directors or its designated committee relating to AML/CFT matters pertaining to trust and asset management business lines and activities.
  - (vi) Provide an organizational chart for the AML/CFT compliance function as it relates to the trust and asset management services.
  - (vii) Provide a risk assessment of trust and asset management services that identifies those customers, prospective customers or products the financial institution has determined to be higher risk.
  - (viii) Provide management reports covering 25 to 50 of the largest most active or most profitable trust and asset management customers.
  - (ix) Provide a AML/CFT independent review or audit of trust and asset management services. Make work-papers available upon request.
  - (x) Make available a copy of the AML/CFT training materials for management and employees involved in trust and asset management activities.
  - (xi) Identify the trust accounting systems used. Briefly explain how they accommodate and assist compliance with AML/CFT regulations and guidelines.
  - (xii) Provide a list of newly opened trust and asset management accounts since \_\_\_\_\_. Examiner is to insert a period of time appropriate for the size and complexity of the financial institution.
  - (xiii) Provide procedures for checking requests relating to trust and asset management services.
  - (xiv) Provide a list of all trust and asset management accounts designated as higher risk and a list of all accounts whose assets consist of PICs and asset protection trusts.
  - (xv) Provide copies of STRs associated with trust and asset management services.
- Provide a list of subpoenas, particularly AML/CFT-related relating to trust and asset management activities.

- Non-resident Aliens and Foreign Individuals. Politically Exposed Persons.
- 39.—
- (i) Make available copies of policies, procedures and processes specific to non-resident alien (NRA) accounts, including guidelines and systems for establishing and updating any exempt status.
  - (ii) Provide a list of NRA and foreign individual accounts held by the financial institution, particularly those accounts the financial institution has designated as higher risk.
  - (iii) Provide a list of NRA and foreign individual accounts without a TIN, passport number or other appropriate identification number.
  - (iv) Provide a list of STRs and subpoenas related to NRA and foreign individual accounts.
- 40.—
- (i) Make available copies of policies, procedures and processes specific to Politically Exposed Persons (PEP). Policies should include the financial institution's definition of a PEP as well as procedures for opening PEP accounts and senior management's role in the approval process for opening PEP accounts.
  - (ii) Provide a list of accounts in the name of or for the benefit of a PEP. List should include the country of residence of the PEP, the account balances and the average number and Naira volume of transactions per month.
  - (iii) Provide a list of the information systems or other methods used to identify PEP accounts.
  - (iv) Make available management reports used to monitor PEP accounts including reports for identifying unusual and suspicious activity.

41.—	
(i) Make available copies of policies, procedures and processes specific to embassy and foreign consulate account relationships.	Embassy and Foreign Consulate
(ii) Provide a list of embassy and foreign consulate accounts held by the financial institution, including the average account balances and the average number and dollar volume of transactions per month.	Accounts.
(iii) Provide a list of accounts that are in the name of individuals who work for the embassy or foreign consulate.	Designated Non-Financial Institutions (DNFIs).
42.—	
(i) Make available copies of policies, procedures and processes related to DNFI.	Professional Service Providers.
(ii) Provide a list of designated non-financial institution accounts including all related accounts.	
(iii) Provide a risk assessment of DNFI accounts, identifying those accounts the financial institution has designated as higher risk. This list should include products and services offered by the DNFI; the average account balance; and the average number, type, and Naira volume of transactions per month.	Nongovernmental Organizations and Charities.
(iv) Provide a list of foreign DNFI accounts, including the products and services offered; the average account balance; and the average, number, type, and dollar and Naira volume of transactions per month.	Business Entities (Domestic and Foreign).
(v) Provide a sample of account opening documentation for higher-risk DNFI.	
(vi) Provide a list of STRs and subpoenas related to DNFI.	
43.—	
(i) Make available copies of policies, procedures and processes related to professional service provider accounts.	
(ii) Provide a list of professional service provider accounts, including all related accounts (such as interest on lawyers' trust accounts (IOLTA) which should include the name of the attorney on each account).	
(iii) Provide a list of any professional service provider accounts that the financial institution has designated as higher risk.	
44.—	
(i) Make available copies of policies, procedures and processes related to non-governmental organizations and charities.	
(ii) List of non-governmental organizations and charities, particularly those that the financial institution has designated as higher risk. This list should include average account balances and	

the average number and Naira volume of transactions.

(iii) List of non-governmental organizations involved in higher-risk geographic locations.

45.—

(i) Make available copies of policies, procedures and processes specifically related to domestic and international business entities.

(ii) Provide a list of accounts opened by business entities. If this list is unreasonably long, amend the request to look at those entities incorporated in higher-risk jurisdictions or those accounts the financial institution has designated as higher risk.

(iii) Provide a list of loans to business entities collateralized by bearer shares.

46.—

Cash-

(i) Make available copies of policies, procedures and processes related intensive to other businesses and entities.

Businesses.

(ii) Provide risk assessment of other businesses and entities, list those other businesses and entities that the financial institution has designated as higher risk. The listing should include average account balances and the average number and Naira volume of transactions.

## **APPENDIX I**

The following information is provided as guidance :STR quality guidance.

Often STRs have been instrumental in enabling law enforcement agencies (LEAs) to initiate or supplement major money laundering or terrorist financing investigations and other criminal cases. Information provided in STR forms also allows AML/CFT regulators to identify emerging trends and patterns associated with financial crimes. The information about those trends and patterns is vital to law enforcement agencies and provides valuable feedback to financial institutions.

Financial institutions must file STR forms that are complete, sufficient and timely. Unfortunately, some financial institutions file STR forms that contain incomplete, incorrect or disorganized narratives, making further analysis difficult, if not impossible. Some STR forms are submitted with blank narratives.

Because the STR narrative serves as the only free text area for summarizing suspicious activity, the narrative section is critical. The care with which the narrative is written may make the difference in whether or not the described conduct and its possible criminal nature are clearly understood by AML/CFT regulators and LEAs and thus a failure to adequately describe the factors making a transaction or activity suspicious undermines the purpose of the STR.

The STR form should include any information readily available to the filing financial institution obtained through the account opening process and due diligence efforts. In general, a STR narrative should identify the five essential elements of information (who? what? when? where? and why?) for the suspicious activity being reported. The method of operation (or how?) is also important and should be included in the narrative.

WHO is conducting the suspicious activity?

While one section of the STR form calls for specific suspect information, the narrative should be used to further describe the suspect or suspects, including occupation, position or title within the business, the nature of the suspect's business (or businesses) and any other information and identification numbers associated with the suspects.

WHAT instruments or mechanisms are being used to facilitate the suspect transactions?

A list of instruments or mechanisms that may be used in suspicious activity includes, but is not limited to, funds transfers, letters of credit and other trade instruments, correspondent accounts, casinos, structuring, shell companies, bonds or notes, stocks, mutual funds, insurance policies, traveller's cheques, bank drafts, money orders, credit or debit cards, prepaid cards, and digital currency business services. The STR narrative should list the instruments or mechanisms used in the reported suspicious activity. If a STR narrative summarizes the flow of funds, the narrative should always include the source of the funds (origination) and the use, destination or beneficiary of the funds.

WHEN did the suspicious activity take place?

If the activity takes place over a period of time, indicate the date when the suspicious activity was first noticed and describe the duration of the activity. When possible, in order to better track the flow of funds, individual dates and amounts of transactions should be included in the narrative rather than only the aggregated amount.

WHERE did the suspicious activity take place?

The narrative should indicate if multiple offices of a single financial institution were involved in the suspicious activity and provide the addresses of those locations. The narrative should also specify if the suspected activity or transactions involves a foreign jurisdiction.

WHY does the filer think the activity is suspicious?

The STR reporter should describe, as fully as possible, why the activity or transaction is unusual for the customer, considering the types of products and services offered by the filing financial institution's industry and drawing any applicable contrasts with the nature and normally expected activities of similar customers.

HOW did the suspicious activity occur?

The narrative should describe the *modus operandi* or the method of operation of the subject conducting the suspicious activity. In a concise, accurate and logical manner, the narrative should describe how the suspect transaction or pattern of transactions was committed. For example, if what appears to be structuring of currency deposits is matched with outgoing funds transfers from the accounts, the STR narrative should include information about both the structuring and outbound transfers including dates, destinations, amounts, accounts, frequency and beneficiaries of the funds transfers.

A financial institution should not include any supporting documentation with a filed STR nor use the terms *see attached* in the STR narrative.

Financial institutions should keep any supporting documentation in their records for five years so that this information is available to LEAs and regulatory agencies upon request.

## **APPENDIX J**

1. Currency Transaction Reporting and Suspicious Transaction Reporting If the financial institution does not have preset filtering reports for currency transaction reporting and the identification of suspicious currency transactions, the Examiner should consider requesting a custom report. For example, a report could be generated with the following criteria: currency transactions of N 1 million or higher (in and out) for the preceding period (to be determined by the Examiner) before the date of examination. The time period covered and the transaction amounts may be adjusted as determined by the Examiner. The report should also capture :	Examiners' Tools for Transaction Testing.
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- (i) The customer information file (CIF) number, if available or Tax Identification Number (TIN) ;
- (ii) The date, amount and account number of each transaction ; and
- (iii) The teller and branch or other applicable identifying information.

This data should be prepared in an electronic spreadsheet or database format to facilitate the sorting of the data. The data can be sorted in a number of different criteria (e.g., by branch, by teller, by TIN or CIF number, if available). Analysis of this information should enable the Examiner to determine whether CTRs and STRs have been appropriately filed.

## 2. Funds Transfer Monitoring

If the financial institution does not have preset filtering reports for funds transfer record-keeping and the identification of suspicious transactions, the Examiner should consider requesting a custom report. The Examiner may consider requesting that the financial institution provide a report from its funds transfer systems that identifies all funds transfers (in and out) for a time period determined by the Examiner. The report should also capture :

- (i) The customer's full name, country of residence, TIN and AML/CFTrisk rating, if applicable ;
- (ii) The date, amount, transaction type and account number of each transaction ;
- (iii) The originator's name, country, financial institution and account number ;and
- (iv) The beneficiary's name, country, financial institution and account number.

The financial institution should provide a list of financial institution internal codes necessary to fully identify the account type, AML/CFT risk rating, country, transaction type, financial institution number, account number, and any other codes on the electronic reports. The list should be sorted to identify those accounts that do not contain sufficient originator or beneficiary information. Missing information may indicate funds transfer monitoring deficiencies. A large number of transfers or those of high currency amounts to and from higher-risk jurisdictions or involving parties that do not appear likely to be involved in such transactions may indicate the need for additional scrutiny.

## 3. Adequacy of Deposit Account Information and Trust and Asset Management Account Information

This test is designed to ensure that the financial institution is in compliance with the CIP regulatory requirements and to test the adequacy of the financial institution's CDD policies, procedures and processes.

The Examiner should request an electronic list (spreadsheet or database) of all deposit accounts and trust/asset management accounts as of the date of examination. The balances should be reconciled to the general ledger. The report should also capture :

- (i) The customer's full name, date of birth, address, country of residence, TIN and AML/CFT risk rating, if applicable.
- (ii) The date the account was opened.
- (iii) The average daily balance (during the review period) and balance of the account as of the examination date.

The financial institution should provide a list of its internal codes necessary to fully identify the account type, AML/CFT risk rating, country, transaction type, branch number, teller number and any other codes found on the electronic reports. The list should be sorted to identify those accounts that do not contain sufficient information.

#### 4. Testing of Currency-Shipment Logs for Unusual Activity

Review all or a sample of the institution's currency-shipment logs for significant aberrations or unusual patterns of currency-shipment activity. Examiners may also consider reviewing the Summary of Deposits (SOD) data for unusual trends in branch deposit growth.

Assess whether shipment levels and the frequency of shipments appear commensurate with the expected institution and its branch activity levels. This assessment should include transactions to and from the central currency vault and the branches. Unusual activity warranting further research may include significant exchanges of small-denomination bills for large-denomination bills and significant requests for large bills.

#### 5. Non-resident Aliens and Foreign Individuals

An effective method to identify and review the level of the financial institution's non-resident aliens (NRA), foreign individuals and offshore corporations is by obtaining MIS reports that provide no TINs or account-holders with individual taxpayer identification numbers (ITIN). The report should capture :

- (i) Customer's full name, date of birth, address, country of residence and TIN.
- (ii) Date the account was opened.
- (iii) Average daily balance and balance of the account as of the examination date.

This data should be prepared in an electronic spreadsheet or database format to facilitate the sorting of the data. The financial institution should provide a list of its internal codes necessary to fully identify the information on the spreadsheet. This information can be used to assess whether the amount



of NRAs and foreign individuals provide heightened risk to the financial institution by determining the aggregate average daily balance, the account types and countries in which the financial institution is exposed.

#### 6. Funds Flow Reports

Examiners can review this information to identify customers with a high velocity of funds flow and those with unusual activity. A velocity of funds report reflects the total debits and credits flowing through a particular account over a specific period (e.g., 30 days). The electronic reports should capture :

- (i) Name of customer.
- (ii) Account number.
- (iii) Date of transaction.
- (iv) Dollar amount of payments (debits).
- (v) Dollar amount of receipts (credits).
- (vi) Average balance of the account.
- (vii) Type of account.

This data should be prepared in an electronic spreadsheet or database format to facilitate the sorting of the data. This report can be used to identify customer accounts with substantial funds flow relative to other accounts.

#### **APPENDIX K**

AML/CFT Record Retention Requirements. This appendix is provided as a summary listing. For comprehensive and current AML/CFT record retention requirements, refer to MLPA 2011 and CBN AML/CFT Regulation, 2009 (as amended). These record retention requirements are independent of and in addition to record retention requirements under any other law.

## **FIVE-YEAR RETENTION FOR RECORDS AS SPECIFIED BELOW**

The AML/CFT regime establishes record-keeping requirements related to all types of records including customer accounts (e.g., loan, deposit or trust), AML/CFT filing requirements and records that document a financial institution's compliance with the AML/CFT regulations. In general, the AML/CFT requires that a financial institution maintains most records for at least five years. These records can be maintained in many forms including original, microfilm, electronic, copy or a reproduction. A financial institution is not required to keep a separate system of records for each of the AML/CFT requirements. However, a financial institution must maintain all records in a way that makes them accessible in a reasonable period of time.

The records related to the transactions discussed below must be retained by a financial institution for at least five years. However, as noted below, the records related to the identity of a financial institution customer must be maintained for five years after the account (e.g., loan, deposit or trust) is closed. Additionally, on a case-by-case basis, a financial institution may be ordered or requested to maintain some of these records for longer periods.

### **1. International Transactions in Excess of N5 million**

Financial institutions are required to maintain records of requests made or instructions received or given regarding transfers of currency or other monetary instruments, cheques, funds, investment securities or credit greater than N5 million to or from any person, account or place outside Nigeria.

### **2. Signature Cards**

Financial institutions are required to keep records of each grant of signature authority over each deposit account.

### **3. Account Statements**

Financial institutions are also required to keep statements, ledger cards or other records on each deposit account showing each transaction in or with respect to that account.

### **4. Cheques**

Each cheque, draft or money order drawn on the financial institution or issued and payable by it must be kept.

### **5. Deposits**

Each deposit slip or credit ticket reflecting a transaction, record for direct deposit or other funds transfer deposit transactions are required to be kept. The slip or ticket must record the amount of any currency involved.

## 6. Records to Reconstruct Demand Deposit Accounts

To be kept are the records prepared or received by the financial institution in the ordinary course of business which would be needed to reconstruct a transaction account and to trace a cheque deposited in a demand deposit account through its domestic processing system or to supply a description of a deposited cheque.

## 7. Certificates of Deposit Purchased or Presented

This record which contained the following will be kept :

- (i) Name of customer (purchaser or presenter).
- (ii) Address of customer.
- (iii) Tax Identification Number (TIN) of customer.
- (iv) Description of the certificate of deposit.
- (v) Notation of the method of payment if purchased.(vi) Date of transaction.

## 8. Purchase of Monetary Instruments

A financial institution must maintain records of each of its cheques/draft, cashier's cheque, money order or traveller's cheque.

If the purchaser has a deposit account with the financial institution, this record shall contain :

- (i) Name of purchaser.
- (ii) Date of purchase
- (iii) Type(s) of instrument purchased.
- (iv) Amount of each of the instrument(s) purchased.
- (v) Serial number(s) of the instrument(s) purchased.

If the purchaser does not have a deposit account with the bank, this record shall contain :

- (i) Name of purchaser.
- (ii) Address of purchasers.
- (iii) Social security number of purchaser or alien identification number.
- (iv) Date of birth of purchaser.
- (v) Date of purchase
- (vi) Type(s) of instrument purchased.
- (vii) Amount of each of the instrument(s) purchased.
- (viii) Serial number(s) of the instrument(s) purchased.
- (ix) Description of document or method used to verify the name and address of the purchaser (e.g., state of issuance and number driver's licence).

## Funds Transfers

A financial institution's AML/CFT record-keeping requirements with respect to funds transfer vary based upon its role with respect to the funds transfer.

Financial institution acting as an originator

For each payment order that the financial institution accepts as the originator, it must obtain and retain records of the following information:

- (i) Name and address of originator.
- (ii) Amount of the payment order.
- (iii) Execution date of the payment order.
- (iv) Any payment instruction received from the originator with the payment order.
- (v) Identity of the beneficiary's financial institution.
- (vi) As many of the following items as are received with the payment order :
  - (a) Name and address of the beneficiary
  - (b) Account number of the beneficiary.
  - (c) Any other specific identifier of the beneficiary.
  - (d) For each payment order that a financial institution accepts for an originator that is not its established customer, it (in addition to the information listed above) must obtain appropriate extra information as may be required. Bank acting as an intermediary or a beneficiary's bank

For each payment order that a bank accepts as an intermediary bank or a beneficiary's financial institution, it must retain a record of the payment order.

For each payment order that a financial institution accepts for a beneficiary that is not its established customer, the financial institution must also obtain additional information as required.

## 9. Tax Identification Number (TIN)

The institution is required to keep the record of the TIN of any customer opening an account.

In cases of joint accounts, information on a person with a financial interest must be maintained.

## 10. Exceptions in respect of TIN

A financial institution does not need to maintain TIN for accounts or transactions with the following :

- (i) Agencies and instrumentalities of federal, state, local or foreign governments.

- (ii) Judges, public officials or clerks of courts of record as custodians of funds in controversy or under the control of the court.
- (iii) Certain aliens.
- (iv) Certain tax exempt organizations and units of tax-exempt organizations.
- (v) A person under 18 years of age with respect to an account opened as part of a school thrift savings Programme.

#### 11. Suspicious Transaction Report and Supporting Documentation

A financial institution must maintain a record of any STR filed and the original or business record equivalent of any supporting documentation for a period of five years from the date of filing.

#### 12. Currency Transaction Report

A financial institution must maintain a record of all Currency Transaction Reports (CTR) for a period of five years from the date of filing.

#### *Customer Identification Programme*

A financial institution must maintain a record of all information it obtains under its procedures for implementing its CIP. At a minimum, these records must include the following :

- (i) All identifying information about a customer (e.g., name, date of birth, address and TIN).
- (ii) A description of the document that the bank/other financial institution relied upon to identify the customer.
- (iii) A description of the non-documentary methods and results of any measures the financial institution took to verify the identity of the customer.
- (iv) A description of the financial institution's resolution of any substantiated discrepancy discovered when verifying the identifying information obtained.

A financial institution must retain the identifying information about a customer for a period of five years after the date the account is closed or in the case of credit card accounts, five years after the account becomes closed or dormant.

A financial institution must retain the information relied on, methods used to verify identity and resolution of discrepancies for a period of five years after the record is made.

These AML/CFT record-keeping requirements are independent of and in addition to requirements to file and retain reports imposed by other laws

## APPENDIX I

Enforcement Guidance.	Inter-Agency Statement on Enforcement of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Requirements This interagency statement sets forth the policy on the
AML/CFT Compliance Program Requirement.	circumstances in which a Regulatory Agency will issue a cease and desist order to address noncompliance with certain Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) requirements, particularly in light of the specific AML/CFT
Communication of Supervisory Concerns about AML/CFT Compliance Programs.	compliance provisions in the MLPA 2011 and CBN AML/CFT Regulation 2009 (as amended).  1. Under the provisions of the MLPA 2011 and CBN AML/CFT Regulation 2009, it is expected that each of the regulatory agencies should prescribe regulations requiring each regulated institution under its regulatory purview to establish and maintain procedures reasonably designed to assure and monitor the institution's compliance with the requirements of its AML/CFT Compliance Programme. It also requires that each agency's examinations of the regulated financial institution review the AML/CFT Compliance Programme and identify and observe in its examination reports any problem with the AML/CFT Compliance Programme. Finally, if the regulated financial institution has failed to establish and maintain a AML/CFT Compliance Programme or has failed to correct any problem with the AML/CFT Compliance Programme previously reported to the institution by the appropriate agency, the latter shall issue sanctions including a cease and desist order against the institution accordingly.

Specifically, each regulated financial institution's AML/CFT Compliance Programme must have, at a minimum, the following five (5) elements :

- (i) A system of internal controls which ensure on-going compliance with the MLPA 2011 and CBN AML/CFT Regulation 2009 (as amended) ;
- (ii) Independent testing for compliance with MLPA 2004 and CBN AML/CFT Regulation 2009 ;
- (iii) A designated individual or individuals responsible for coordinating and monitoring AML/CFT compliance ; and
- (iv) Training for appropriate personnel ;
- (v) Customer Identification Programme (CIP) with risk-based

procedures that enable the institution to form a reasonable belief that it knows the true identity of its customers.

2. When CBN identifies supervisory concerns relating to a financial institution's AML/CFT Compliance Programme in the course of an examination or otherwise, it is required to communicate those concerns by various means. The particular method of communication used typically depends on the seriousness of the concerns. These methods include :
- (i) Informal discussions by Examiners with an institution's management during the examination process ;
  - (ii) Formal discussions by Examiners with staff and management as part of or following the examination process and at the end of the examination ;
  - (iii) Supervisory letters and written communications from Examiners to the institution's management;
  - (iv) A finding contained in the AML/CFT examination reports or in other formal communications from the CBN to the institution's board of directors indicating deficiencies or weaknesses in the AML/CFT Compliance Programme ; or
  - (v) A finding contained in the AML/CFT examination reports or in other formal communications from the CBN to an institution's board of directors of a violation of the regulatory requirement to implement and maintain a reasonably designed AML/CFT Compliance Programme.

For a finding/observation to be a problem with the AML/CFT Compliance Programme that results in issuance of cease and desist order (if not corrected by the institution), the deficiencies in the AML/CFT Compliance Programme must be identified in an AML/CFT examination report or other written document to an institution's board of directors or senior management as matters that must be corrected. However, other issues or suggestions for improvement may be communicated through other means.

3. In accordance with the provisions of MLPA 2011 and CBN Enforcement AML/CFT Regulation 2009 (as amended) the CBN will issue a cease and desist order against a financial institution for non-compliance with AML/CFT Compliance Programme requirements in the following circumstances, based on a careful review of all the relevant facts and circumstances :
- Enforcement  
Actions for  
AML/CFT  
Compliance  
Program  
Failures.

(i) Failure to establish and maintain a reasonably designed AML/CFT Compliance Programme

The CBN will issue a cease and desist order based on a violation of the MLPA 2011 and CBN AML/CFT Regulation 2009 (as amended) requirements to establish and maintain a reasonably designed AML/CFT Programme where the institution :

(a) Fails to have a written AML/CFT Compliance Programme, including aCIP that adequately covers the required Programme elements (i.e., internal controls, independent testing, designated compliance personnel and training); or

(b) Fails to implement a AML/CFT Compliance Programme that adequately covers the required Programme elements (institution-issued policy statements alone are not sufficient; the Programme as implemented must be consistent with the financial institution's written policies, procedures and processes); or

(c) Has defects in its AML/CFT Compliance Programme in one or more Programme elements that indicate that either the written Compliance Programme or its implementation is not effective. For example, where the deficiencies are coupled with other aggravating factors such as

(i) highly suspicious activity creating a significant potential for unreported money laundering or terrorist financing,

(ii) patterns of structuring to evade reporting requirements,

(iii) significant insider complicity or

(iv) systemic failures to file CTRs, STRs or other required AML/CFT reports.

(d) For example, an institution that has procedures to provide AML/CFT training to appropriate personnel, independent testing and a designated AML/ CFT compliance officer, would nonetheless be subject to a cease and desist order if its system of internal controls (such as customer due diligence, procedures for monitoring suspicious activity or an appropriate risk assessment) fails with respect to a higher risk area or to multiple lines of business that significantly impact the institution's overall AML/CFT compliance.

Similarly, a cease and desist order would be warranted if, for example, an institution has deficiencies in the required independent testing element of the Programme and those deficiencies are coupled with evidence of highly suspicious activity creating a significant potential for unreported money laundering or terrorist financing in the institution.

Other types of deficiencies in an institution's AML/CFT Compliance Programme or in implementation of one or more of the required Programme



elements will not necessarily result in the issuance of a cease and desist order, unless the deficiencies are so severe as to render the Programme ineffective when viewed as a whole. For example, an institution that has deficiencies in its procedures for providing AML/CFT training to appropriate personnel but has effective controls, independent testing and a designated AML/CFT compliance officer, may ordinarily be subject to Examiner criticism and supervisory action other than the issuance of a cease and desist order (unless the training Programme deficiencies viewed in the light of all relevant circumstances) are so severe as to result in a finding that the financial institution's Programme, taken as a whole, is not effective.

In determining whether a financial institution has failed to implement an AML/CFT Compliance Programme, the CBN is required to also consider the application of the institution's Programme across its business lines and activities. In the case of institutions with multiple lines of business, deficiencies affecting only some lines of business or activities would need to be evaluated to determine if the deficiencies are so severe or significant in scope as to result in a conclusion that the institution has not implemented an effective overall Programme.

(ii) Failure to correct a previously reported problem with the AML/CFT Compliance Programme

A history of deficiencies in an institution's AML/CFT Compliance Programme in a variety of different areas or in the same general areas can result in a cease and desist order on that basis. The CBN is required (in accordance with the provisions of the MLPA 2011 and CBN AML/CFT Regulation 2009 (as amended) and based on a careful review of the relevant facts and circumstances) to issue a cease and desist order whenever an institution fails to correct a problem with AML/CFT compliance identified during the supervisory process.

In order to be considered a deficiency as a problem, it would ordinarily involve a serious defect in one or more of the required components of the institution's AML/CFT Compliance Programme or its implementation thereof that a examination report or other written supervisory communication identifies as requiring communication to the institution's board of directors or senior management as a matter that must be corrected. For example, failure to take any action in response to an express criticism in an examination report regarding a failure to appoint a qualified CCO could be viewed as an un-corrected problem that would result in a cease and desist order.

The CBN will ordinarily not issue a cease and desist order for failure to correct an AML/CFT Compliance Programme problem unless the deficiencies subsequently observed by the Bank Examiners are substantially the same as those previously reported to the institution. For example, if the CBN notes in one examination report that an institution's training Programme was inadequate because it was out of date (for instance, if it did not reflect changes in the law) and at the next examination, the training Programme is adequately updated but flaws are discovered in the internal controls contained in the AML/CFT Programme, the CBN will determine not to issue a cease and desist order for failure to correct previously reported problems and will consider the full range of potential supervisory responses.

Similarly, if an institution is cited in an examination report described above for failure to designate a qualified AML/CFT CCO and the institution by the next examination has appointed an otherwise qualified person to assume that responsibility, but the Examiners recommend additional training for the person, the CBN shall determine not to issue a cease and desist order based solely on that deficiency. Statements in a written examination report or other supervisory communication identifying less serious issues or suggesting ways for improvement which the examination report does not identify as requiring communication to the board of directors or senior management as matters that must be corrected, would not be considered problems.

The CBN recognizes that certain types of problems with an institution's AML/CFT Compliance Programme may not be fully correctable before the next examination, for example, remedial action involving adoption or conversion of computer systems. In these types of situations, a cease and desist order is not required provided the CBN determines that the institution has made acceptable & substantial progress toward correcting the problem at the time of the examination immediately following the examination where the problem was first identified and reported to the institution.

*(iii) Other enforcement actions for AML/CFT Compliance Programme deficiencies*

In addition to the situations where the CBN will issue a cease and desist order for a violation of the AML/CFT Compliance Programme regulation or for failure to correct a previously reported Programme problem, the CBN shall also issue a cease and desist order or enter into a formal written agreement or take informal enforcement action against an institution for other types of AML/CFT Programme concerns. In these situations, depending upon the particular facts involved, the CBN may pursue enforcement actions based on unsafe and unsound practices or violations of law, including the MLPA 2011

and CBN AML/CFT Regulation 2009 (as amended). The form of the enforcement action in a particular case shall depend on the severity of the non-compliance, weaknesses or deficiencies, the capability and cooperation of the institution's management and the CBN's confidence that the institution will take appropriate and timely corrective action.

AML/CFT 4.—

Reporting and (i) Suspicious Transaction reporting requirements  
Record Keeping Under provisions of the MLPA 2011 and CBN AML/CFT Regulation  
Requirements. 2009 (as amended) financial institutions are required to file a STR when they detect certain known or suspected criminal violations or suspicious transactions. Suspicious transaction reporting forms the cornerstone of the AML/CFT reporting system and is critical to Nigeria's ability to utilize financial information to combat money laundering, terrorist financing and other financial crimes. The regulations require financial institutions to file STRs with respect to the following general types of activity :

- (a) Known or suspected criminal violations involving insider activity in any amount ;
- (b) Known or suspected criminal violations aggregating to any amount when a suspect can be identified ;
- (c) Known or suspected criminal violations aggregating to any amount regardless of potential suspects ; or
- (d) Suspicious transactions of any amount that involve potential anti-money laundering or terrorism financing violations.

The STR must be rendered to NFIU within 7 days of detecting facts that may constitute a basis for filing a STR (or within 30 days if there is no subject).

The CBN shall cite a violation of the STR regulations and will take appropriate supervisory action, if the institution's failure to file a STR (or STRs) evidences a systemic breakdown in its policies, procedures or processes to identify and research suspicious activity, involves a pattern or practice of non-compliance with the filing requirement or represents a significant or egregious situation.

(ii) Other AML/CFT reporting and record-keeping requirements  
Financial institutions are also subject to other AML/CFT reporting and recordkeeping requirements set forth in the MLPA 2011 and

CBN AML/CFT Regulation 2009 as amended. These requirements reviewed in detail in the AML/CFT Examination Manual include requirements applicable to cash and monetary instrument transactions and funds transfers, CTR filing, exemption rules, due diligence, certification and other requirements for foreign correspondent and private banking accounts.

(iii) Enforcement actions for non-AML/CFT Programme requirements

In appropriate circumstances, the CBN shall take formal or informal enforcement actions to address violations of AML/CFT requirements other than the AML/CFT Compliance Programme requirements. These other requirements include the STR, CTR and PEP returns regulatory obligations described above.

**B 1171**  
**Extraordinary**



# **Federal Republic of Nigeria Official Gazette**

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**Vol. 98**

Government Notice No. 270

The following are published as supplement to this Gazette :

S.I. No.	Short Title	Page
43	Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Risk-based Supervision (RBS) Framework ..	B 1173
44	Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Regulation, 2009 (as amended) .. ..	B1175

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**B 1173**

**S. I. 43 of 2011**

**ANTI-MONEY LAUNDERING/COMBATING THE FINANCING  
OF TERRORISM (AML/CFT) RISK-BASED SUPERVISION ( RBS)  
FRAMEWORK**

[1st Day of December, 2011]

Commencement

In order to complement the Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) Regulation No. 79 of 2009 (as amended) and in the exercise of the powers vested in the CENTRAL BANK OF NIGERIA (the CBN) under Sections 57 and 65 of the Banks and Other Financial Institutions Act, Cap. B3 Laws of the Federation of Nigeria 2004 to make regulations and compound offences respectively, the CBN hereby issues the AML/CFT RBS Framework, 2011 (attached) which consists of AML/CFT RBS Manual for Bank Examiners' Procedures and AML/CFT Operations in Financial Institutions and the supervisory purview of the CBN.

MADE in Abuja this 1st Day of December, 2011.

MALLAM SANUSI LAMIDO SANUSI

Governor, Central Bank of Nigeria

**B 1175**

**S. I. 44 of 2011**

**ANTI-MONEY LAUNDERING/COMBATING THE FINANCING  
OF TERRORISM (AML/CFT) REGULATION, 2009  
(AS AMENDED )**

[1st Day of December, 2011]

Commencement

Subsequent to the issuance of the Regulation on the Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) Regulation No. 79 of 2009 and in the exercise of the powers vested in the CENTRAL BANK OF NIGERIA (the CBN) under Sections 57 and 65 of the Banks and Other Financial Institutions Act, Cap. B3 Laws of the Federation of Nigeria 2004 to make regulations and compound offences respectively, the Bank hereby amends sections 1.15.2, 1.18.3 and 1.18.1.2 of the Regulation under reference to comply with sections 6(2)(c) , 10(1) and 2(1) of Money Laundering (Prohibition) Act ( MLPA) 2011, and section 14 of Terrorism (Prevention) Act, 2011 as contained in the Circular attached.

MADE in Abuja this 1st Day of December, 2011.

MALLAM SANUSI LAMIDO SANUSI  
Governor, Central Bank of Nigeria



## CENTRAL BANK OF NIGERIA

Financial Policy & Regulation Department  
Central Business District  
P.M.B. 0187  
Garki, Abuja.

Tel: 09-46237401, 09-462 37404  
E-mail: [fpri@cbn.gov.ng](mailto:fpri@cbn.gov.ng)

FPB/DIR/CIR/GEN/01/034

2<sup>nd</sup> October, 2012

### CIRCULAR TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS

#### UNIFORM ACCOUNT OPENING FORMS

The absence of uniformity in account opening procedure and documentation for prospective customers has continued to hinder the effectiveness of KYC requirements in banks and other financial institutions in Nigeria. The adverse implication of this on the fight against money laundering and the combating of financing of terrorism cannot be overemphasized. The CBN, in conjunction with the Committee of Chief Compliance Officers of Banks in Nigeria (CCCOBIN) has therefore developed draft uniform account opening forms for adoption by banks and other financial institutions in order to:

- i. increase the effectiveness of customer due diligence (CDD);
- ii. comply with AML/CFT standards; and
- iii. facilitate quick investigation of financial crimes by relevant agencies.

In line with best practice, you are please requested to make your comments and critique on the draft documents structured as follows:

- i. **FORM A**- Account Opening Form for Individuals;
- ii. **FORM B**- Account Opening Form for Companies, Partnership & Sole Proprietorship; and
- iii. **FORM C**- Account Opening Form for Designated Non-Financial Businesses and Professions (DNFBPs).

Hard copies of your comments and response should be forwarded to the Director, Financial Policy and Regulation Department (FPRD) by 5<sup>th</sup> November, 2012 while soft copies be mailed to [uaobot@cbn.gov.ng](mailto:uaobot@cbn.gov.ng) and [abisah@cbn.gov.ng](mailto:abisah@cbn.gov.ng) accordingly.

  
OBOT, U.A.

FOR: DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT



### ACCOUNT OPENING FORM-INDIVIDUAL

Account type: Please indicate the type of account you want to open by ticking in the box below.

Current Account  Savings Account  Joint Account  Designatory Account

1 2 3 4 5



ACCOUNT No. (for official use only)

Grid for account number: 1 2 3 4 5 6 7 8 9 0

The Data listed here is provided by CREDIT LITIGATION and SOLARIS. Customers will have access to services under the following conditions:

#### 1. PERSONAL INFORMATION

Form fields for personal information: Title, Surname, First Name, Middle Name, Marital Status, Gender, Date of Birth, Mother's Maiden Name, Nationality, State of Origin, TIN.

#### 2. CONTACT DETAILS

Form fields for contact details: Residence Address, Street Name, City/Town, Landmark, Phone Number, Work Number, E-mail Address.

#### 3. MEANS OF IDENTIFICATION

Form fields for means of identification: National ID Card, National Driver's License, International Passport, ID No., ID Issue Date, ID Expiry Date.

#### 4. ACCOUNT SERVICE(S) REQUIRED (Please tick option below)

Form fields for account services: Card Preferences, Internet Banking Preferences, Transaction Alert Preferences, Statement Preferences, Cheque Book Requirements, Cheque Confirmation Threshold.



ACCOUNT No. (for official use only)

**5. EMPLOYMENT DETAILS**

Employed  Self Employed  Unemployed  Retired  Student  Other (Please specify)

Date of Employment (if employed)

Employer's Name

Employer's Employment Address

Street Number  Street Name

City/Town

Nearest Bus Stop

Nature of Business/ Occupation

Office Phone Number  Fax Number

**6. DETAILS OF NEXT OF KIN**

Surname

Middle Name

First Name

Relationship  Mobile Number

E-mail Address

Contact Details

Street Number  Street Name

City/Town

Nearest Bus Stop

Affix  
Passport  
Photograph  
here

**7a. PERSONAL INFORMATION FOR SECOND OR JOINT APPLICANT**

Title:  Surname:

First Name:

Middle Name:

Marital Status (Please tick) Single  Married  Other (Please specify):

Gender: F  M

Date of Birth:

Mother's Maiden Name:

Nationality (as per Passport):  Business permit No.:

State of Origin:  SGA:

Tax Identification Number (TIN):

**7b. CONTACT DETAILS**

Residential Address:

Street Number:  Street Name:

City/Town:

Nearest Bus Stop:

Phone Number (1):  Phone Number (2):

E-mail Address:

**7c. MEANS OF IDENTIFICATION**

National ID Card  National Driver's License  International Passport  \* Other (Please specify)

ID No.:  ID Issue Date:  ID Expiry Date:

\* People in peculiar circumstances - Artists, Busy Travelers, Students who may not have the prescribed ID's

**7d. EMPLOYMENT DETAILS:**

Employed  Self Employed  Unemployed  Retired  Student  Other (Please specify)

Date of Employment (if employed):

Employer's Name:

Employer's /Employment Address:

Street Number:  Street Name:

City/ Town:

Landmarks:

Nature of Business/ Occupation:

Office Phone Number:  Fax Number:

**7c. DETAILS OF NEXT OF KIN**

Surname

Middle Name

First Name

Relationship  Mobile Number

E-mail Address

Contact Details

Street Number  Street Name

City/Town

Landmarks

**8. PARTICULAR OF REFERRES**

1.

Surname

Middle Name

First Name

Name of Bank/Branch

Banker's Address

2.

Surname

Middle Name

First Name

Name of Bank/Branch

Banker's Address

**9. ADDITIONAL DETAILS**

I Educational Qualification:  Certification Date:

II Name of Beneficial Overlord:

III Spouse's Name:

IV Spouse Date of Birth:

V Source of Fund of the Account:

VI Source of Wealth of the Account holder:

**VI Name of Children:**

SN	NAME	DATE OF BIRTH (DDMMYY)	ADDRESS-MAIL

**4**

XVI. Name of Associated Businesses:

1.	
2.	
3.	

XVII. Type of Business:

--	--

XVIII. Business Address:

--	--


**XIX. ACCOUNT HELD WITH OTHER BANKS:**

VN	NAME AND ADDRESS OF BANK/BRANCH	ACCOUNT NAME	ACCOUNT NUMBER	DATE ACCOUNT OPENED	STATUS: ACTIVE/DORMANT
1.					
2.					
3.					
4.					

**XX. TERMS AND CONDITIONS**

*[This section contains faint, illegible text, likely representing terms and conditions.]*

**1. ACCOUNT OPENING MANDATE**

a. Type of Account (Please tick as appropriate)  Current  Savings  Joint  Beneficiary

b. Name of Organisation \_\_\_\_\_

c. Account No. 

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

d. Signatories:

i. Name: Surname First Name Middle Name

Identification Type

Identification No.

Signature & Date



**FOR BANK USE ONLY**

Name of Officer \_\_\_\_\_ Signature \_\_\_\_\_

ii. Name: Surname First Name Middle Name

Identification Type

Identification No.

Signature & Date



**FOR BANK USE ONLY**

Name of Officer \_\_\_\_\_ Signature \_\_\_\_\_

iii. Name: Surname First Name Middle Name

Identification Type

Identification No.

Signature & Date



**FOR BANK USE ONLY**

Name of Officer \_\_\_\_\_ Signature \_\_\_\_\_

iv. Name: Surname First Name Middle Name

Identification Type

Identification No.

Signature & Date



**FOR BANK USE ONLY**

Name of Officer \_\_\_\_\_ Signature \_\_\_\_\_

v. Name: Surname First Name Middle Name

Identification Type

Identification No.

Signature & Date



**FOR BANK USE ONLY**

Name of Officer \_\_\_\_\_ Signature \_\_\_\_\_

vi. Name: Surname First Name Middle Name

Identification Type

Identification No.

Signature & Date



**FOR BANK USE ONLY**

Name of Officer \_\_\_\_\_ Signature \_\_\_\_\_

NOTE: The institution can provide more space if the number of Signatories to the account is more than spaces (6) provided.

**12. DECLARATION:**

(/We hereby apply for the opening of account(s) with \_\_\_\_\_ Bank Plc, I understand that the information given herein and the documents supplied are the basis for opening said account(s) and I/We therefore warrant that both information is correct.

(/We have read the terms and conditions governing the operation of the account(s) which are presented on/with and agree to be bound by them.

\_\_\_\_\_

Signature

\_\_\_\_\_



ACCOUNT No. (for official use only)

\_\_\_\_\_

**13. REQUIREMENT CHECKLIST (FOR BANK USE ONLY)**

**Savings Account**

S/N	DOCUMENTS REQUIRED	CHECKED	DEFERRED	WAVED
1.	Duly completed Account opening form			
2.	Specimen signature card duly completed			
3.	Three (3) recent passport photographs			
4.	Proof of Identity: International passport, Driver's license or National ID card (original name to match)			
5.	Proof of Address: Utility bill (Caribbean or foreign acceptable if signed in our name)			
6.	Letter from Employer / School / NYSC (no salary account set in trust only)			
7.				

**Current/Domestic Account**

S/N	DOCUMENTS REQUIRED	CHECKED	DEFERRED	WAVED
1.	Duly completed Account opening form			
2.	Specimen signature card duly completed			
3.	Three (3) recent passport photographs			
4.	Two (2) independent and satisfactory references			
5.	Proof of Money: International passport, Driver's license or National ID card (original name to match)			
6.	Proof of Address: Utility bill (Caribbean or foreign acceptable if signed in our name)			
7.	Letter from employer (no salary account set)			
8.	Resident permit (for domiciliary account set)			
9.	Other Documents Provided:			

**14. AUTHENTICATION FOR FINANCIAL INCLUSION**

- i. Is the customer socially or financially disadvantaged? YES  NO
- ii. If answer to the question (i) above is yes, state other documents obtained in line with the bank's policy on socially/financially disadvantaged customer in compliance with paragraph 2.6.1.5.8 of AML/CFT Regulation, 2009  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_ YES  NO
- iii. One of the  and the other  JHXS Redu  sent?

**15. AUTHENTICATION FOR POLITICALLY EXPOSED PERSONS**

Is the Applicant a Politically Exposed Person? YES  NO

**For Bank Use Only:**

**A. ACCOUNT OPENED BY:**

Name

Signature \_\_\_\_\_ Date

Name

Signature \_\_\_\_\_ Date

**B. DEFERRAL/WAIVER OF DOCUMENT (IF ANY) AUTHORIZED BY:**

Name

Signature \_\_\_\_\_ Date

Name

Signature \_\_\_\_\_ Date

**C. ADDRESS VERIFICATION CARRIED OUT BY:**

Name

Signature \_\_\_\_\_ Date

Name

Signature \_\_\_\_\_ Date

**COMMENT(S):**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**D. ACCOUNT OPENING APPROVED BY:**

Name

Signature \_\_\_\_\_ Date

Name

Signature \_\_\_\_\_ Date

**R**



**ACCOUNT OPENING FORM - COMPANIES, PARTNERSHIP & SOLE PROPRIETORSHIP**

Account Type (please tick) Current Account  Fixed Deposit Account  Domiciliary Account  **S E V C**

ACCOUNT No. (for official use only)

BRANCH \_\_\_\_\_

**1. COMPANY DETAILS ( Please complete in BLOCK LETTERS and tick where necessary)**

Company Name \_\_\_\_\_

Certificate of incorporation number \_\_\_\_\_

Date of Incorporation **S E V C**

Type of Business \_\_\_\_\_

Operating Business Address \_\_\_\_\_

Corporate Business Address/ Registered office (if different from above) \_\_\_\_\_

Email address \_\_\_\_\_

Website (if any) \_\_\_\_\_

Phone Number (1) \_\_\_\_\_ Phone Number (2) \_\_\_\_\_

The identification Number (TIN) \_\_\_\_\_ CRN (for Sole Proprietor's Code) \_\_\_\_\_

**2. ANNUAL TURNOVER**

NS \$10m - Above  NA \$100m - \$500 \$100m  \$499.99 \$100m - \$500 \$100m  \$99.99 \$100m below

Is Your Company Quoted On The Stock Exchange? Yes  No

**3. ACCOUNT SERVICE(S) REQUIRED (Please tick option below)**

Card Preferences: Debit/ATM Card  Master Card  Visa Card  (Click for Application for Sole Proprietorship Account Only)

Internet Banking Preferences: Internet Banking  Internet Banking Token (For approval)  Mobile Banking  Biometric ATM

Transaction Alerts Preferences: Email Alert (Free)  SMS Alert (Fee applies)

Statement Preferences: Email  Print  Frequency: Monthly  Quarterly  Semi Quarterly

Cheque Book Requirement: Opened Cheque  Closed Cheque  \$0 Leaves  100 Leaves

**4. CHEQUE CONFIRMATION THRESHOLD**

You will be required to pre-confirm any cheque above \$100,000.00

If you would like to have a higher threshold for pre-confirmation, please specify the amount (i.e. threshold above \$100,000.00): \_\_\_\_\_

**5. KEY CONTACT PERSONS/PRINCIPAL OFFICERS DETAILS:**

1. Surname

First Name

Middle Name

Date of Birth:       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

2. Surname

First Name

Middle Name

Date of Birth:       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

3. Surname

First Name

Middle Name

Date of Birth:       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

4. Surname

First Name

Middle Name

Date of Birth:       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

**6. ACCOUNT SIGNATORY'S DETAILS**

1. Surname

First Name

Middle Name

Date of Birth       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

Class of Signatory  Signature \_\_\_\_\_ Date

(Please indicate class in the box provide)

2. Surname

First Name

Middle Name

Date of Birth       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

Class of Signatory  Signature \_\_\_\_\_ Date

(Please indicate class in the box provide)

3. Surname

First Name

Middle Name

Date of Birth       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

Class of Signatory  Signature \_\_\_\_\_ Date

(Please indicate class in the box provide)

**7. DIRECTOR'S DETAILS**

1. Surname

First Name

Middle Name

Date of Birth       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

Signature \_\_\_\_\_ Date

2. Surname

First Name

Middle Name

Date of Birth       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

Signature \_\_\_\_\_ Date

3. Surname

First Name

Middle Name

Date of Birth       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

Signature \_\_\_\_\_ Date

**6. FOR SOLE PROPRIETORSHIP**

**I. PERSONAL INFORMATION**

Title  Surname

First Name

Middle Name

Nick Name  Gender:  F  M

Marital Status (Please use Single  Married  Other (please specify)  Date of Birth

Home / Mobile No.

Residence permit No.

State of Origin  LGA

Tax Identification Number (TIN)

**II. CONTACT DETAILS**

Residential Address

Street Number  Street Name

City/Town

Landmark

Phone Number (1)  Phone Number (2)

Email Address

**III. MEANS OF IDENTIFICATION**

National ID Card  National Driver's License  International Passport  \*Other (please specify)

ID No.  ID Issue Date  ID Expiry Date

\* Please attach a photocopy of the document. Attach four copies. Attach photocopy of your international ID.

**IV. DETAILS OF NEXT OF KIN**

Surname

First Name

Full Name

Relationship  Mobile Number

Email Address

Current Details

Street Number  Street Name

City/Town

Landmark

V. DETAILS OF NEXT OF KIN	
Surname	<input type="text"/>
Middle Name	<input type="text"/>
First Name	<input type="text"/>
Relationship	<input type="text"/> Mobile Number <input type="text"/>
E-mail Address:	<input type="text"/>
Contact Details	
Street Number	<input type="text"/> Street Name <input type="text"/>
	<input type="text"/>
City/Town	<input type="text"/>
Nearest Bus Stop	<input type="text"/>
9. ADDITIONAL DETAILS:	
I. Name of affiliated company/body: 1.	<input type="text"/>
	2. <input type="text"/>
	3. <input type="text"/>
II. PRINCIPAL SHAREHOLDERS (Shareholding of 5% and above)	
a. Surname	<input type="text"/>
Middle Name	<input type="text"/>
First Name	<input type="text"/>
Residential Address:	<input type="text"/>
	<input type="text"/>
Status	<input type="text"/> Percentage holding <input type="text"/>
Mobile Number	<input type="text"/>
E-mail Address:	<input type="text"/>
b. Surname	<input type="text"/>
Middle Name	<input type="text"/>
First Name	<input type="text"/>
Residential Address:	<input type="text"/>
	<input type="text"/>
Status	<input type="text"/> Percentage holding <input type="text"/>
Mobile Number	<input type="text"/>
E-mail Address:	<input type="text"/>
c. Surname	<input type="text"/>
Middle Name	<input type="text"/>
First Name	<input type="text"/>
Residential Address:	<input type="text"/>
	<input type="text"/>
Status	<input type="text"/> Percentage holding <input type="text"/>
Mobile Number	<input type="text"/>
E-mail Address:	<input type="text"/>

**III. DETAILS OF ACCOUNT HELD WITH OTHER BANKS BY THE PROSPECTIVE COMPANY/PARTNERSHIP/SOLE PROPRIETORSHIP**

S/N	NAME AND ADDRESS OF BANK/BRANCH	ACCOUNT NAME	ACCOUNT NUMBER	DATE ACCOUNT OPENED	STATUS: ACTIVE/DORMANT
1.					
2.					
3.					
4.					

**IV. DIRECTOR BANK ACCOUNT DETAILS**

S/N	NAME AND ADDRESS OF BANK/BRANCH	ACCOUNT NAME	ACCOUNT NUMBER	DATE ACCOUNT OPENED	STATUS: ACTIVE/DORMANT
1.					
2.					
3.					
4.					

**IX. PARTICULARS OF REFEREES**

**1.**

Surname:

Middle Name:

First Name:

Name of Bank/Branch:

Banker's Address:

**2.**

Surname:

Middle Name:

First Name:

Name of Bank/Branch:

Banker's Address:

**11. AUTHORITY TO DEBIT ACCOUNT FOR SEARCH FEE**

\_\_\_\_\_  
Bank Plc.  
\_\_\_\_\_  
\_\_\_\_\_

Dear Sir,

We hereby authorise you to debit our account with the sum of N \_\_\_\_\_ being the legal cost of search conducted on our account at the Corporate Affairs Commission.  
Thank you.

Yours faithfully,

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**12. LETTER OF SET-OFF**

\_\_\_\_\_  
Bank Plc.  
\_\_\_\_\_  
\_\_\_\_\_

Miss/Mr/Mrs/Chief \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

I/We agree that you (in addition to any general lien or similar right to which you as my/our banker may have at any time and without notice to me/us) combine or consolidate all or any of the company's accounts with all liabilities to you and set off or transfer any sum standing to the credit of any such accounts, be it cash, cheques, valuable deposits, securities, negotiable instruments or other assets belonging to me/us with you in or towards satisfaction of any of my/our liabilities to you or any other account or in any other respect, whether such liabilities be actual or contingent, primary or collateral, several or joint.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



**12. ACCOUNT OPENING MANDATE**

a. Type of Account: \_\_\_\_\_

b. Name of Organization: \_\_\_\_\_

c. Account No: \_\_\_\_\_

d. Signatories:

i. Name: Surname First Name Middle Name

Identification Type: \_\_\_\_\_

Identification No: \_\_\_\_\_

Signature & Date: \_\_\_\_\_

FOR BANK USE ONLY

Name of Officer: \_\_\_\_\_ Signature: \_\_\_\_\_

PHOTO

ii. Name: Surname First Name Middle Name

Identification Type: \_\_\_\_\_

Identification No: \_\_\_\_\_

Signature & Date: \_\_\_\_\_

FOR BANK USE ONLY

Name of Officer: \_\_\_\_\_ Signature: \_\_\_\_\_

PHOTO

ii. Name: Surname First Name Middle Name

Identification Type: \_\_\_\_\_

Identification No: \_\_\_\_\_

Signature & Date: \_\_\_\_\_

FOR BANK USE ONLY

Name of Officer: \_\_\_\_\_ Signature: \_\_\_\_\_

PHOTO

iii. Name: Surname First Name Middle Name

Identification Type: \_\_\_\_\_

Identification No: \_\_\_\_\_

Signature & Date: \_\_\_\_\_

FOR BANK USE ONLY

Name of Officer: \_\_\_\_\_ Signature: \_\_\_\_\_

PHOTO

v. Name: Surname First Name Middle Name

Identification Type: \_\_\_\_\_

Identification No: \_\_\_\_\_

Signature & Date: \_\_\_\_\_

FOR BANK USE ONLY

Name of Officer: \_\_\_\_\_ Signature: \_\_\_\_\_

PHOTO

vi. Name: Surname First Name Middle Name

Identification Type: \_\_\_\_\_

Identification No: \_\_\_\_\_

Signature & Date: \_\_\_\_\_

FOR BANK USE ONLY

Name of Officer: \_\_\_\_\_ Signature: \_\_\_\_\_

PHOTO

NOTE: The institution can provide more space if the number of Signatories to the account is more than spaces (6) provided

**14. TERMS AND CONDITION**

*[Faint, illegible text area for terms and conditions]*

**15. MANDATE & RESOLUTION**

**CUSTOMER INFORMATION**

We hereby certify for the opening of any account or accounts with \_\_\_\_\_ Bank Plc.  We understand that the information given herein is the basis for opening such account(s) and hereby warrant that such information is correct.

We agree to use the account for only transactions permitted by law and to be bound by the terms and conditions governing the operation of the account(s).

Authorized Signature of the Customer / Representative & Date

Authorized Signature of the Customer / Representative & Date

**16. SIGNED, SEALED & DELIVERED BY THE WITHIN NAMED PERSON**

Name: \_\_\_\_\_  
 Sex: \_\_\_\_\_

Signature: \_\_\_\_\_ Date:

Name: \_\_\_\_\_  
 State: \_\_\_\_\_

Signature: \_\_\_\_\_ Date:

\_\_\_\_\_  
 Company Address

**17. IN THE PRESENCE OF**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Occupation: \_\_\_\_\_

Signature: \_\_\_\_\_ Date:

**FOR BANK USE ONLY**

**II. REQUIREMENTS CHECKLIST**

S/N	DOCUMENTS REQUIRED	CHECKED	DEFERRED	WAVED	N/A
1.	Account opening form duly completed				
2.	Specimen signature card duly completed				
3.	Copy of certificate of incorporation				
4.	Board Resolution				
5.	Copy of Memorandum and Article of Association (certified as true copy by the Registrar of Company)				
6.	(a) Form C07 Particulars of Directors				
7.	(b) Form C02 Allotment of Shares				
8.	Partnership Deed				
9.	Approval Letter ( for Government Agency)				
10.	Gazette( for Government Agency)				
11.	Two(2) passport sized photographs of each signatory to the account with name written on the reverse side				
12.	Introduction letter with two (2) passport sized photographs of contact persons or authorized agents				
13.	Status report from Banker ( where Applicable)				
14.	Resident Permit ( for non Nigerians)				
15.	Evidence of Registration with NPC				
16.	Search Report				
17.	Power of Attorney				
18.	Letter of indemnity				
19.	Proof of Company address				
20.	Business Premises visitation certificate				
21.	Proof of identity of all Signatories and Directors				
22.	Proof of Address all Signatories and Directors: Utility bill (Certified true copy is acceptable if original is not held)				
	Other (please specify)				

For Bank Use Only:

**A. ACCOUNT OPENED BY:**

Name:

Signature: \_\_\_\_\_ Date:

Name:

Signature: \_\_\_\_\_ Date:

**B. DEFERRAL/WAIVER OF DOCUMENT (IF ANY) AUTHORIZED BY:**

Name:

Signature: \_\_\_\_\_ Date:

Name:

Signature: \_\_\_\_\_ Date:

**C. ADDRESS VERIFICATION CARRIED OUT BY:**

Name:

Signature: \_\_\_\_\_ Date:

Name:

Signature: \_\_\_\_\_ Date:

COMMENT(S):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**D. ACCOUNT OPENING APPROVED BY:**

Name:

Signature: \_\_\_\_\_ Date:

Name:

Signature: \_\_\_\_\_ Date:

**ACCOUNT OPENING FORM - DESIGNATED NON-FINANCIAL INSTITUTIONS (DNFIS)**

Occupation Pension Scheme Account  Charity Account  Religion Organisation  Societies & Clubs Account  Others

Account type ( Please indicate the type of account you want to open by ticking in the box below

Current Account  Fixed Deposit Account  Domiciliary Account  **S E Y £**

This form should be completed in CAPITAL LETTERS using BLOCK BOX Characters and marks should be made in style as the following **0000**

ACCOUNT No. (for official use only)

BRANCH \_\_\_\_\_

**1. ACCOUNT DETAILS ( Please complete in BLOCK LETTERS and tick where necessary)**

Name of Organisation: \_\_\_\_\_

Certificate of Registration Number \_\_\_\_\_

Date of Registration **0 0 0 0 0 0 0 0**

Registered Address \_\_\_\_\_

Mailing/Correspondence Address \_\_\_\_\_

State (For Public Org.) \_\_\_\_\_ L.G.A.(For Public Org.) \_\_\_\_\_

Email address \_\_\_\_\_

Website (if any) \_\_\_\_\_

Phone Number (1) \_\_\_\_\_ Phone Number (2) \_\_\_\_\_

Tax Identification Number (TIN) \_\_\_\_\_

**2. ACCOUNT SERVICE(S) REQUIRED (Please tick option below)**

Internet Banking Preferences: Internet Banking  Internet Banking Token (Fee applies)  Mobile Banking  Biometric ATM

Transaction Alert Preferences: Email Alert (Free)  SMS Alert (Fee applies)

Statement Preferences: Email  Print  Frequency: Monthly  Quarterly  Semi-Quarterly

Cheque Book Requirements: Optical Cheques  Coloured Cheques  50 Leaves  100 Leaves

**3. CHEQUE CONFIRMATION THRESHOLD**

You will be required to pre-confirm any cheque above **Rs.000.00**  
If you would like to have a higher threshold for pre-confirmation, please specify the amount (in threshold above **Rs.000.00**): \_\_\_\_\_

**4. PARTICULARS OF KEY CONTACT PERSONS**

1. Surname

First Name

Middle Name

Date of Birth:       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

2. Surname

First Name

Middle Name

Date of Birth:       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

3. Surname

First Name

Middle Name

Date of Birth:       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

4. Surname

First Name

Middle Name

Date of Birth:       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

**E. ACCOUNT SIGNATORY'S DETAILS**

1. Surname: \_\_\_\_\_  
 First Name: \_\_\_\_\_  
 Middle Name: \_\_\_\_\_  
 Date of Birth:       Gender: M  F  Mother's Maiden Name: \_\_\_\_\_  
 Means Of Identification: \_\_\_\_\_ ID Number: \_\_\_\_\_  
 Occupation: \_\_\_\_\_  
 Job Title: \_\_\_\_\_  
 Residential Address: \_\_\_\_\_  
 \_\_\_\_\_  
 Mobile Number: \_\_\_\_\_ E-mail: \_\_\_\_\_  
 Class of Signatory \_\_\_\_\_ Signature \_\_\_\_\_ Date

2. Surname: \_\_\_\_\_  
 First Name: \_\_\_\_\_  
 Middle Name: \_\_\_\_\_  
 Date of Birth:       Gender: M  F  Mother's Maiden Name: \_\_\_\_\_  
 Means Of Identification: \_\_\_\_\_ ID Number: \_\_\_\_\_  
 Occupation: \_\_\_\_\_  
 Job Title: \_\_\_\_\_  
 Residential Address: \_\_\_\_\_  
 \_\_\_\_\_  
 Mobile Number: \_\_\_\_\_ E-mail: \_\_\_\_\_  
 Class of Signatory \_\_\_\_\_ Signature \_\_\_\_\_ Date

3. Surname: \_\_\_\_\_  
 First Name: \_\_\_\_\_  
 Middle Name: \_\_\_\_\_  
 Date of Birth:       Gender: M  F  Mother's Maiden Name: \_\_\_\_\_  
 Means Of Identification: \_\_\_\_\_ ID Number: \_\_\_\_\_  
 Occupation: \_\_\_\_\_  
 Job Title: \_\_\_\_\_  
 Residential Address: \_\_\_\_\_  
 \_\_\_\_\_  
 Mobile Number: \_\_\_\_\_ E-mail: \_\_\_\_\_  
 Class of Signatory \_\_\_\_\_ Signature \_\_\_\_\_ Date

**6. PARTICULAR OF TRUSTEES/PROMOTERS**

1. Surname

First Name

Middle Name

Date of Birth       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

Signature \_\_\_\_\_ Date

2. Surname

First Name

Middle Name

Date of Birth       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

Signature \_\_\_\_\_ Date

3. Surname

First Name

Middle Name

Date of Birth       Gender: M  F  Mother's Maiden Name:

Means Of Identification  ID Number

Occupation

Job Title

Residential Address

Mobile Number  E-mail:

Signature \_\_\_\_\_ Date

4



V. ADDITIONAL DETAILS													
G. Name of affiliated company(ies):		1.											
		2.											
		3.											
H. Source of Fund to the Account:													
I. Name of Beneficial Owner(s):													
IV. DETAILS OF ACCOUNT HELD WITH OTHER BANKS BY THE PROSPECTIVE DIPPS													
SN	NAME AND ADDRESS OF BANK BRANCH	ACCOUNT NAME	ACCOUNT NUMBER	DATE ACCOUNT OPENED	STATUS: ACTIVE/DORMANT								
1.													
2.													
3.													
4.													
V. DETAILS OF ACCOUNT OF TRUSTEES/PROMOTERS													
SN	NAME AND ADDRESS OF BANK BRANCH	ACCOUNT NAME	ACCOUNT NUMBER	DATE ACCOUNT OPENED	STATUS: ACTIVE/DORMANT								
1.													
2.													
3.													
4.													
E. PARTICULARS OF REFOURCES													
1.													
Source:													
Title Name:													
First Name:													
Name of Bank/Branch:													
Bank's Address:													
2.													
Source:													
Title Name:													
First Name:													
Name of Bank/Branch:													
Bank's Address:													

**8. AUTHORITY TO DEBIT ACCOUNT FOR SEARCH FEE**

**AUTHORITY TO DEBIT OUR CURRENT ACCOUNT FOR SEARCH FEE**

**12. LETTER OF SET-OFF**

**LETTER OF SET-OFF**

I/We agree that you [in addition to any general lien or similar right to which you as my/our banker may have at any time and without notice to me/us] combine or consolidate all or any of the company's accounts with all liabilities to you and set off or transfer any sum standing to the credit of any such accounts, be it cash, cheques, valuable, deposits, securities, negotiable instruments or other assets belonging to me/us with you in or towards satisfaction of any of my/our liabilities to you or any other account or in any other respect, whether such liabilities be actual or contingent, primary or collateral, several or joint.

**II. ACCOUNT OPENING HARDDATE**

**SET**

a. Type of Account

b. Name of Organization

c. Account No.

d. Signatories

1. Name: Surname First Name Middle Name

Identification Type

Identification No.

Signature & Date

PHOTO

FOR BANK USE ONLY

Name of Officer

Signature

2. Name: Surname First Name Middle Name

Identification Type

Identification No.

Signature & Date

PHOTO

FOR BANK USE ONLY

Name of Officer

Signature

3. Name: Surname First Name Middle Name

Identification Type

Identification No.

Signature & Date

PHOTO

FOR BANK USE ONLY

Name of Officer

Signature

4. Name: Surname First Name Middle Name

Identification Type

Identification No.

Signature & Date

PHOTO

FOR BANK USE ONLY

Name of Officer

Signature

5. Name: Surname First Name Middle Name

Identification Type

Identification No.

Signature & Date

PHOTO

FOR BANK USE ONLY

Name of Officer

Signature

6. Name: Surname First Name Middle Name

Identification Type

Identification No.

Signature & Date

PHOTO

FOR BANK USE ONLY

Name of Officer

Signature

NOTE: The institution can provide more space if the number of Signatories to the account is more than spaces (6) provided:

**12. TERMS AND CONDITION**

**13. MANDATE & RESOLUTION**

**CUSTOMER INFORMATION**

I/We hereby apply for the opening of any account or accounts with \_\_\_\_\_ Bank Plc. I/We understand that the information given herein is the basis for opening such account(s) and hereby warrant that such information is correct.

I/We agree to use this account for only transactions permitted by law and to be bound by the terms and conditions governing the operation of the account(s).

Authorized Signature of the Customer / Representative & Date: \_\_\_\_\_

Authorized Signature of the Customer / Representative & Date: \_\_\_\_\_

**14. SIGNED, SEALED & DELIVERED BY THE WITHIN NAMED PERSON**

Name:	
Date:	

Signature: _____	Date: [ ][ ] [ ][ ] [ ][ ] [ ][ ] [ ][ ]
------------------	--

Name:	
Spec:	

Signature: _____	Date: [ ][ ] [ ][ ] [ ][ ] [ ][ ] [ ][ ]
------------------	--

. Company Seal Here

**15. IN THE PRESENCE OF:**

Name:	
Address:	

Signature: _____	Date: [ ][ ] [ ][ ] [ ][ ] [ ][ ] [ ][ ]
------------------	--



FOR BANK USE ONLY

14. REQUIREMENTS CHECKLIST

S/N	DOCUMENTS REQUIRED	CHECKED	DEFERRED	NAVED	NA
1.	Account opening form duly completed				
2.	Specimen signature card duly completed				
3.	Copy of certificate of Registration				
4.	Search Executive Council Resolution				
5.	Copy of Memorandum and Articles of Association (Certified as true copy by the Registrar of Companies)				
6.	(i) Form COT Particulars of Director/Trustee/Proprietor				
7.	Copy Form 1				
8.	Two (2) passport sized photographs of each signatory to the account with name written on the reverse side				
9.	Introduction letter with two (2) passport sized photographs of contact persons or authorized agent				
10.	Status report from Banker (where Applicable)				
11.	Residence Permit (For non-Nigerians)				
12.	Certificate of Registration with SCLP.				
13.	Search Report				
14.	Power of Attorney				
15.	Letter of Indemnity				
16.	Proof of Organisation address				
17.	Registered Address location certificate				
18.	Proof of identity of all Signatories and Trustees/Proprietors				
19.	Proof of Address all Signatories and Trustees/Proprietors (Utility bill (Certified as true & accurate & signed & dated))				
20.	Other (please specify)				

17. ForBank Use Only

**A. ACCOUNT OPENED BY:**

Name:

Signature: \_\_\_\_\_ Date:

Name:

Signature: \_\_\_\_\_ Date:

**B. DEFERRAL/WAIVER OF DOCUMENT(IF ANY) AUTHORIZED BY:**

Name:

Signature: \_\_\_\_\_ Date:

Name:

Signature: \_\_\_\_\_ Date:

**C. ADDRESS VERIFICATION CARRIED OUT BY:**

Name:

Signature: \_\_\_\_\_ Date:

Name:

Signature: \_\_\_\_\_ Date:

COMMENT(S):  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**D. ACCOUNT OPENING APPROVED BY:**

Name:

Signature: \_\_\_\_\_ Date:

Name:

Signature: \_\_\_\_\_ Date:

**18**



## CENTRAL BANK OF NIGERIA

Financial Policy & Regulation Department  
Central Business District  
P.M.B. 0117  
Garki, Abuja

Tel: 09-46237401

E-mail: [fmpr@cbn.gov.ng](mailto:fmpr@cbn.gov.ng)

September 24, 2012

**FPR/DIR/CIR/GEN/01/33**

**Circular to all Banks, Discount Houses and Development Finance Institutions**

**IMPLEMENTATION OF SUSTAINABLE BANKING PRINCIPLES BY BANKS,  
DISCOUNT HOUSES AND DEVELOPMENT FINANCE INSTITUTIONS IN NIGERIA**

The Bankers' Committee, at its retreat of July 14, 2012, approved the adoption of the Nigeria Sustainable Banking Principles by banks, discount houses and development finance institutions in Nigeria. This is in furtherance of the Bankers Committee's commitment to deliver positive development impacts to society while protecting the communities and environment in which financial institutions and their clients operate.

To enable effective implementation of these principles, the following documents, which were considered at that meeting, are hereby issued to banks, discount houses and development finance institutions:

- 1) The Nigeria Sustainable Banking Principles
- 2) The Nigeria Sustainable Banking Principles Guidance Notes
- 3) Nigeria Sustainable Banking Principles Power Sector Guidelines
- 4) Nigeria Sustainable Banking Principles Agriculture Sector Guidelines  
and
- 5) Nigeria Sustainable Banking Principles Oil and Gas Sector Guidelines

Successful implementation of these principles and guidelines will require banks, discount houses and development finance institutions to develop a management approach that balances the environmental and social (E&S) risks identified with the opportunities to be exploited through their business activities. E& S risk management will ensure stronger overall risk management for the concerned institutions.

The adoption of these principles will no doubt enhance the adopting institutions' financial success over the longer term while ensuring that they remain environmentally and socially responsible.

The Central Bank of Nigeria (CBN) directs full adoption and implementation of these principles and guidelines by all banks discount houses and development finance institutions and will provide incentives, as necessary, to those institutions that take concrete measures to embed the provisions of these principles and guidelines into their operational, enterprise risk management and other governance frameworks.

To enable the CBN track the progress of implementation and adherence to the Principles and Guidelines, banks, discount houses and development finance institutions will be required to submit regular reports to the CBN in line with reporting requirements which will be made available to the industry.

This circular supersedes our circular referenced FPR/DIR/CIR/GEN/01/030 dated September 3, 2012 and takes effect from September 26, 2012.



**Solu Awoyungbo**  
For: Director,  
Financial Policy and Regulation Department



# **NIGERIAN SUSTAINABLE BANKING PRINCIPLES**

**FINAL VERSION**

**July 2012**

## **Joint Commitment Statement**

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The Bankers' Sub-Committee on Economic Development and Sustainability, in conjunction with sector regulators and financial services providers, hereby commit to the following set of principles herein known as the Nigerian Sustainable Banking Principles. In addition, guidelines for engaging three priority sectors have been developed: Agriculture Sector Guideline, Power Sector Guideline and Oil and Gas Sector Guideline. The undersigned further commit to apply these guidelines in support of the implementation of the Principles.

Central Bank of Nigeria

Nigeria Deposit Insurance Corporation

Access Bank Plc

Associated Discount House Ltd

Bank of Agriculture

Bank of Industry

Citi Bank Nigeria Limited

Consolidated Discounts Ltd

Diamond Bank Plc

Ecobank Plc

Enterprise Bank Ltd

Express Discounts Ltd

Federal Mortgage Bank of Nigeria

Fidelity Bank Plc

First Bank of Nigeria Plc

First City Monument Bank Plc

First Securities Discount House Ltd

Guaranty Trust Bank Plc

Jaiz Bank

Kawaka Discounts House Ltd

Keystone Bank Ltd

Mainstreet Bank Ltd

Nigeria Agricultural Cooperative And Rural Development

Nigeria Export Import Bank

Skye Bank Plc

Stanbic IBTC Bank Plc  
Standard Chartered Bank Nigeria Ltd  
Sterling Bank Plc  
Union Bank Of Nigeria Plc  
United Bank Of Africa Plc  
Unity Bank Of Nigeria Plc  
Urban Development Bank Of Nigeria Plc  
Wema Bank Plc  
Zenith Bank Plc

## Introduction

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As business leaders in the Nigerian financial sector, the banking sector is uniquely positioned to further economic growth and development in Nigeria through its lending and investment activities. The context in which business decisions are made is, however, characterised by complex and growing challenges relating to population growth, urban migration, poverty, destruction of biodiversity and ecosystems, pressure on food sources, prices and security, lack of energy and infrastructure and potential climate change legislation from our trade partners, amongst others. Increasingly, it has been demonstrated that the development imperative in Nigeria should not only be economically viable, but socially relevant and environmentally responsible.

The members of the Bankers' Committee have adopted these Principles in recognition of the Nigerian banking sector's role and responsibility to deliver positive development impacts to society whilst protecting the communities and environments in which we operate. We believe that such an approach, one of sustainable banking, is consistent with our individual and collective business objectives, and can stimulate further economic growth and opportunity as well as enhance innovation and competitiveness.

We seek to lead by example, by considering the direct impacts on the environment and society arising from our own business operations. We will work to be a driving force for good in the communities and natural environment in which we operate by finding ways to avoid or mitigate negative impacts whilst innovating new means to achieve positive gains.

We will also consider our indirect impacts on the environment and society arising from our capital allocation decisions. We will seek to avoid negative impacts on the environment and communities where possible, and if these impacts are unavoidable, they should be minimised or offset appropriately.

We believe that adherence to these Principles will provide benefits to our businesses, our clients, our communities and our environment. We are thus prepared to take steps to ensure that our business-decision making activities take the above considerations into account and are, where appropriate, consistent with applicable international standards and practices, but with due regard for the Nigerian context and distinct development needs.

If a journey of a thousand miles begins with a single step, sustainable banking is our journey and these Principles form our first step. We recognise that not all of our signatories are starting the journey from the same place. We thus acknowledge the need for an incremental process that focuses on moving as one. These Principles are intended to serve as a common baseline and framework for the implementation by each adopting organisation of its own internal environmental and social or corporate social responsibility policies and standards, consistent with its own core values and business operations.

We recognise that we may not get everything right the first time. We will review these Principles on an annual basis based on our implementation experience, and in order to reflect on-going learning and emerging good practice. We will thus seek to evaluate and report on an annual basis our individual bank as well as collective sector progress against the Principles. We will celebrate our successes and acknowledge our progress whilst remaining mindful of areas requiring improvement.

We acknowledge that we can better support environmentally and socially responsible economic development in Nigeria by joining forces rather than standing alone. We have adopted these Principles to drive long-term sustainable growth whilst focusing on development priorities, safeguarding the environment and our people, and delivering measurable benefits to society and the real economy.

## The Nigerian Sustainable Banking Principles

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### **Principle 1 | Our Business Activities<sup>1</sup>: Environmental and Social Risk Management**

We will integrate environmental and social considerations into decision-making processes relating to our Business Activities to avoid, minimise or offset negative impacts.

### **Principle 2 | Our Business Operations<sup>2</sup>: Environmental and Social Footprint<sup>3</sup>**

We will avoid, minimise or offset the negative impacts of our Business Operations on the environment and local communities in which we operate and, where possible, promote positive impacts.

### **Principle 3 | Human Rights**

We will respect human rights in our Business Operations and Business Activities.

### **Principle 4 | Women's Economic Empowerment**

We will promote women's economic empowerment through a gender inclusive workplace culture in our Business Operations and seek to provide products and services designed specifically for women through our Business Activities.

### **Principle 5 | Financial Inclusion**

We will promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector.

### **Principle 6 | E&S Governance**

We will implement robust and transparent E&S governance practices in our respective institutions and assess the E&S governance practices of our clients.

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<sup>1</sup> **Business Activities:** The provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium business lending, retail banking, trade and leasing, and other forms of direct lending.

<sup>2</sup> **Business Operations:** The undertakings of employees and the physical human capital, assets and infrastructure (e.g. offices, branches, equipment) that a Bank engages in the course of facilitating its Business Activities. This would also include suppliers, contractors and third party service providers engaged by a Bank in the course of facilitating its Business Operations and Business Activities.

<sup>3</sup> **Environmental & Social Footprint:** The total effect or impact that a Bank's Business Operations have on the environment and society in which it operates (e.g. the amount of natural resources used, the amount of waste produced, or the effects on local/host communities or the Bank's human capital).

**Principle 7 | Capacity Building**

We will develop individual institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our Business Activities and Business Operations.

**Principle 8 | Collaborative Partnerships**

We will collaborate across the sector and leverage international partnerships to accelerate our collective progress and move the sector as one, ensuring our approach is consistent with international standards and Nigerian development needs.

**Principle 9 | Reporting**

We will regularly review and report on our progress in meeting these Principles at the individual institution and sector level.

# **Nigerian Sustainable Banking Principles**

## **Guidance Note**



## July 2012 Glossary of Terms and Abbreviations

Term or Abbreviation	Definition or Explanation
<b>Bank</b>	A Nigerian: (a) money deposit Bank; (b) discount house; or (c) development Bank signatory to the Nigerian Sustainable Banking Principles Joint Commitment Statement.
<b>Business Operations</b>	The undertakings of employees and the physical human capital, assets and infrastructure (e.g. offices, branches, equipment) that a Bank engages in the course of facilitating its Business Activities. This would also include suppliers, contractors and third party providers engaged by a Bank in the course of facilitating its Business Operations and Business Activities.
<b>Business Activities</b>	The provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium business lending, retail banking, trade and leasing, and other forms of direct lending.
<b>CBN</b>	The Central Bank of Nigeria
<b>E&amp;S</b>	Environmental and Social
<b>E&amp;S footprint</b>	The total effect or impact that a Bank's Business Operations have on the environment and society in which it operates (e.g. the amount of natural resources used, the amount of waste produced, or the effects on local/host communities or the Bank's human capital).
<b>E&amp;S risks</b>	The potential E&S issues associated with a client or engagement that may imply exposure to risk and accordingly may need to be taken into account when making business and risk management decisions.
<b>E&amp;S impacts</b>	Any change, potential or actual, to (a) the physical,

	<p>natural, or cultural environment, and (b) impacts on surrounding community and workers, resulting from a business or business activity to be financed. E&amp;S impacts may be temporary or permanent, involving reversible or irreversible changes on the environment or society. Environmental risks can include changes to the atmosphere, water and land due to human activities (e.g. greenhouse gases, pollution, changes to habitats, etc.). Social risks can include impacts to a client's workforce as well as the surrounding community (e.g. occupational health and safety, human rights and labour standards, land disputes or resettlement, corruption, etc.).</p>
<b>E&amp;S opportunities</b>	<p>New business opportunities arising from meeting E&amp;S challenges such as development of clean or renewable technology, job creation and community development. Taking account of E&amp;S issues in making a business decision, could also lead to potential benefits to the client or the Bank providing financial services to the client.</p>
<b>Equator Principles</b>	<p>The Equator Principles are a voluntary set of standards for identifying, assessing and managing environmental and social risk in project financing.</p>
<b>IFC</b>	<p>International Finance Corporation</p>
<b>Principles</b>	<p>Nigerian Sustainable Banking Principles</p>
<b>SME</b>	<p>Small and Medium Enterprise</p>
<b>Sustainable Banking</b>	<p>We define sustainable banking as an approach that recognises the role of Banks in driving long-term economic development in Nigeria that is not only economically viable, but also environmentally responsible and socially relevant.</p>
<b>UNEP-FI</b>	<p>United Nations Environment Programme – Finance Initiative</p>

## Guidance Note for the Nigerian Sustainable Banking Principles

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### Introduction

**What:** The Principles have been developed by and for the banking sector in Nigeria to signal our commitment to economic growth that is environmentally responsible and socially relevant. As financiers and business leaders, we recognise the role that we can play to deliver positive development impacts to society whilst protecting the communities and environments in which we operate. Banks can deliver on this role by:

Understanding and appropriately managing the E&S risks and opportunities associated with their respective Business Activities and Business Operations;  
Improving economic stability by improving the lives of people through the protection of human rights, promotion of women's economic empowerment, and increased access to finance for the unbanked segments of the economy;  
Working together to develop across the sector the right governance structures, E&S management capacity and collaborative partnerships necessary to implement the Principles; and  
Measuring and reporting progress.

The implementation of the Principles can serve as a powerful platform to drive the kind of profitable yet sustainable economic growth the banking sector needs and wants to see in Nigeria. In particular, three sector-specific guidelines have been developed to frame the role of the Banks with regard to driving sustainable investment in and lending to three sectors critical to Nigeria's continued economic growth story: agriculture, power and oil and gas.

**Why:** The business activities of the clients that Banks fund can have potentially negative impacts on the environment or local communities where their clients operate. These negative impacts can include air or water pollution, destruction of biodiversity, threats to human health and safety, violations of labour rights, or displacement of livelihoods. Each of these issues may have hidden external costs which in turn hinder the overall growth prospects of the economy and society. When Banks provide financial products and services to clients with poor E&S performance, they not only enable such clients to impose these negative impacts on the environment and society, but expose themselves to risk in the form of credit

risk, reputational risk, and legal risk. In addition, a Bank's Business Operations may potentially have negative impacts on the environment or local community in which it operates. We therefore commit to leading by example and improving our own E&S performance.

We believe that Sustainable Banking is good business. If we appropriately manage E&S risks and opportunities, we will enhance our:

Overall risk management which in turn reduces costs and liabilities;

Ability to access capital and attract foreign investors and partners;

Financial and non-financial performance;

Brands and reputations at the individual organisation as well as sector level;

Operational efficiencies;

Ability to attract and retain talent;

Relationships with our clients by becoming a trusted advisor; and

Growth prospects by reaching new markets and innovating new products and services.

**How:** The Principles are based on leading international sustainable finance standards and established industry best practice, but they are developed in line with the Nigerian context and development needs. We have adopted a mitigation approach to our Business Activities and Business Operations in which we commit to avoid, minimise or offset negative E&S impacts where possible. At the same time, we have also sought to be pro-active about promoting positive development impacts where we can, recognising that the benefits to society can also drive business opportunities for Banks.

We have taken a Principles-based approach which means that we have not prescribed specific implementation requirements or rules. Therefore, the Principles shall be interpreted and applied by each Bank in a manner that provides for an appropriate fit with the Bank's core values, business model, and enterprise risk management framework. Each Bank will need to develop an E&S management system which incorporates the Principles and balances the identification of E&S risk and opportunities. The degree and level of E&S management should be commensurate with the scale and scope of a Bank's Business Activities and Business Operations.

Each Bank will apply the Principles to its domestic operations. Where relevant, it will be at the discretion of a Bank to determine whether to apply the Principles to its international Business Activities or Business Operations.

This Guidance Note:

Provides definitions of terms and abbreviations (see Glossary on page 2);

Describes each Principle and how it applies to the Business Activities and Business Operations of Banks;

Provides targets and recommended approaches to implementing each Principle; and suggests how a Bank can measure, monitor and report on its progress in meeting the Principles.

**When:** Upon adoption of the Principles, the Banks have 12 months to establish an E&S management system which includes, at a minimum, an overarching Sustainable Banking commitment statement, E&S policies and procedures, and a Sustainable Banking reporting framework. Implementation of the E&S management system begins in year two, including data capture for reporting purposes. All Banks must issue an initial Sustainable Banking report detailing their respective Principles implementation progress no later than 31 December 2013. A full Sustainable Banking report will be required from each bank no later than 31 December 2014.

### **Scope of Application**

The Principles and this Guidance Note apply to a Bank's: (a) Business Activities; and (b) Business Operations.

In the case of a Bank's Business Activities, how the Principles will be applied will depend on the nature of the Business Activity to be financed. Typically, the higher the level of E&S risk or E&S opportunity, the higher the level of attention and management required from a Bank. In addition to the type of transaction, the key considerations are the sector in which a client operates and the client's commitment and capability to manage E&S issues.

The Principles and this Guidance Note may not be appropriate for application to some financial services such as asset management or insurance or in the cases where there may be limited opportunity for a Bank to influence a client's E&S performance. A Bank must clearly indicate which financial products or services have been excluded from application of the Principles and provide justification in its Sustainable Banking policy.

## Implementation of the Principles

In summary, each Bank shall:

**Set the tone from the top:** Integrating the Principles into the organisational culture of a Bank requires strong executive leadership to ensure successful implementations. The Board should demonstrate its commitment to the Principles through its policies and decisions. Senior management shall be responsible for meeting targets set by the Board relating to the implementation of the Principles.

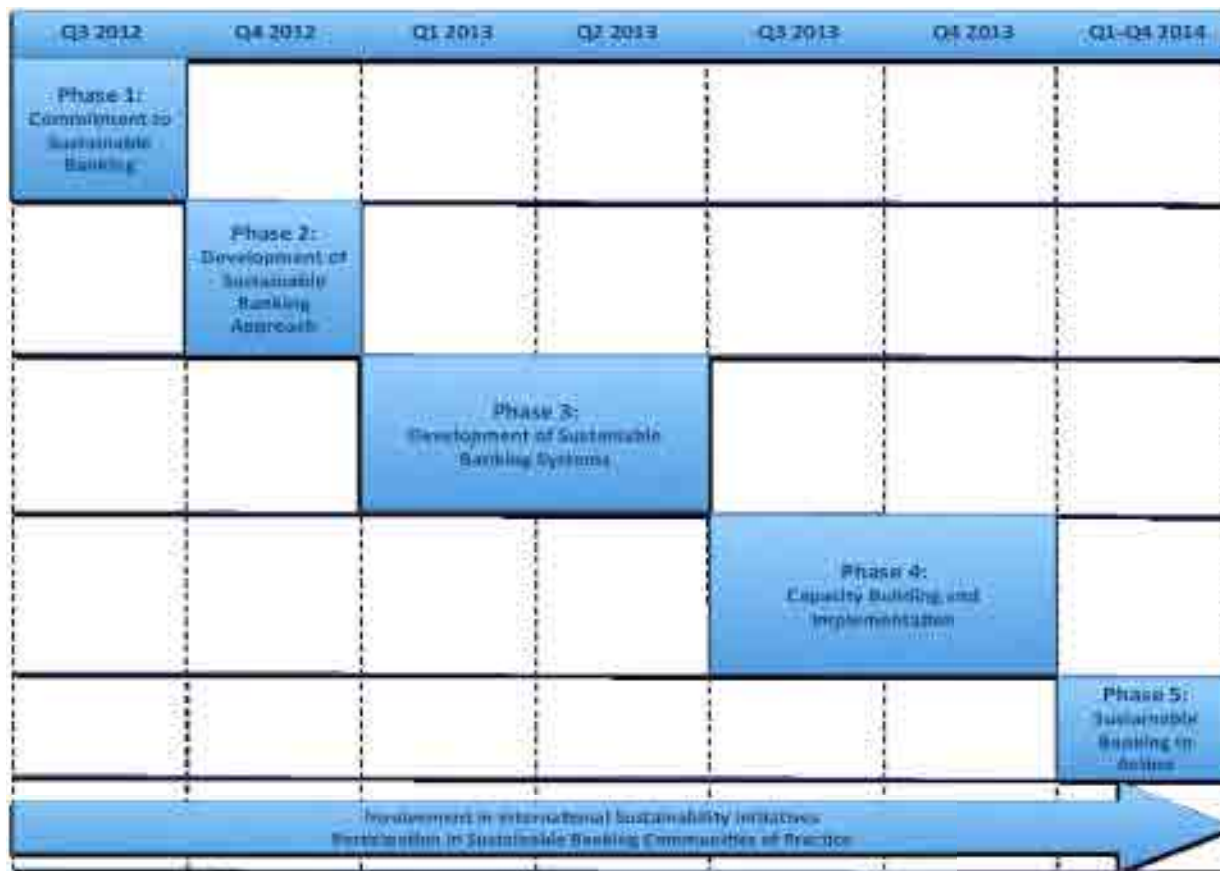
**Establish Sustainable Banking approach:** A Bank shall develop: (a) an overarching Sustainable Banking policy which defines its commitment and approach to Sustainable Banking and implementation of the Principles; (b) a set of Sustainable Banking procedures which detail how the Bank will manage E&S risk and opportunities consistent with its core business and existing internal decision-making processes; and (c) a Sustainable Banking reporting framework. A Bank's Sustainable Banking approach will:

**Articulate how the Principles are relevant** for the Bank's specific Business Activities and Business Operations and how the Bank will apply the Principles.

**Integrate the Principles into business decision-making processes** through the provision of assessment criteria and decision frameworks for Business Activities (an E&S management system) and for Business Operations (E&S Footprint management framework). These frameworks for applying the Principles should be consistent with, and integrated into, existing internal processes as well as, where applicable, a Bank's enterprise risk management framework

**Incorporate relevant international E&S standards and industry best practice:** In addition to compliance with local laws, all Banks shall apply, where relevant, international E&S standards and industry best practice such as the IFC Performance Standards, the Equator Principles for project finance, the World Bank Group Environmental, Health and Safety Guidelines for lending to different sector activities, or strategies for sustainable financing by UNEP-FI.

**Define clear E&S governance structures** relating to roles and responsibilities, practices and standards, codes of conduct, performance-linked incentives, audit procedures and disclosure requirements.



**Measure and report progress:** A Bank shall articulate objectives, performance indicators and milestones against which the Bank can measure its progress in implementing the Principles and its Sustainable Banking policy and procedures. As part of its public commitment to adopting the Principles, a Bank will report publicly its implementation progress on an annual basis.

**Build and maintain sufficient institutional capacity:** A Bank must dedicate adequate resources and capacity to deliver its Sustainable Banking commitments. Appropriate roles and responsibilities across functions must be identified and articulated, relevant employees trained, and performance indicators adjusted accordingly.

**Leverage collaborative partnerships:** A Bank should actively seek ways to deepen its understanding of sustainability issues and practices. Representation in international sustainability initiatives, platforms and commitments will support this objective but can also help to raise the profile of the Nigerian Sustainable Banking Principles internationally while providing a platform for knowledge sharing.

**Figure 1** below provides an overview of a Sustainable Banking Approach, incorporating each of the nine principles. Note that the main figure represents

application of the Principles at the individual Bank level, whereas “Capacity Building” and “Collaborative Partnerships” would apply at the individual Bank level as well as at the sector level.

**Figure 1: Sustainable Banking Model for Implementation of the Nigerian Sustainable Banking Principles**

An overview of the key implementation phases and activities for the next two years is provided below in Figure 2:

**Figure 2: Implementation Phases and Activities Timeline**

The table below provides a summary of the implementation phases and activities:

Phase 1: Commitment to Sustainable Banking	Phase 2: Development of Sustainable Banking Approach	Phase 3: Development of Sustainable Banking Systems	Phase 4: Capacity building and implementation	Phase 5: Sustainable Banking in Action	Ongoing
<ul style="list-style-type: none"> <li>Adoption of Principles</li> <li>Creation of Sustainable Banking Desks/Units</li> <li>Business Activities</li> <li>Business Operations</li> <li>Board Level Capacity Building</li> <li>Establish Sustainable Banking Committee</li> <li>Executive Level Capacity Building</li> </ul>	<ul style="list-style-type: none"> <li>Development of Sustainable Banking Approach                             <ul style="list-style-type: none"> <li>E&amp;S Management System</li> <li>E&amp;S Footprint Management</li> <li>Cross-Cutting Themes (HR, WEE, FI)</li> <li>Institutional Capacity Building</li> <li>Commitment to Standards</li> <li>Sustainable Banking Reporting Framework</li> </ul> </li> <li>Establish Sector Guideline approaches (incl. Targets/Reporting)</li> </ul>	<ul style="list-style-type: none"> <li>Develop E&amp;S Governance Framework</li> <li>Procedures/Systems Development (E&amp;S Management System, E&amp;S Footprint Management)</li> <li>Implementation Targets and Milestones (incl. 5 Year Plan)</li> <li>Reporting Criteria</li> </ul>	<ul style="list-style-type: none"> <li>Institutional Capacity Building</li> <li>Develop and deliver initiatives (WEE, FI)</li> <li>Client Engagement</li> <li>Initial Sustainable Banking Progress Report (31 Dec 2013)</li> </ul>	<ul style="list-style-type: none"> <li>First Full Sustainable Banking Report (31 Dec 2014)</li> </ul>	<ul style="list-style-type: none"> <li>Involvement in international sustainability initiatives</li> <li>Participation in Sustainable Banking Communities of Practice</li> </ul>

Further details about the specific activities are included in the following sections covering each of the Principles.



## Principle 1 | Our Business Activities: Environmental and Social Risk Management

**We will integrate environmental and social considerations into decision-making processes relating to our Business Activities to avoid, minimise or offset negative impacts.**

### What does this Principle mean?

In the delivery of its core Business Activities, a Bank may be exposed to the E&S risks associated with the underlying business activities of the clients it finances. These risks may represent credit and/or reputational risk, and a Bank needs to incorporate E&S risks into its enterprise risk management framework. In this way, a Bank can effectively assess and manage the level of E&S risk exposure associated with clients. A Bank's approach must be commensurate with the nature and scale of the client's operations, sector and the nature of E&S risks and potential impacts. By carefully considering the E&S risks and potential impacts associated with its clients, a Bank will be better able to manage reputational risk and improve the overall risk profile of its portfolio (e.g. credit, operational, legal risks). Senior management should, in the longer-term, seek to incorporate E&S risk and Sustainable Banking considerations into wider capital allocation decisions.

In applying this Principle, a Bank will incorporate in its decision-making processes an approach that systematically identifies, assesses and manages E&S risks and potential impacts associated with the client or business engagement. Where avoidance of E&S risk is not possible, a Bank should seek to engage with the client to minimise and/or offset identified risks and impacts, as appropriate.

### Understanding a Bank's exposure to E&S Risk

E&S issues<sup>4</sup> may include, but are not limited to, environmental damage, hazards to human health, safety and security, negative impacts on livelihoods and threats to a region's biodiversity and cultural heritage. A client will have control over the potential E&S impacts associated with its operations and can take the necessary action to mitigate these risks. A Bank can reduce its E&S risk exposure by ensuring that its clients can demonstrate the right level of commitment and capacity to manage E&S risks. Furthermore, a Bank can also assess the track record of its clients

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<sup>4</sup> For a more comprehensive list of E&S issues please refer to the following link (<http://firstforsustainability.org/risk-management/environmental-and-social-issues.php>)

in terms of performance in relation to E&S commitment and capacity. By assessing a client's E&S approach and performance, a Bank may identify opportunities to provide additional services to support clients with E&S issues (e.g. new financial services for specifically addressing E&S impacts).

The extent of a Bank's exposure to E&S risk depends on: (a) the type of products or services being provided; as well as (b) the nature of the Bank's involvement with a particular client and the likelihood and/or severity of potential E&S impacts. The financial product or service will be associated with high, medium or low levels of potential exposure to risk based on funding, tenor and the role of the Bank, including cases where the Bank takes an ownership stake in equity or a commodity. The higher the level of risk, the more involved the management response will need to be for any E&S issues associated with the transaction or client's business activities. A broad indication of the different types of financial products/services and potential level of exposure to risk along with the corresponding nature of E&S management response is illustrated in the table below:

<b>Type of Financial Products/Services</b>	<b>Potential Level of Exposure to Risk</b>	<b>Level of Response</b>
Long-term corporate lending, project finance and advisory, investment banking (corporate advisory, structured lending and capital, other debt and equity investments), structured commodity or trade finance with an ownership stake, private equity with a majority ownership, SME lending in a sensitive sector	High to Medium	Requires a more involved approach to managing E&S issues.
Short-term corporate lending, SME lending in a non-sensitive sector, private equity with a minority ownership, and other types of short-term direct lending	Medium to Low	Requires a moderate or lighter approach to managing E&S issues.
Retail banking, other research and advisory, short-term financing, trade, leasing	Low	Requires a light approach, if at all, to managing E&S issues.

Beyond the type of financial product or service, a Bank's exposure to E&S risk is determined by a client's sector, location and ability to manage E&S risks. Clients with higher potential exposure to E&S risk will require more detailed due diligence (for further details, please see the following section).

A Bank should apply its E&S risk management approach according to the expected level and nature of risk exposure to potential E&S impacts.

### **Implementation of Principle 1**

A Bank should develop and take a practical approach to integrating E&S risk considerations through the:

**Development of appropriate E&S policies:** A Bank must develop appropriate policies to integrate E&S risk considerations into its decision-making processes and enterprise risk management framework. This should include specific E&S policy application to different financial products and services, as part of the Bank's wider over-arching commitment to Sustainable Banking. E&S policies will need to state the E&S requirements and standards that apply to the different financial products and services of the Bank. If a Bank provides finance to sectors and geographies that are deemed more sensitive, additional sector or location specific E&S policies may need to be developed. All policy approaches should be appropriate for the financial products and services the Bank provides and should give attention to its priority sectors (e.g. Cement, Oil and Gas, Power, Infrastructure etc.). For example, a Bank may require different commitments for different business activities such as Project Finance or Retail Banking. At a minimum, Banks' E&S policies must commit to strictly review and potentially decline clients or engagements that do not comply with local E&S laws and regulations.

**Development of appropriate E&S procedures:** A Bank should develop appropriate E&S management procedures as a formal part of its client engagement and approval process to implement its E&S policies. These procedures would include:

**Screening for potential E&S risks across applicable client engagements and financial product / service types:** Screening would include identification of potential E&S risks which require further due diligence or risk management or exclusion of particular activities that the Bank will not finance (e.g. some

development finance institutions require the application of exclusion lists which prohibit certain activities).

**Categorisation of potential E&S risks:** A Bank should have in place a system to consistently categorise the potential E&S risks associated with its engagements and clients. A good practice system categorises potential E&S risk as high, medium or low (e.g. under the Equator Principles Category A is high risk with major or irreversible E&S impacts, Category B is medium risk with material but reversible E&S impacts and Category C is low risk with minor reversible E&S impacts). E&S risk categorisation should inform and determine the level and nature of E&S due diligence that is undertaken by the Bank as well as the necessary procedures required. In determining the appropriate level of E&S due diligence, a Bank will need to consider and combine the: (a) level of transaction risk associated with the type of financial services/products being provided (see previous table above); and (b) level of client risk associated with the potential E&S risks arising from the client's business activities, sector or E&S performance track record. The matrix below illustrates how the relationship between transaction risk and client risk can determine how a Bank shapes its E&S due diligence approach.

TRANSACTION RISK	CLIENT RISK					
	High		Medium		Low	
High (Category A)	Detailed Diligence	Due	Moderate Diligence	Due	Minimum Diligence	Due
Medium (Category B)	Detailed Diligence	Due	Moderate Diligence	Due	Minimum Diligence	Due
Low (Category C)	Moderate Diligence	Due	Minimum Diligence	Due	Minimum Diligence	Due

**Development and customisation of E&S due diligence procedures:** Procedures should be developed, consistent with existing internal procedures and processes, to manage different E&S risk categories, appropriate to the financial products and services of the Bank. In addition, where the Bank finances sensitive sectors with a higher E&S risk profile, E&S due diligence procedures may need to be tailored to incorporate sector-specific considerations and different E&S risk category levels. E&S training should be provided to staff that covers E&S risks and requirements for different financial products and services. Where E&S risks are identified and can be managed or mitigated, a Bank may formally agree the necessary actions with the client before disbursement of funds (e.g. requiring covenanting of E&S

management action plans in loan documentation, or appropriate E&S risk disclosures in prospectuses and offering circulars). The review of E&S conditions and requirements should be integrated into client relationship, credit approval review procedures, the issuance of financing agreements and on-going review and monitoring processes.

**Articulation of E&S governance and approval authority measures:** Effective implementation of a Bank's E&S policies and procedures requires a defined governance structure with clearly articulated roles and responsibilities, structure and staff to implement E&S policy commitments (as detailed in **Principle 6**).

**Monitoring E&S risks and reviewing E&S conditions:** It is important to monitor the client's on-going E&S performance to ensure that its E&S risks are being properly managed over time. Where conditions are not met, the issue should be escalated to the appropriate authority for consideration, consistent with the overall governance structure and procedural approach of the Bank.

**Provision of client engagement guidance on E&S issues:** Training should be provided to the Bank's client relationship managers and risk staff on how to engage clients on E&S issues (as detailed in **Principle 7**).

**Development of appropriate E&S reporting criteria:** A Bank will need to report on its E&S risk assessment processes including but not limited to: total number of clients and engagements assessed for E&S risks, by risk category, sector and financial product type.

**Reporting on implementation progress:** The Bank should report on the progress made in implementing this Principle (as detailed in **Principle 9**).

**Support for investment in sustainable, innovative business opportunities:** In addition to E&S risk management, Banks should develop processes to identify and invest in business opportunities, clients or sectors that promote the use of advanced E&S risk management practices, new technologies, low carbon activities, entrepreneurial SMEs, etc. in line with extant banking laws and which aim to achieve a positive impact. A Bank may decide to offer preferential financing conditions (e.g. rates, maturity, grace period, eligibility criteria, etc.) for profitable clients or investments that demonstrate strong E&S performance. In addition, investing in sustainable,

innovative businesses also positions the Bank as a driver of economic growth and stability.

### Demonstrating Progress

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>E&amp;S policies developed and implemented</b>	Development of an E&S policy - the policy should be disclosed in a Bank's corporate communications such as its website (including the provision of a description of the E&S policy framework and management system). Additional sector or location specific policies, if appropriate, may be developed.	Developed by Q4 2012; on-going implementation thereafter
<b>Establish Sector Guideline approaches</b>	Development of sector-specific E&S approaches for relevant business units consistent with the Sector Guidelines. Agree and include targets and reporting requirements on progress.	Developed by Q4 2012
<b>E&amp;S procedures developed and implemented</b>	Concurrent with E&S policy, development and implementation of procedures for managing E&S issues, with clearly articulated roles, responsibilities, structure and staff. Note that a Bank, may over time, amend or modify its E&S procedures to accommodate minor changes to E&S policies or other related systems and procedures.	Developed by Q1-2 2013; on-going implementation thereafter
<b>E&amp;S Management System reporting</b>	Development of E&S risk reporting framework and criteria (e.g. basic quantitative data including requirements to report: Total number of clients and engagements assessed for E&S risks, by risk category, sector and financial product type; Data capture to begin when E&S policies, procedures and risk reporting framework have been finalised and rolled out. E&S Management System reporting to occur	E&S Management System reporting framework: Q1-2 2013; on-going implementation thereafter

	<p>annually as part of Sustainable Banking report. Longer term targets for reporting on implementation process year-on-year would focus on: (a) the percentage of clients, and portfolio screened in E&amp;S risk; (b) the extent of impact mitigated; and (c) the number projects/clients with E&amp;S action plans and E&amp;S rating improvements over the time.</p>	
<b>Client engagement</b>	<p>Capture cases where client engagement on E&amp;S issues resulted in positive outcomes for the client and the Bank.</p> <p>Organising events to build relationships and raise client awareness on different E&amp;S risk issues and how they are relevant to client business activities. Client feedback or satisfaction levels linked to E&amp;S engagement could be used to demonstrate progress.</p>	On-going

## Principle 2 | Our Business Operations: Environmental and Social Footprint

**We will avoid, minimise or offset the negative impacts of our Business Operations on the environment and local communities in which we operate and, where possible, promote positive impacts.**

### What does this Principle mean?

Seeking to lead by example, a Bank will consider the direct impacts on the environment and society arising from its own Business Operations. A Bank will work to be a driving force for good in the communities and natural environment in which it operates by finding ways to avoid, minimise or offset negative impacts whilst innovating new means to achieve positive gains. This approach requires the management of a Bank's E&S footprint through:

Efficient use of materials and resources such as energy and water consumption and effective waste management in physical operations and supply chains;  
 Compliance with applicable labour and social standards; and

Alignment of a Bank's community investment programmes with Nigeria's overall goals for economic and social development (e.g. promoting greater access to finance and basic needs in the community, reducing poverty, improving health, increasing long-term employment, driving economic empowerment of women, etc.)<sup>5</sup>.

This would also include the assessment of the E&S commitment, capacity and track record of its suppliers, contractors and third party providers. By behaving in a responsible manner and upholding the standards it will require of its own clients, a Bank demonstrates a credible and consistent commitment to Sustainable Banking.

### **Implementation of Principle 2**

A Bank should take a practical approach to managing the potential negative impacts of its Business Operations and promoting positive impacts through the:

**Development of an environmental management programme with facilities management**, which addresses:

**Climate change and greenhouse gas emissions reduction:** A Bank can support energy efficiencies by promoting or utilising renewable power generation, reducing business travel and commuting, and adopting green building standards and practices for operating and maintaining facilities and buildings.

**Water Efficiency:** A Bank should promote the efficient use of water and seek to sustainably manage its use of water resources (i.e. reduce, reuse and recycle) that may include improved maintenance of infrastructure and recycling wastewater for grounds management.

**Waste Management:** A Bank should improve waste management by eliminating, reducing, and recycling product and paper waste; using not only less material (e.g. less paper, less packaging, etc.) but also implementing more efficient waste management systems to reduce the amount of waste produced.

**Environmentally friendly facilities construction and management:** A Bank should strive to improve the energy efficiency of its existing facilities and, where new facilities are constructed, incorporate relevant or leading "green" technology or energy efficient building standards. A Bank should also ensure appropriate health and safety considerations are taken into account in managing physical operations and, where possible, provide positive improvements (e.g. disabled facilities etc.).

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<sup>5</sup> For a Bank with a strong retail presence, this may enhance the reputation of the Bank in the community but will also secure and ensure the future of its customer base.



**Compliance with relevant labour and social standards:** A Bank should outline the minimum labour and social standards it will apply in managing its own Business Operations consistent with international good practice standards such as those contained in the United Nations Declaration of Human Rights and the International Labour Organisation.

**Implementation of a community investment programme:** A Bank should develop and promote investment in community projects and initiatives with the aim of contributing to the sustainability and development of the communities in which its Business Operations are located. This programme, which should be supported by senior management, could include a range of resources and donations such as employee volunteer hours, other in-kind support and financial support to community initiatives that demonstrate clear positive social outcomes, such as new ways to deliver basic services and those that remove barriers to economic participation.

**Application of E&S standards to relevant third parties:** A Bank should articulate E&S procurement standards for Bank suppliers, contractors, and other third party service providers in the Bank’s Sustainable Banking policy and procedures. The Bank should screen, engage and monitor such service providers to ensure they meet applicable E&S standards and requirements. In addition, the Bank could adopt procurement policies that include responsible sourcing and certification standards.

**Demonstrating Progress**

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>E&amp;S Footprint management programme developed and implemented</b>	Development of an E&S footprint management programme, including processes to manage the E&S footprint of a Bank’s Business Operations (i.e. environmental issues relating to climate change, greenhouse gas reduction, water efficiency, waste management, facilities and social issues relating to labour, health and safety, human rights standards). Best practice could include	Developed by Q4 2012; on-going implementation thereafter

	<p>ISO 14001, United Nations Declaration of Human Rights and the International Labour Organisation.</p> <p>Identification of key roles in procurement/vendor management, facilities management, communications, human resources other relevant departments to develop relevant E&amp;S policies and procedures and E&amp;S management programme.</p> <p>Development of implementation plan to initially establish and roll-out environmental management programme, with on-going implementation thereafter.</p>	
<b>Community investment programme</b>	<p>Development of a community investment programme, supported by senior management, which ensures Bank resources are deployed to generate long-term positive community impacts consistent with wider national development goals.</p>	<p>Developed by Q4 2012; on-going implementation thereafter</p>
<b>E&amp;S standards for third parties developed and applied</b>	<p>Development of third party E&amp;S standards to manage E&amp;S risk and potential impacts associated with engaging third parties (i.e. suppliers, contractors, third party service providers, etc.).</p> <p>Development of an initial implementation plan, to establish and roll-out appropriate standards with on-going application and monitoring thereafter.</p>	<p>Developed by Q1-2 2013; on-going application thereafter</p>

<p><b>E&amp;S Footprint Reporting</b></p>	<p>Development of E&amp;S footprint reporting framework and criteria (e.g. basic quantitative data) including requirements to report with regard to:</p> <p>E&amp;S footprint management programme: continuous improvement year-on-year demonstrated through quantifying and reporting results consistent with the Global Reporting Initiative standards for environmental management and other labour and social standards.</p> <p>Community investment programme: reporting metrics should include information about level of contributions (human capital, time, financial and other resources) and for what purposes.</p> <p>Third party E&amp;S standards: reporting metrics should include information about the number of suppliers, contractors, and third party service providers assessed and the standards that have been applied.</p> <p>E&amp;S footprint reporting to occur annually as part of Sustainable Banking report.</p>	<p>E&amp;S footprint reporting framework: Q1-2 2013;</p>
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**Principle 3 | Human Rights**

**We will respect human rights in our Business Operations and Business Activities.**

**What does this Principle mean?**

Increasingly, human rights are emerging as a prominent business issue. While they were once regarded the purview of governments and state level action, community pressures and political changes worldwide have made human rights an important consideration in business impacts on the community and society. A Sustainable Banking approach recognises and respects human and labour rights in a Bank’s Business Operations as well as its Business Activities. Good labour and human resource practices are important to ensure that a Bank retains a talented

and productive workforce to meet its business objectives. Having business partners and clients with good human rights records protects a Bank's reputation as an institution worthy of respect and trust. Human rights violations that are associated with a Bank's Business Activities or clients will not only undermine the Bank's standing, it can also make the Bank vulnerable to public scrutiny.

In applying this Principle, a Bank commits to upholding and respecting human rights and internationally recognised standards in its own Business Operations. In addition, though its ability to influence a client's behaviour may be limited, a Bank will assess the human rights commitment, capability and track record of the clients to which it provides financial services.

### **Implementation of Principle 3**

A Bank should develop and take a practical approach to managing human rights issues in its Business Operations and Business Activities through:

**Development and implementation of a human rights policy:** A Bank should develop a human rights policy (either as part of a wider Sustainable Banking policy or as a standalone policy). The policy should cover the Bank's commitment to upholding human rights standards in its own operations (including labour and working conditions), as well as conducting due diligence to assess the treatment and management of human rights by its clients. A Bank's approach to human rights should be consistent with promoting the requirements, and improving the enforcement, of: the Nigerian Constitution, the United Nations Declaration on Human Rights, and other international treaties to which Nigeria is a signatory. A Bank will require its clients to adhere to applicable local laws, regulations and the standards contained in conventions (international or otherwise) that apply.

Key policies and requirements should include: (a) ban on discrimination against any group or individual, based on race, gender, religion, culture, politics or economic background; (b) recognition of the rights of traditional, indigenous, or rural communities that have unique cultural value; and (c) recognition of employees' entitlement to safe and fair labour conditions and to exercise collective and individual rights to associate and speak freely, as allowed by national law.

A Bank should outline the minimum human rights standards it will apply in managing its own Business Operations (e.g. prohibiting the use of child labour and forced labour). Additionally, a Bank should seek to outline the human rights

standards it will apply to its clients (e.g. to not support clients and/or transactions where child labour and forced labour is evident), consistent with leading international standards.

Human rights considerations must be taken into account where Business Operations or Business Activities involve the deployment of security personnel, including adherence to the principles established in the Voluntary Principles on Security and Human Rights.

**Integration of human rights due diligence into E&S procedures:** A Bank should integrate human rights due diligence into its decision-making processes when assessing clients and engagements and when selecting the Bank’s suppliers, contractors and third party service providers (see, for example the [UNEP-FI Human Rights Toolkit](#)). A Bank’s approach to human rights should detail how it manages identified human rights issues as well as provide guidance for establishing an appropriate grievance mechanism to address human rights complaints or disputes.

**Investment in resources and training of staff on human rights issues:** To ensure a Bank has the capacity and resources to successfully implement its human rights policies, a Bank should dedicate resources to train and educate staff on human rights and labour issues in general, and on their relevance to the Bank’s Business Operations and Business Activities.

**Demonstrating Progress**

In implementing this Principle a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<p><b>Human rights approach</b></p>	<p>Development of human rights policy, either as a standalone policy or integrated into Sustainable Banking policy. The policy will be consistent with the United Nations Declaration on Human Rights, the Nigerian Constitution and local law. Best practice would include the UN Guiding Principles on Business and Human Rights.</p> <p>Development and implementation of human rights due diligence procedures and tools to</p>	<p>Developed by Q4 2012; on-going implementation thereafter</p>

	<p>screen, assess, and integrate human and labour rights considerations into business decision-making processes.</p> <p>Clearly defined roles and responsibility for application of human rights standards across the Bank's Business Operations.</p> <p>Development and implementation of a mechanism for handling grievances and disputes.</p> <p>Development of implementation plan to initially establish and roll-out human rights policy requirements; on-going implementation thereafter.</p>	
<b>Human rights training</b>	<p>Training of employees on human rights issues.</p> <p>Owners of human rights policies sufficiently trained on implementation responsibilities.</p> <p>Reporting metrics could include level of investment and numbers of employees trained.</p>	By Q3-4 2013; on-going as needed
<b>International commitments</b>	<p>Adherence to international commitments such as the United Nations Global Compact or participation in international initiatives on human rights can drive deeper understanding of key issues as well as raise the profile of the Nigerian banking sector.</p>	On-going
<b>Human Rights Reporting</b>	<p>Development of human rights risk reporting criteria (e.g. basic quantitative data including requirements to report e.g. total number of clients and engagements assessed for human rights risks.</p> <p>Human rights reporting to occur annually as part of Sustainable Banking report.</p>	Human rights reporting criteria: Q1-2 2013;

#### Principle 4 | Women's Economic Empowerment

**We will promote women's economic empowerment through a gender inclusive workplace culture in our Business Operations and seek to provide products and services designed specifically for women through our Business Activities.**

## What does this Principle mean?

In many parts of the world, including Nigeria, women often face the barriers of discrimination and persistent gender inequalities which deny them access to finance or the formal economy. But the ability of women to fully participate in the economy (both formal and informal) is fundamental to sustainable economic growth and development. In the context of the Principles, women's economic empowerment refers to the ability of women to participate in, wholly contribute to, and fully benefit from, the Nigerian economy without prejudice and in a way that recognises the value of their contributions, respects their dignity, and creates a fairer distribution of income. Economic empowerment increases women's access to economic resources and opportunities including jobs, financial services, property and other productive assets, skills development and market information. This in turn leads to sustained economic growth and a more equal society. We will promote women's economic empowerment through our Business Activities by developing products and services specifically aimed at women and consistent with the wider CBN women economic empowerment strategy.

In terms of our Business Operations, each Bank will commit to promoting an inclusive workplace culture and initiatives that support the leadership development and positive contribution of female employees at all levels of the organisation. A Sustainable Banking approach recognises that business performance and productivity are enhanced by a diverse workforce and incorporates the value and ability of women to contribute and succeed in the workplace. For example, companies with a high representation of women board directors outperformed those with low or no representation by 53% for return on equity and 66% for return on invested capital<sup>6</sup>.

For Banks, women can mean good business: (1) skilled women represent a broad and motivated talent pool from which to hire and promote to all levels of the organisation; and (2) as half of the population, women not only represent a powerful force for driving economic growth but a vastly underutilised customer base.

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<sup>6</sup> Source: Catalyst, 2007, Women Board Directors (WBD) Align with Strong Performance at Fortune 500 Companies.

## Implementation of Principle 4

A Bank should take a practical approach to women's economic empowerment that is appropriate for its Business Activities and Business Operations through:

**Developing and implementing a women's economic empowerment policy:** As part of a Bank's wider Sustainable Banking commitment, a women's economic empowerment policy should be developed and implemented to be consistent with CBN strategy and targets (e.g. a minimum of 40% female representation at management and board level by December 2014). The approach should include developing clear short- and long-term objectives for a Bank's: (a) Business Activities: to provide products and services aimed at promoting gender equality for women and consistent with financial inclusion as detailed in **Principle 5** (e.g. financial loans and advice for female entrepreneurs); and (b) Business Operations: to promote a gender inclusive culture and female talent management (e.g. leadership development, leave schemes, child care, wage equality etc.); and. Specific policy approaches should be aligned with existing human resource and product development policies and processes where appropriate.

**Establish a Women's economic empowerment committee:** A Bank should endeavour to establish an internal committee comprised of senior leaders from across the business to oversee accountability for gender diversity and to steer gender inclusive strategies consistent with the Bank's core business activities.

**Develop initiatives and programmes to promote and celebrate women empowerment:** To create a gender inclusive culture a Bank should support and establish initiatives designed to educate and empower women with new skills and provide opportunities for them to connect with senior role models. This could include setting up internal women's networks to create connectivity between women at all staff levels and with female clients. A Bank should fully utilise the role of women employees in its core business activities (e.g. utilising female talent to develop products and services for female clients). Additionally a Bank should support sector level initiatives (e.g. the CBN's 'Year of the Woman' in the banking industry) to celebrate and showcase successful women in the banking industry.

**Invest and dedicate resources for female talent:** A Bank should dedicate specific leadership development and training programmes to support the development of a strong female talent pipeline. This would include coaching and mentoring



programs to support the transition of female middle management to executive and board level positions.

**Support the establishment of a sector-wide women empowerment fund:** In collaboration with the CBN and the Nigerian banking sector, a Bank should support the CBN's commitment to establish a fund to be accessible by qualified businesses, owned and managed by female entrepreneurs.

### Demonstrating Progress

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>Women's Economic Empowerment policy</b>	Development of women's economic empowerment policy, either as a standalone policy or integrated into Sustainable Banking policy. The policy should be consistent with the CBN Women's Economic Empowerment Strategy. The policy should aim to promote gender equality in two ways: (1) economic empowerment of women through the provision of financial services; and (2) gender diversity in the workplace.  Development of an implementation plan to initially establish and roll-out women's economic empowerment policy requirements; on-going implementation thereafter.	Developed by Q4 2012; on-going implementation thereafter
<b>Setup a Women's Economic Empowerment Committee</b>	Setup of a dedicated women's economic empowerment committee (comprised of senior leaders across the business) with defined responsibility for women's economic empowerment issues in the Bank's Business Operations.	By Q3-4 2013
<b>Women's Empowerment Initiatives</b>	Develop and implement initiatives that focus on promoting gender equality and empowering women in the workplace and society.	On-going
<b>Women's Economic</b>	Development of women's economic empowerment reporting criteria (e.g. basic	Women's Economic

<b>Empowerment Reporting</b>	quantitative data including requirements to report): Female composition in banks, across business units, management levels, and at Board level; Total investment made towards female employees Women's economic empowerment policies, structures and number of initiative programs in place. Women's economic empowerment reporting to occur annually as part of Sustainable Banking report.	Empowerment reporting criteria: Q1-2 2013;
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## Principle 5 | Financial Inclusion

**We will promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector.**

### What does this Principle mean?

A Bank should develop an approach that promotes accessible and affordable financial products and services to disadvantaged groups who are either not served or are underserved by the formal financial sector in line with the CBN's financial inclusion strategy. By catering to these needs, financial inclusion brings currently marginalised populations into the mainstream economy, improving their chances for resilient livelihoods and financial stability. For Nigeria's economic and social development, financial inclusion is a critical instrument for achieving key objectives such as: reducing extreme poverty; reducing barriers to economic participation by women and disadvantaged groups; improving financial education and financial literacy for all.

### Implementation of Principle 5

A Bank should take a practical approach to financial inclusion that is appropriate for its Business Activities through:

**Developing and implementing a financial inclusion policy:** As part of a Bank's wider Sustainable Banking commitment, a financial inclusion policy should be developed and implemented which should be consistent with CBN financial inclusion strategy and targets (i.e. 80% financial inclusion by 2020 through channel growth, tiered KYC or know-your-client approach, enhanced consumer protection, improved financial literacy).

**Providing development and growth support to SMEs:** A Bank should look to provide commercially viable support for small-scale entrepreneurs, start-ups and SMEs with targeted products and services. This may involve providing access to affordable financial services for micro-enterprises. A Bank should consider a financial inclusion approach that is appropriate for financing individuals as well as more established small enterprises. This is especially relevant given that for very small enterprises, personal finance is sometimes not easily distinguishable from the finances of the enterprise (i.e. sole traders).

**Improving financial literacy and institutional practices:** A Bank should aim to provide services that remove educational, gender and other barriers to financial access, including initiatives to support 'consumer protection initiatives'.

**Improving access to Bank facilities and services:** A Bank should seek to provide opportunity for increased access to its products and services through platforms such as cash centres, e-branches, and mobile money and increasing efficiency to serve more clients. A Bank should consider making its physical locations and facilities accessible to physically challenged persons.

**Demonstrating Progress**

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>Financial inclusion policy</b>	Development of a financial inclusion policy, either as a standalone policy or integrated into the Sustainable Banking policy. The policy will be consistent with the CBN Financial Inclusion Strategy and will: Support SME development and growth. Define a financial literacy framework, promote	The sooner of Q4 2012 or as is consistent with CBN Financial Inclusion Strategy

	<p>inclusion of financial literacy curricula in primary, secondary and tertiary institutions of learning by 2020.</p> <p>Promote consumer protection: implement consumer protection framework as defined by the CBN by 2012.</p> <p>Develop products and services tailored to middle, low income and disadvantaged groups (e.g. female and youth clients) consistent with the CBN strategy including:</p> <p><b>For female client segments:</b></p> <p>Target of 60% of the micro SME development funds at women borrowers;</p> <p>Require a minimum level of female staff of 30% in microfinance banks;</p> <p>Encourage female management at retail agents;</p> <p>Offer specifically tailored women entrepreneurship development.</p> <p><b>For youth client segments:</b></p> <p>Ensure inclusion of 50% of youth that turn 18 every year;</p> <p>Develop and implement a framework for child and youth finance;</p> <p>Implement children and youth financial literacy initiatives in Nigerian education institutions.</p> <p>Drive innovation for improved financial system accessibility and usage (e.g. branchless banking, access to physically challenged persons).</p> <p>Development of implementation plan to initially establish and roll-out financial inclusion requirements; on-going implementation thereafter.</p>	
<p><b>Financial Inclusion Reporting</b></p>	<p>Development of Financial Inclusion reporting criteria (e.g. basic quantitative data including requirements to report) consistent with CBN defined criteria including:</p> <p>Numbers of disadvantaged groups supported,</p>	<p>Financial Inclusion reporting criteria: Q1-2 2013;</p>

	<p>level of investment or loan, and by state location;</p> <p>Numbers of new or innovative products or service offerings + uptake of such products or service offerings;</p> <p>Numbers of previously unbanked individuals banked, etc.;</p> <p>Number of branches segmented by branch type and location by state;</p> <p>Number of individual and SME accounts held with the bank, segmented by state location.</p> <p>Financial inclusion reporting to occur annually as part of Sustainable Banking report.</p>	
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## Principle 6 | E&S Governance

**We will implement robust and transparent E&S governance practices in our respective institutions and assess the governance practices of our clients.**

### What does this Principle mean?

Robust, transparent governance on E&S issues is an important aspect of a Bank's commitment to Sustainable Banking and critical to its reputation as a credible, responsible institution. The way an organisation is governed provides insight into the organisation's business practices and accountability to its stakeholders. Among the key components of good E&S governance are: transparent organisational structures, clearly defined roles and responsibilities; reporting on and accounting for a Bank's performance and progress made on the implementation of the Principles.

It is also important to assess the E&S governance practices of a Bank's clients. A client with a sustainability commitment but poor E&S governance practices can present a serious business risk to a Bank. By assessing a client's E&S governance practices, and by encouraging improved E&S performance, a Bank can protect itself from potential financial, legal and/or reputational risk that can arise from a client that has poor E&S governance and low levels of accountability.

In applying this Principle, a Bank will establish an effective E&S governance structure in support of its Sustainable Banking commitments and to encourage comparable practices among its clients.

### Implementation of Principle 6

In developing its E&S governance approach, a Bank should consider both its own Business Operations as well as assess the activities of its clients. A Bank should:

**Establish E&S governance responsibility:** A Bank must establish clear lines of responsibility, authority and accountability in its governing structure when developing its Sustainable Banking policies and procedures. The Bank's Board should have oversight of such policies as part of existing governance mechanisms. Senior management should ensure that relevant employees are given appropriate responsibilities and that appropriate measures are in place to support the Bank's Sustainable Banking commitments and targets.

**Develop institutional E&S governance practices:** A Bank should develop robust and transparent procedures, which entail a clear governance structure, limits of authority, standards and codes of conduct to support implementation of its policies and the Principles. These procedures should be integrated into, or be consistent with, existing client assessment, decision-making processes and enterprise risk management frameworks.

**Actively support key industry initiatives that aim to address E&S governance issues with clients operating in sensitive sectors:** Initiatives aimed at sensitive sectors such as the: (a) Extractive Industry Transparency Initiative; (b) Nigerian Extractive Industry Transparency Initiative; or (c) International Hydropower Association Sustainability Guidelines, should, where relevant, be endorsed and considered when conducting E&S due diligence and engaging with clients.

**Implement E&S performance-linked compensation and incentive schemes:** A Bank should link employee performance to its E&S governance and accountability requirements. Appropriate incentives should encourage and promote the desired behaviours of employees in performing against their stated roles and responsibilities, and in turn meeting E&S governance and accountability standards. Rewarding both the short- and long-term performance objectives would further reinforce enhanced governance practices and performance.

**Establish internal and, where appropriate, external E&S audit procedures:** A Bank should regularly conduct internal reviews of the integrity and quality of E&S governance and accountability practices and procedures for continuous improvement under its Sustainable Banking policies and procedures. In some

cases, an external audit of E&S governance, accountability practices and procedures may be appropriate.

**Increase public disclosure and dialogue:** A Bank should consider the level and detail of E&S information being publicly disclosed with regard to its progress in implementing the Principles. By bringing increased visibility and transparency to the Bank’s efforts to implement the Principles, a Bank can build further credibility and trust with its clients and stakeholders.

**Demonstrating Progress**

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>Sustainable Banking governance committee</b>	Establishment of a Board-level Sustainable Banking Governance Committee to oversee the development of Sustainable Banking commitments, which should include governance and accountability for E&S issues and ensure the measuring and monitoring of progress against those commitments.	Q3 2012
<b>E&amp;S governance integrated into risk committee and functions</b>	A Bank’s Sustainable Banking policies and procedures should include a governance structure, which details roles and responsibilities relating to assessing and categorising E&S risk potentially associated with clients/engagements. This responsibility could be integrated into existing risk committee structure and function.	Q1-2 2013
<b>E&amp;S Performance-linked incentives</b>	A Bank should align Sustainable Banking governance and accountability performance metrics with its existing performance management indicators and processes to ensure that employees across all relevant functions are incentivised to deliver against agreed E&S related responsibilities and targets.	Q1-2 2013; on-going thereafter
<b>Internal and external E&amp;S audits</b>	As part of a commitment to continuous improvement, a Bank should undertake, on an annual basis:	Q3-4 2013; on-going annual audits

	<p>Internal audits to assess progress and monitor the effectiveness of E&amp;S governance structures and accountability practices and procedures.</p> <p>External audits, using independent third party assessors to review Sustainable Banking and E&amp;S governance and accountability processes, which should be consistent with standard audit processes.</p>	
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## Principle 7 | Capacity Building

**We will develop individual institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our Business Activities and Business Operations.**

### What does this Principle mean?

To successfully identify, assess and manage relevant E&S risks and opportunities, a Bank's employees must be able to understand how and when E&S issues may be associated with the Bank's Business Activities and Business Operations and what are the consequent implications for the Bank. Therefore knowledge, skills and capacity relating to Sustainable Banking must be built from top levels of management to all relevant employees.

In applying this Principle, a Bank commits to developing the right skills, knowledge and capacity for management and employees to meet individual targets in connection with agreed Bank-wide Sustainable Banking commitments. A Bank will provide the necessary resources and support to equip and train employees on E&S management approaches based on roles, responsibilities and function.

Developing knowledge and awareness of E&S issues will be a continuous process for both individual Banks and the sector as a whole. Banks should seek to collaborate with one another, for example, by establishing a community of practice for shared learning wherever possible to provide for consistency in application of standards and practices.

### Implementation of Principle 7

In developing the appropriate institutional capacity, a Bank should:



**Identify relevant roles and responsibilities for delivery against Sustainable Banking commitments:** A Bank should determine how E&S considerations impact on its Business Activities and Business Operations to determine appropriate roles and responsibilities for managing E&S issues across the Bank.

**Provide Sustainable Banking training sessions:** A Bank should create awareness on E&S issues as well as training sessions as part of a Bank-wide learning programme across management levels and operational functions. Training could integrate criteria or baseline requirements that need to be met (e.g. exam scores). Training and capacity building initiatives could include but are not limited to: executive education, programmes delivered through industry platforms such as the Financial Institutions Training Centre or the Chartered Institute of Bankers of Nigeria, workshops delivered by external practitioners or consultants, secondments and staff exchanges or academic learning.

**Create practical E&S training tools and resources:** A Bank should commit to providing appropriate decision frameworks, assessment and screening tools and resources that support the implementation of the Principles in a manner that is commensurate with the level of E&S risk associated with the nature of the Bank's Business Activities (i.e. type of financial products, sectors, profile of clients). Where possible, any Sustainable Banking content, tools and resources should be integrated into a Bank's general training and development programmes or curricula.

**Multi-stakeholder capacity building:** Banks across the sector commit to collaborate with each other as well as engage relevant third parties such as the government, clients, development agencies, development finance institutions, industry associations, non-governmental organisations, external experts, academics and others to build sector level capacity and skills (also see **Principle 8**).

### **Demonstrating Progress**

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

<b>Target</b>	<b>Requirement/Deliverable</b>	<b>Due Date</b>
<b>Develop institutional</b>	Identification of key roles and responsibilities across Bank functions to deliver against	Q3 2012

<b>Sustainable Banking capacity</b>	Sustainable Banking commitments within Business Activities and Business Operations. Develop and deliver Sustainable Banking training sessions for Board and senior management across core business units.	
	Creation of awareness of E&S issues and development of training programmes across relevant management levels, commercial teams and mid- and back-office functions. Development and implementation of training and education systems, tools and resources to address E&S issues as part of the Bank's learning and development curricula.	Q3-4 2013
<b>Develop sector Sustainable Banking Capacity</b>	Sector collaboration and shared learning platforms to create awareness and promote the training of Banks' personnel on practical implementation of applicable standards and practices. Consider development of Sustainable Banking training and assessment tools and provision of resources to ensure consistency of application of standards and practices at the sector level. Engage relevant third parties on a regular basis to build sector level capacity and skills. Participation in Sustainable Banking Communities of Practice.	On-going
<b>Sustainable Banking Capacity Reporting</b>	Development of reporting criteria: Training programmes developed and delivered (number, frequency, format, content, learning outcomes, numbers of participants trained and in what functions/roles within the Bank, examination results, pass/fail rates, etc.). Sustainable Banking capacity building reporting to occur annually as part of Sustainable Banking report.	Sustainable Banking Capacity reporting criteria: Q1-2 2013;

## Principle 8 | Collaborative Partnerships

**We will collaborate across the sector and leverage international partnerships to accelerate our collective progress and move the sector as one, ensuring our approach is consistent with international standards and Nigerian development needs.**

### **What does this Principle mean?**

Collaborative partnerships recognise and support the role the Banks can play in further developing Nigeria's economy and society whilst acknowledging that the Banks can do more together than they could acting alone.

In applying this Principle, the Banks should collaborate in a sector-wide effort to drive improved standards and progress of Sustainable Banking in Nigeria consistent with international standards and emerging industry best practice.

Banks should actively participate in international and multi-stakeholder initiatives so as to benefit from exposure, as well as contribute, to international standards and best practice, whilst lending credibility and authority to their institutional commitments under the Principles.

### **Implementation of Principle 8**

To implement this Principle, a Bank should:

**Collaborate and coordinate with other Banks:** Whilst a Sustainable Banking approach can drive growth and business opportunities for a Bank, the Principles are designed to encourage collaboration and movement as a whole rather than drive competition and distance between individual Banks.

**Convene sector-wide workshops and events:** Banks should collaborate to build greater Sustainable Banking capacity and impact by convening sector-wide workshops and events to discuss best practice relevant to the Nigerian context. Capacity building workshops and training programmes, designed and resourced collaboratively could be utilised to create a consistent level of understanding and awareness across the sector. Initiatives could include collaboration between Banks and clients in varying industries on addressing specific sustainability and Nigerian development challenges.

**Commit to international standards and best practice initiatives:** Banks should commit to relevant international best practice standards and initiatives to demonstrate and profile Nigerian Banks' commitment to Sustainable Banking (e.g. the United Nations Global Compact, Millennium Development Goals, UNEP-FI, the Global Reporting Initiative financial sector supplement, the World Business Council for Sustainable Development, the Equator Principles, etc.).

**Establish and participate in Nigerian sector level initiatives:** In collaboration with the CBN and the Bankers' Sub-Committee on Economic Development and Sustainability, Banks should work together to promote sector-specific initiatives (e.g. proposals for the finance of renewable energy) or economic development objective (e.g. poverty alleviation or economic empowerment of women) and leverage a collective approach for greater impact.

**Demonstrating Progress**

In implementing this Principle, a Bank should be able to demonstrate progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>Sector collaboration</b>	Continuous engagement of the Banks within the Bankers' Sub-Committee on Economic Development and Sustainability to promote sector-specific or issue-based initiatives. Regular meetings and capacity building workshops to further the implementation of the Principles. Participation in Sustainable Banking Communities of Practice.	On-going
<b>Commitment to international standards and best practice initiatives</b>	Meaningful, public commitments to leading global standards and active participation in international initiatives where relevant to core Business Activities and Business Operations or consistent with the Principles.	Q4 2012; on-going as new standards and initiatives are developed

## Principle 9 | Reporting

**We will regularly review and report on our progress in meeting these Principles at the individual institution and sector level.**

### What does this Principle mean?

Banks should develop and apply metrics for monitoring, measuring and reporting implementation progress.

In applying this Principle, a Bank commits to continuously monitor and measure performance against each of the Principles and will report progress against targets to its relevant internal and external stakeholders. Internal reporting mechanisms on the Principles should feed into the main decision-making processes of the Bank. Increasing the visibility and transparency of a Bank's progress against the Principles, at the individual as well as sector level, will help to enhance the credibility of the Nigerian banking sector as a whole.

### Implementation of Principle 9

To report on the implementation of the Principles, and the progress made against targets, a Bank should:

**Establish a Sustainable Banking reporting template:** After a Bank has established appropriate Sustainable Banking commitment and implementation plan, a reporting template should be developed that: (a) is consistent with the objectives and reporting requirements of each the Principles; and (b) is aligned with the core values and business model of the Bank. Reporting data can be used to report internally to management, as well as inform external reporting requirements.

**Set clear targets and relevant performance indicators:** A Bank should articulate clear goals, targets and measurement indicators to be monitored and measured for each Principle, as appropriate for the Bank's different Business Activities and Business Operations. Measurement indicators should show year-on-year growth and demonstrate progress trends for the Bank.

**Ensure the necessary systems are in place to collect data:** A Bank should, consistent with its internal processes and systems, ensure that it can identify and obtain the right data needed to report internally and externally on the Principles. Information should be collected through existing systems where Sustainable

Banking considerations can be integrated into the main data collection systems of the Bank. In addition, internal and external audits can provide data sources for demonstrating the implementation of the Principles. A Bank should collect relevant information relating to its Sustainable Banking policies and procedures, significant achievements and case studies, as well as customer feedback and other data that will demonstrate the progress made on each Principle.

**Agree the frequency, nature and format of internal and external reporting:** A Bank should make clear in its Sustainable Banking policy and procedures what information will be reported, how it will be reported and to whom it needs to be reported. Reports should include progress demonstrated against the targets articulated for each Principle as well as the targets set within a Bank’s Sustainable Banking policies and procedures. A Bank should aim to produce a report on an annual basis on a standalone basis or preferably as an integral part of the Bank’s annual report to its shareholders. In addition, a Bank may be required to submit a sustainability report to relevant regulatory authorities as and when required.

**Contribute to Sector-Level Reporting:** A Bank should produce external reports, at least annually, on the relevant progress and performance that it has made in implementing the Principles, which will inform a sector-level report on the collective success in implementing the Principles.

**Demonstrating Progress**

In implementing this Principle, a Bank should be able to report progress against the following targets:

Target	Requirement/Deliverable	Due Date
<b>Develop an overall Sustainable Banking Reporting Framework</b>	Development of a reporting template that incorporates all of the relevant reporting criteria described for each of Principles consistent with the Bank’s Sustainable Banking commitments.	Q4 2012
<b>Agreed implementation targets and milestones</b>	Development of clear targets and milestones consistent with the Principles and the Bank’s Sustainable Banking commitments, policies and procedures for its Business Activities and	Clear targets and milestones Q1-2 2013; measurement

	<p>Business Operations.</p> <p>Performance indicators should be articulated to measure progress and monitor year-on-year performance for continuous improvement.</p>	<p>of continuous improvement on-going thereafter</p>
<b>Internal reporting system</b>	<p>Consistent with sector best practice reporting requirements, a Bank must demonstrate ability to collect relevant data and information to evaluate its performance against the Principles and its Sustainable Banking commitments, policies and procedures. Data collection should be part of existing internal processes for optimal results.</p> <p>A Bank should seek independent third party review and assurance of its internal reporting system and data collection processes.</p>	<p>Setup data collection systems Q3-4 2013;</p> <p>Internal and/or independent review on-going thereafter</p>
<b>External reporting</b>	<p>Reporting to external stakeholders, at least annually, on progress against the Principles and the Bank's Sustainable Banking commitments, policies and procedures. Progress against agreed objectives and targets will be incorporated into the reporting approach.</p> <p>Reports, which may be standalone or an integrated part of the annual report, should meet reporting requirements specified in the Global Reporting Initiative Financial Sector Supplement.</p> <p>Where appropriate, independent third party review and assurance of external auditing of reports should be demonstrated.</p>	<p>Initial Sustainable Banking Progress Report 31 Dec 2013;</p> <p>First Full Sustainable Banking Report 31 Dec 2014; annually on an on-going basis</p>

**Nigerian Sustainable Banking Principles**  
**Power Sector Guideline**



# July 2012

## Glossary of Terms and Abbreviations

Term or Abbreviation	Definition or Explanation
<b>Bank</b>	A Nigerian: (a) money deposit Bank; (b) discount house; or (c) development Bank signatory to the Nigerian Sustainable Banking Principles Joint Commitment Statement.
<b>Business Operations</b>	The undertakings of employees and the physical human capital, assets and infrastructure (e.g. offices, branches, equipment) that a Bank engages in the course of facilitating its Business Activities. This would also include suppliers, contractors and third party providers engaged by a Bank in the course of facilitating its Business Operations and Business Activities.
<b>Business Activities</b>	The provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium business lending, retail banking, trade and leasing, and other forms of direct lending.
<b>CBN</b>	The Central Bank of Nigeria
<b>E&amp;S</b>	Environmental and Social
<b>E&amp;S footprint</b>	The total effect or impact that a Bank's Business Operations have on the environment and society in which it operates (e.g. the amount of natural resources used, the amount of waste produced, or the effects on local/host communities or the Bank's human capital).
<b>E&amp;S risks</b>	The potential E&S issues associated with a client or engagement that may imply exposure to risk and accordingly may need to be taken into account when making business and risk management decisions.

<b>E&amp;S impacts</b>	Any change, potential or actual, to (a) the physical, natural, or cultural environment, and (b) impacts on surrounding community and workers, resulting from a business or business activity to be financed. E&S impacts may be temporary or permanent, involving reversible or irreversible changes on the environment or society. Environmental risks can include changes to the atmosphere, water and land due to human activities (e.g. greenhouse gases, pollution, changes to habitats, etc.). Social risks can include impacts to a client's workforce as well as the surrounding community (e.g. occupational health and safety, human rights and labour standards, land disputes or resettlement, corruption, etc.).
<b>E&amp;S opportunities</b>	New business opportunities arising from meeting E&S challenges such as development of clean or renewable technology, job creation and community development. Taking account of E&S issues in making a business decision, could also lead to potential benefits to the client or the Bank providing financial services to the client.
<b>Equator Principles</b>	The Equator Principles are a voluntary set of standards for identifying, assessing and managing environmental and social risk in project financing.
<b>IFC</b>	International Finance Corporation
<b>Principles</b>	Nigerian Sustainable Banking Principles
<b>SME</b>	Small and Medium Enterprise
<b>Sustainable Banking</b>	We define sustainable banking as an approach that recognises the role of Banks in driving long-term economic development in Nigeria that is not only economically viable, but also environmentally responsible and socially relevant.

## Nigerian Sustainable Banking Principles: Power Sector Guideline

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### Introduction

This Guideline has been designed to complement the **Nigerian Sustainable Banking Principles** whilst focusing on the Power sector.

The objectives of this Guideline are to:

Assist Banks in the identification and management of E&S risks associated with the provision of financial products and services to the Power sector.

Provide additional sector-specific guidance not covered in the Nigerian Sustainable Banking Principles Guidance Note.

Ensure that banks adopt relevant international standards and best practices in the management of their E & S risk exposures.

In addition to this Guideline, wider recommendations on developing, promoting and financing alternative sources of power generation are provided in a companion document entitled Power Sector Position Statement.

### Scope & Applicability

This guideline **covers** the provision of financial products and services for the Power sector which includes, but is not limited to:

Power generation sources and associated facilities (i.e. Oil, Gas and Hydropower), except Nuclear;

Electricity distribution and transmission infrastructure (e.g. upgrades or extensions); and

Alternative sources of power generation and associated facilities (e.g. solar, clean coal, wind, biomass, etc.).

The guideline **applies to** all corporate lending, project and structured finance, equity and debt capital market activities, and advisory services provided to new and existing clients in the Power sector. The extent to which the principles apply will depend on the level and nature of Power sector Business Activities financed by the

Bank. Retroactive application of E&S requirements under this guideline is not required for existing clients.

This guideline does **not cover** the provision of financial products and services for the extraction, processing and transport of energy raw materials (e.g. the extraction of Oil and Gas, Coal, and other fuel sources). For guidance on Oil and Gas activities, please refer to the **Oil and Gas Sector Guideline**.

This guideline may not be appropriate for application to some power sector financial services such as asset management, or insurance or in the cases where there may be limited opportunity for a Bank to influence a client's E&S performance. A bank must clearly indicate which financial products or services have been excluded from the application of the Guideline in a sector-specific approach as part of its Sustainable Banking policy.

### **Power Sector E&S Issues**

Nigeria's total installed energy generation capacity is currently derived from Oil and Gas (77%) and Hydropower (23%)<sup>7</sup>. The large dependence on Oil and Gas for energy production, which is traditionally associated with significant negative E&S impacts to the environment and society, also creates vulnerability for Nigeria with respect to potential climate change impacts. In addition, the country has poor electricity transmission infrastructure that makes distributing energy supply difficult.

The NPC recognises the challenges associated with power generation, transmission and distribution and noted these in the national transformation agenda under the Vision 2020 for Nigeria, which aims at transforming the nation's economic landscape<sup>8</sup>. The National Technical Working Group on the Energy sector reported in the Vision 2020 document that energy is critical to economic development. In summary the Nigerian Power sector needs to ensure that:

Enough sustainable energy (both non-renewable and renewable sources) can be produced to meet demand (including the promotion of alternative and renewable energy sources);

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<sup>7</sup> The World Bank Development Indicator Database, Country: Nigeria ([Link](#))

<sup>8</sup> Nigerian National Planning Commission, Vision 2020 ([Link](#))

Electricity infrastructure is improved and sufficient to deliver energy supply to users; and

All power generation, distribution and transmission activities are conducted in a sustainable manner, so as to effectively manage E&S issues.

Various types of power generation are associated with a diverse range of E&S impacts. The impacts can be significant owing to the size of the projects and the footprint of the power plant and associated infrastructure. As increasing attention is brought to the E&S risk profile of power generation technologies (notably with respect to greenhouse gas, GHG, emissions), operations are likely to face more scrutiny (particularly in relation to fuel and technology choices). There are a number of E&S risks associated with the Power sector that deserve consideration. E&S risks vary greatly depending on the scale and type of Power activity being financed. Table 1 below highlights some of the main E&S risks that may be encountered. Additionally, a summary of E&S considerations for different power generation sources is provided in **Appendix 1**.

Additionally, a summary of E&S investment considerations for different power generation sources is provided in **Appendix 1**.

**Table 1: Potential E&S risks associated with the Power Sector**

Risk Type	Potential Risk Issue
<b>Environmental</b>	<p><b>Increased greenhouse gas emissions;</b> air pollutant emissions (e.g. sulphur oxides, nitrogen oxides, gases with particulate matter-10), or locations where existing air quality is already poor due to <b>cumulative impacts</b> from combined pollution sources;</p> <p>Not deploying <b>best available control technologies</b> for emissions and waste (e.g. hazardous pollutant deposits in water bodies and land).</p> <p><b>High water extraction</b> for cooling operations and which will affect water flow and quality to other ecosystem services that require water.</p> <p><b>Habitat defragmentation</b> with the construction of roads, transmission pylons and distribution lines, increasing access to previously remote areas and natural habitats.</p>
<b>Social</b>	<p><b>People and economic displacement</b> (e.g. loss of assets such as land, crops, fisheries, agricultural land etc.).</p>

	<p><b>Conflict with local communities</b> as a result of the siting of plant or storage facilities due to the real and perceived risk of explosion, plants and storage facilities that are situated near populated areas may be of particular concern to local stakeholders.</p> <p><b>Damaged cultural heritage</b> including UNESCO sites, objects of religious, archaeological, natural significance.</p> <p>Operations in areas subject to <b>natural hazard</b> (e.g. earthquake, extreme weather), which could affect the structural integrity of the plant (e.g. hydropower station/dam).</p> <p><b>Infringement of labour and human rights.</b></p>
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To support the achievement of the Vision 2020 for Nigeria, a more diverse and sustainable energy mix is required. This would include incorporating alternative solutions such as clean gas and coal technologies and renewable energy sources as well as encouraging greater energy efficiency across the value chain.

The banking sector has a key role to play in driving the national vision of attaining a secure and sustainable energy supply pivotal for the success of the Nigerian economy. However, it is recognised that the banks should support and finance current and future energy generation and distribution activities in a manner that takes into account due regard for the environment and society and is consistent with the Nigeria Sustainable Banking Principles and internationally accepted standards.

### **Banking Requirements for Power Sector Financing**

For all activities that fall within the scope of this Guideline, banks shall:

Undertake appropriate E&S due diligence on Power sector clients and activities to identify and assess potential E&S risks, as well as, determine a client's ability to effectively manage identified risks. For new Power developments a bank will require a client to provide a detailed E&S Impact Assessment and for existing developments require a recent E&S Audit (for additional E&S considerations, see **Appendix 1**).

Require power sector clients to comply with Nigerian laws governing E&S issues (see **Appendix 2**).

Encourage power sector clients to meet the requirements of the IFC's Performance Standards and relevant Environmental, Health and Safety guidelines

that represent the minimum internationally accepted good practice (see **Appendix 3**).

Refer to key sustainability initiatives and good practices relevant for power projects during E&S due diligence. Where relevant, the banks will request their clients to work toward enhanced performance consistent with such initiatives, standards and good practice (See **Appendix 3**).

Promote and encourage the uptake of opportunities relating to energy efficiency, clean technology, and renewable energy as appropriate.

### **E&S Risk Implementation for Power Sector Investments**

To meet these commitments and successfully manage E&S issues associated with the provision of financial products and services to power generation, banks should refer to the Principles' Guidance Note for implementing a robust E&S management system. A Bank should develop a sector-specific E&S approach for its power sector Business Activities as part of its Sustainable Banking policy and E&S management system. A Bank should seek to implement the recommended guidance as detailed in the Guidance Note appropriately. The Guidance Note includes information for developing policies and procedures as well as monitoring and reporting E&S risks. The following sections provide sector-specific guidance to be used in conjunction with the Guidance Note.

### **E&S Risk Categorisation of Power Sector Investments**

The following information serves to illustrate and support the categorisation of E&S risks for different power projects. Typically a project will be categorised as high, medium or low risk but in the power sector, all projects carry either a high or medium level of risk. The purpose of categorising the risk of a potential transaction is to guide banks on the degree of E&S due diligence required to inform credit risk approval or underwriting decision-making and the appropriate level of E&S risk management and monitoring oversight that should be applied to the transaction.

A **high-risk** transaction involves activities that carry potential significant adverse E&S risks and/or impacts that are diverse, irreversible, or unprecedented. Examples of the types of power transactions that would fall into this category of risk would be:

Large thermal power stations and other combustion installations;  
Hydropower schemes involving large/medium scale dams;

Hydropower schemes on international waterways, or small Hydropower schemes on rivers or water bodies already significantly altered by other abstraction/power generation activities;

Associated facilities such as pipelines, terminals, and associated facilities for large-scale transport of gas and oil, activities involving surface or underground storage of combustible gases and fuels;

Transmission lines in populated/urban areas;

Biofuel projects involving large-scale plantations of biofuel crops; and

Biomass projects involving hazardous wastes.

A **medium-risk** transaction involves activities that carry potential significant adverse E&S risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures. Examples of the types of power transactions that would fall into this category of risk would include:

Small combustion facilities (3 – 50MWth);

10MW or 50MW run of the river Hydropower plants without additional up or downstream power projects;

Medium or small scale wind and solar power projects; and

Some types of Biomass (not involving hazardous materials).

### **Power Sector Client Engagement and Monitoring**

A Bank should engage with power sector clients to encourage good E&S risk management practices and promote energy efficiency, clean technology and renewable resources. Where some existing clients have not met certain standards due to a number of factors, including legacy assets, they would be expected to develop credible, documented time-bound “action plan” to achieve the required standards over time. E&S conditions or covenants will be included in the transaction documentation, where appropriate to ensure E&S risks are monitored and on-going compliance is addressed with the client.

### **Power Sector E&S Reporting**

A Bank that is active in the power sector will need to monitor and report on their activities consistent with this Guideline and the Nigerian Sustainable Banking Principles to demonstrate on-going commitment and progress. A Bank shall seek to externally report on its progress in a meaningful way. Details of reporting



requirements are provided in the Nigerian Sustainable Banking Principles Guidance Note. In addition to general E&S risk reporting guidance provided, banks should consider international best practices for reporting in the power sector. The Global Reporting Initiative Electric Utilities Guideline provides detailed reporting guidance on certain activities and E&S risk issues in the power sector.

### **Appendix 1: E&S Risks Associated with Different Power Generation Activities**

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The nature and type of E&S risks that could be associated with financing power generation will depend greatly on the scale and type of activity being considered. The information below highlights the main E&S considerations associated with investing in different types of Power Generation.

#### **Oil**

Oil-fired power units emit comparable levels of pollutants (e.g. air emissions) as coal-fired power. However, most technologies that burn oil are also capable of using natural gas, with the exception of diesel-fired generators. Therefore, natural gas and oil-fired capacity are roughly interchangeable. High oil prices, climate change concerns and demands from stakeholders for a cleaner fuel have encouraged the switch from oil to natural gas. Operators of thermal power generation plants, which are oil-fired, may attract additional reputational risk for its investors.

#### **Natural Gas**

Natural gas has become an increasingly popular fuel as a result of its thermal efficiency, relative cost efficiency in transport and environmental performance. Natural gas fired plants emit lower particulate gases (sulphur oxides and nitrogen oxides emissions are about 60% of those from plants using coal) and have lower CO<sub>2</sub> emissions per unit of energy produced. Though natural gas is accurately viewed as a relatively cleaner fuel than other fossil-based sources such as coal, it nonetheless can generate E&S concerns. For example, there is growing reluctance among local communities to allow siting of gas-related infrastructure in close proximity to populations due to health and safety reasons. Transportation of gas in pipelines or in liquefied form also pose safety (risk of explosion, pipeline vandalism etc.) and security challenges (e.g. attacks at LNG tanker or re-gasification plants).

## **Coal**

Coal is abundantly available but has significant environmental impacts arising from its combustion. The reputational risks potentially associated with coal, combined with its material environmental impacts make it a particularly sensitive source of power generation. This is material to banks as there is increasing risk associated with coal's greenhouse gas footprint over its life cycle from extraction and transport to combustion.

There are a number of different types of coal plant technologies in development that include the use of cleaner coal technology. Each technology carries with it a different environmental profile and therefore a different degree of receptivity from local communities, and public health and environmental stakeholders. This type of coal technology should be considered when lending to coal power generation. The following is a list of coal power generation types in decreasing order of efficiency and increasing order of potential E&S risk:

1. **Integrated Gasification Combined Cycle with Carbon Capture Storage**
2. **Integrated Gasification Combined Cycle**
3. **Supercritical & Ultra SC Pulverised Coal**
4. **Circulating Fluidised Bed Combustion**
5. **Sub-critical Pulverised Coal**

## **Hydropower**

As increasing scrutiny is brought to the greenhouse gas emissions profile of power generation technologies, hydropower projects appear comparatively attractive. Hydropower is not, however, without significant E&S risks. Consideration needs to be given to risks such as the inundation of critical natural habitats and protected areas; people and economic displacement (e.g. loss of assets such as land, crops, fisheries, including those upstream or downstream from the reservoir, agricultural land etc.); how water flow or quality will be affected (especially with projects that affect international waterways) and where dams will significantly affect the water supply and/or quality of downstream ecosystems or communities.

## **Biofuels**

The rapid rise in biofuels<sup>9</sup> investment (particularly ethanol) as a “sustainable” fuel source is a defining feature of the sustainable energy debate. Biofuels have a

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<sup>9</sup> Biofuels include ethanol (largely from sugar cane, sugar beet and corn) and other fluids variously described as biofuels or biodiesels (from plants such as soya, canola, oil palm and jatropha).

number of significant E&S impacts associated with the scale-up of biofuel production. These include conversion of natural habitats, and a range of social impacts as a result of large-scale production of biofuel . In addition, certain biofuels are also subject to criticism in some cases where biofuel crops are competing with the production of food crops.

### **Solar & Wind**

Solar and Wind technology, with its increased use as a source of power generation (e.g. large-scale concentrated photovoltaic operations, onshore and offshore wind farms) are relatively low risk in terms of E&S impacts. However, consideration does need to be given to the significant land use required for large-scale wind and solar power generation activities. This can have measurable impacts if there are sensitivities around land ownership, habitat destruction and defragmentation etc. In addition, other E&S impacts may be identified (e.g. natural resource use, impacts caused by associated facilities (i.e. for electricity transmission), as well as, potential social issues with land use and/or economic displacement or resettlement.

## **Appendix 2: E&S Related Laws and Regulations for the Power Sector**

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The following list of E&S related laws and regulations have been provided to draw attention to relevant issues. This list is not exhaustive and may be subject to change.

Electric Power Sector Reform Act 2005

Energy Commission Act 1979

Environmental Guidelines and Standards for the Petroleum Industry in Nigeria 2002

Environmental Impact Assessment Act of 1992

National Environmental Standards and Regulations Enforcement Agency Act 2007

Harmful Wastes (Special Criminal Provisions etc.) Act of 1988

Land Use Act 1978

National Energy Policy 2003

## **Appendix 3: Relevant E&S Standards Applicable to the Power Sector**

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As described in this Guideline's Section 4 "Banking Sector Commitment", the following information references the relevant IFC Performance Standards and Environmental, Health and Safety (EHS) Guidelines, which are considered to be the minimum standard for Power sector clients to manage E&S risks. In addition, a list of recommended international sector best practice according to power generation type has been provided.

### **IFC Performance Standards, 2012**

The IFC Performance Standards on Social and Environmental Sustainability are the global benchmark for social and environmental performance for investments in non-OECD and low-income OECD countries. It also sets a framework for determining, assessing and managing of E&S risks of a business' activities. For more information access the latest version via this link.

## IFC Environmental, Health and Safety (EHS) Guidelines, 2006

The EHS Guidelines are technical reference documents with general and industry-specific examples of Good International Industry Practice. The general EHS Guidelines contain the performance levels and measures that are generally considered to be achievable in new facilities by existing technology at reasonable costs. They are to be used with the relevant industry sector EHS Guidelines. Where host country regulations differ from the levels and measures presented in the EHS Guidelines, operations are expected to achieve whichever is more stringent. The EHS Guidelines relevant to power sector guidelines include:

Thermal Power

Wind Energy

Geothermal power generation

Waste management facilities (for energy production from waste management facilities)

Annual Crop Production (for Biofuels)

Plantation Crop Production (for Biofuels)

Electric Power Transmission and Distribution

Gas distribution system

For more information access the latest versions by following this link.

### Recommended International Best Practice Standards Relevant for the Power Sector

Power Generation Type	Relevant International Best Practice Standards / Sector Sustainability Initiatives	Link
Thermal Power	Carbon Principles Climate Principles	<a href="http://carbonprinciples.com/http://www.theclimategroup.org/programs/the-climate-principles">http://carbonprinciples.com/http://www.theclimategroup.org/programs/the-climate-principles</a>
Hydropower	International Hydropower Association World Commission on Dams UNEP Dams and Development	<a href="http://www.iha.org">www.iha.org</a> <a href="http://www.dams.org">www.dams.org</a> <a href="http://www.unep.org/dams">www.unep.org/dams</a>

	Program European Small Hydropower Association	<a href="http://www.esha.be/">http://www.esha.be/</a>
Wind	The wind energy sector has published a large amount of material on both costs and benefits to biodiversity	<a href="http://www.nationalwind.org">http://www.nationalwind.org</a> <a href="http://www.ewea.org">http://www.ewea.org</a>
Solar	TBD	
Geothermal	TBD	
Biofuels	<b>Roundtable on Sustainable Biofuels</b> - is an international initiative coordinated by the Energy Center at EPFL in Lausanne that brings together farmers, companies, non-governmental organisations, experts, governments, and inter-governmental agencies concerned with ensuring the sustainability of biofuels production and processing. Participation in the RSB is open to any organisation working in a field relevant to biofuels sustainability. The RSB has developed a third-party certification system for biofuels sustainability standards, encompassing environmental, social and economic principles and criteria through an open, transparent, and multi-stakeholder process	<a href="http://rsb.epfl.ch/">http://rsb.epfl.ch/</a> .

Other issues that may be raised during power generation	Relevant E&S Standards / Initiatives	Link
Environmental management system	<b>ISO 14001</b> ISO 14001 standard specifies the requirements for an environmental management system. Fulfilling these requirements demands objective evidence that can be audited to	<a href="http://www.iso.org">www.iso.org</a>

Other issues that may be raised during power generation	Relevant E&S Standards / Initiatives	Link
	<p>demonstrate that the environmental management system is operating effectively in conformity to the standard. An independent accredited certification body can certify the conformity. However, the standard does not specify specific levels of environmental performance.</p>	
Labour	<p><b>ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998</b></p> <p>The most basic labour rights have been codified by the International Labour Organization (ILO) under this Declaration, which identifies eight ILO conventions as fundamental to the rights of persons at work, irrespective of the level of development of a country. It declares that all ILO member states, whether they have ratified the relevant conventions or not, have an obligation due to their membership in the ILO to respect, promote and realise the fundamental rights which are the subject of those conventions.</p>	<p><a href="http://www.ilo.org">www.ilo.org</a></p>
Occupational Health and Safety	<p><b>OHSAS 18001</b></p> <p>The OHSAS 18000 series is the most widely used standard for occupational health and safety management. It was first developed in 1999 as a result of consultations between 42 different organisations from 28 countries. OHSAS 18001 has been developed by</p>	<p><a href="http://www.ohsas.org/">http://www.ohsas.org/</a></p>

Other issues that may be raised during power generation	Relevant E&S Standards / Initiatives	Link
	the British Standards Institution in response to consumer demand for a recognised, assessable and certifiable management system for health and safety.	
Community Health and Safety	<b>Guidelines for Community Noise, World Health Organisation (WHO), 1999</b> - The scope of WHO's effort to derive guidelines for community noise is to consolidate actual scientific knowledge on the health impacts of community noise and to provide guidance to environmental health authorities and professional trying to protect people from the harmful effects of noise in non-industrial environments.	<a href="http://www.who.int/docstore/peh/noise/guidelines2.html">http://www.who.int/docstore/peh/noise/guidelines2.html</a>
Governance	<b>The Electricity Governance Initiative (EGI)</b> was co-founded by World Resources Institute (WRI) and Prayas Energy Group in 2003 to promote better governance in the electricity sector.	<a href="http://electricitygovernance.wri.org/">http://electricitygovernance.wri.org/</a>
Sustainability Reporting	<b>The UN Global Reporting Initiative (GRI)</b> The UN Global Reporting Initiative (GRI) vision is to make disclosure on sustainability performance as comparable and commonplace as financial reporting and of comparable importance to an organisation's measure of success. The GRI reporting framework provides sustainability reporting guidelines and sets out	GRI <a href="http://www.globalreporting.org">www.globalreporting.org</a>  Global Reporting Initiative's Sustainability Reporting Guideline <a href="http://www.globalreporting.org/ReportingFramework/G31Guidelines/">http://www.globalreporting.org/ReportingFramework/G31Guidelines/</a>



Other issues that may be raised during power generation	Relevant E&S Standards / Initiatives	Link
	<p>principles and indicators that organisations and companies can use as relevant to measure and report on their performance from a sustainability perspective.</p> <p>Sustainability reports based on the GRI framework can be used to benchmark organisational performance with respect to laws, norms, codes, performance standards and voluntary initiatives; demonstrate organisational commitment to sustainable development; and compare organisational performance over time.</p>	<p>GRI's Electrical Utilities Sector Supplement  <a href="https://www.globalreporting.org/reporting/sector-guidance/electric-utilities/Pages/default.aspx">https://www.globalreporting.org/reporting/sector-guidance/electric-utilities/Pages/default.aspx</a></p>

**Nigerian Sustainable Banking Principles**  
**Agriculture Sector Guideline**

# July 2012

## Glossary of Terms and Abbreviations

Term or Abbreviation	Definition or Explanation
<b>Bank</b>	A Nigerian: (a) money deposit Bank; (b) discount house; or (c) development Bank signatory to the Nigerian Sustainable Banking Principles Joint Commitment Statement.
<b>Business Operations</b>	The undertakings of employees and the physical human capital, assets and infrastructure (e.g. offices, branches, equipment) that a Bank engages in the course of facilitating its Business Activities. This would also include suppliers, contractors and third party providers engaged by a Bank in the course of facilitating its Business Operations and Business Activities.
<b>Business Activities</b>	The provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium business lending, retail banking, trade and leasing, and other forms of direct lending.
<b>CBN</b>	The Central Bank of Nigeria
<b>E&amp;S</b>	Environmental and Social
<b>E&amp;S footprint</b>	The total effect or impact that a Bank's Business Operations have on the environment and society in which it operates (e.g. the amount of natural resources used, the amount of waste produced, or the effects on local/host communities or the Bank's human capital).
<b>E&amp;S risks</b>	The potential E&S issues associated with a client or engagement that may imply exposure to risk and accordingly may need to be taken into account when making business and risk management decisions.
<b>E&amp;S impacts</b>	Any change, potential or actual, to (a) the physical,

natural, or cultural environment, and (b) impacts on surrounding community and workers, resulting from a business or business activity to be financed. E&S impacts may be temporary or permanent, involving reversible or irreversible changes on the environment or society. Environmental risks can include changes to the atmosphere, water and land due to human activities (e.g. greenhouse gases, pollution, changes to habitats, etc.). Social risks can include impacts to a client's workforce as well as the surrounding community (e.g. occupational health and safety, human rights and labour standards, land disputes or resettlement, corruption, etc.).

**E&S opportunities**

New business opportunities arising from meeting E&S challenges such as development of clean or renewable technology, job creation and community development. Taking account of E&S issues in making a business decision, could also lead to potential benefits to the client or the Bank providing financial services to the client.

**Equator Principles**

The Equator Principles are a voluntary set of standards for identifying, assessing and managing environmental and social risk in project financing.

**IFC  
Principles**

International Finance Corporation  
Nigerian Sustainable Banking Principles

**SME**

Small and Medium Enterprise

**Sustainable Banking**

We define sustainable banking as an approach that recognises the role of Banks in driving long-term economic development in Nigeria that is not only economically viable, but also environmentally responsible and socially relevant.

## The Nigerian Sustainable Banking Principles: Agricultural Sector Guideline

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### Introduction

This Guideline has been designed to complement the **Nigerian Sustainable Banking Principles** whilst focusing on the agriculture sector.

The objectives of this Guideline are to:

Assist Banks in the identification and management of complex E&S risks associated with the provision of financial products and services to the Nigerian agriculture sector;

Provide additional sector-specific guidance to supplement the Nigerian Sustainable Banking Principles Guidance Note;

Ensure that Banks adopt relevant international standards and best practices in the management of E&S risk; and

Strategically position agriculture as an attractive, rewarding and sustainable business opportunity.

Given the large proportion of the population that depends on agriculture as a source of livelihood, it is clear that agriculture is a practical means of reducing poverty, unemployment, food insecurity, whilst providing raw materials for industries and export in the medium to long term. Research suggests that if the agricultural growth targets set by the Federal Government are met the country will have 9.5% annual growth in the sector and 8% GDP growth in the next 10 years<sup>10</sup>.

Banks that actively lend and invest in this sector may leverage on their relationship with the client to influence the sustainable development of agriculture. It is intended that this guideline will provide the minimum standards for banks in ensuring that financial services to the sector are both socially and environmentally sustainable.

Nigeria's agricultural sector, which by 2010 contributed about 42 percent of GDP and employed about 60 percent of working population, is severely underfunded and underinvested with only 2% of all formal credit flowing to the sector. Agricultural lending accounts for only 1.4% of formal lending, and has been on the decline since 2006. This situation is partly explained by the fact that banks typically perceive agriculture as a high-risk investment due to their limited understanding

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<sup>10</sup> <http://www.ifpri.org/sites/default/files/publications/nssp02.pdf>

and lack of confidence in the sector<sup>11</sup>. In response to this challenge, the Central Bank of Nigeria (CBN), the Bankers' Committee and the Federal Ministry of Agriculture & Rural Development have recently developed an initiative known as the Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL), which ultimately seeks to create incentives and encourage the growth of formal credit to the entire agricultural value chain.

NIRSAL is expected to be a catalyst for innovative risk management strategies, long term financing for agribusiness and job creation for new entrepreneurs and established market participants in the agribusiness sector. An increase in formal credit flows into agriculture will be achieved by improving the capacity of financial intermediaries to provide credit, refocus credit provisioning on integrated value chains and establishment of a differentiated guarantee mechanism to share credit-related risks in the value chain.

Sustainable agriculture requires increased funding for land acquisition, good quality seeds and fertiliser, research and development, extension services, irrigation systems, storage facilities, processing machinery and infrastructure (roads and power). Channelling resources and funding for such activities and other transformational avenues are the means through which financial institutions can drive and sustain changes in the agricultural sector, whilst gradually reducing funding for activities that impact negatively on the environment and society.

### **Scope and Applicability**

This Guideline covers:

All activities of the agribusiness value chain contained in the approved NIRSAL framework

The provision of financial services and products for any activity along the value chain.

This Guideline **applies** to all lending instruments, including project and structured commodity finance, equity and debt capital market activities, retail banking and advisory services provided to new and existing clients in the agricultural sector. Existing clients may not be required to retroactively implement E&S requirements, but the guideline will apply to any additional facilities or services to existing clients.

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<sup>11</sup> Nigerian Incentive-based Risk Sharing System for Agriculture Lending (NIRSAL): Transforming value chains for expanded agricultural lending in Nigeria, Monitor Group, July 2011.

This Guideline does **not apply** to activities related to non-agriculture related insurance and asset management.

### **Agriculture Sector E&S Issues and Sustainable Agriculture**

As already mentioned, As of 2010, agriculture accounted for 42% of GDP and 60% of employment in Nigeria. With an average growth rate of 5% per annum, the sector has been a major source of employment growth. However, there is still enormous potential in the sector that needs to be unlocked. Beyond increased food security and higher incomes for the rural population, a better performing agricultural sector that supports the growth of productive agribusinesses would be imperative to drive economic growth and stability in the country. It would aid the creation of small and medium enterprises, whilst being able to produce a broad spectrum for increased production of food and cash crops.

Along the agricultural value chain in Nigeria, there are a number of recurring challenges that continue to hinder the growth of the sector. Among these are the high cost of farm inputs especially seeds and fertiliser, inefficient procurement and distribution systems for critical inputs, poor access to credit for farmers, weak extension services, huge post-harvest losses due to poor storage, limited value addition to raw products and low investment in research and development, poorly structured markets, weak infrastructure and a discriminatory land tenure system. The above issues continue to keep agricultural productivity low, with high wastage and below optimal contributions to export earnings.

In addition to unleashing the full potential of the sector, it is increasingly recognised that this has to be conducted in a sustainable manner. Sustainable agriculture entails taking into consideration the environment and natural resource base, making use of natural resources in an efficient manner, whilst at the same time providing a sustainable source of income for the farmer and addressing food needs. Furthermore, sustainable agriculture takes into account numerous social issues such as health and safety of labour, in particular women and children, as well as community and land use issues.

Agricultural activities such as land preparation, planting, nurturing and harvesting, affect the environment in several ways. For example, one of the main causes of deforestation today is the clearing of land for crops, which increases the rate of soil erosion. Often, land is cleared through burning, which emits harmful gases into the atmosphere; the land can also suffer from nutrient depletion thereby reducing the yield that can be realised from planting.

Agriculture affects the climate through the production of greenhouse gases (carbon dioxide, methane, nitrous oxide). The types of chemicals and pesticides used can lead to soil contamination, ground water and air pollution if poorly managed. As the crops are harvested and prepared for further processing, issues such as the disposal of agro-processing waste (effluents, solid waste) and sources of energy used in agro-processing become key sustainability issues.

Sustainable agriculture is not only limited to environmental impact but also to socioeconomic issues. Agriculture is typically associated with positive impacts such as increased employment opportunities for the rural population, higher incomes, improved food security and strengthened local economic linkages. However, there are also potential negative social impacts that need to be considered if agriculture is to be practiced in a sustainable manner. Examples include social conflict with agricultural settlers and/or agro-processing companies, land ownership conflicts, increased land values and rents, community health risks, increased burden on women and children, labour issues (child labour) and loss of farm income to production of cash crops

### **Water Resource Related Issues**

Irrigation is the application of water to crops through artificial means. All crops require water to grow and thrive: however, knowing how, when and how much to use is imperative for maximising yields whilst minimising the impact on the environment. The irrigation system should provide supplemental water when rainfall is not sufficient to maintain plant health, while protecting water resources and the environment. An effective irrigation system involves a planned system of crop irrigation that concentrates on efficient water use and distribution, minimizing runoff or deep percolation and soil erosion.

According to the National Water Resources Master Plan, it is estimated that Nigeria has about 3.14 million hectares of irrigable land. Approximately 1.8 million hectares of this land lie within the Niger-Benue valleys, which contain sufficient water to effectively develop irrigated agriculture without the need to construct large dams.

In spite of this endowment, agricultural activity in most areas of the country is limited to the rainy season, which lasts between 4 and 8 months, primarily due to the wide variation of rainfall. This contributes significantly to the underperformance



of farming and the low productivity. However, what is of even greater concern is the grossly sub-optimal utilization of irrigation potential. Specifically, there exists currently a reservoir capacity in excess of 34 billion cubic metres capable of irrigating more than 500,000ha but only 150,000ha has been developed under formal irrigation out of which only 85,000 ha are actually being irrigated<sup>12</sup>.

The strategic development and management of irrigation and drainage systems, as well as effective and sustainable irrigation practices are therefore imperative to increase the productivity of agriculture, thereby contributing to national food security and poverty alleviation. Potential solutions could focus on public-private partnerships for the provision of irrigation systems, whereby banks partner with the public and private sector to deliver efficient systems to local communities. However, this would also require the creation of an enabling legal and institutional framework, as well as developing capacity for the implementation of such projects.

### **Key Issues in the Irrigation Sub-Sector**

Some of the major issues in the irrigation sub-sector include:

Substantial investment gap;

Severely degraded environment in poverty-stricken communities, which places constraints on water retention in root zone where it is needed for healthy crop growth;

Unutilised and underutilised development potential: too few irrigation schemes have been developed in comparison to the available potential as a result of declining real investment in the sub-sector;

Insufficient water infrastructure & inadequate operation and maintenance of existing water infrastructure;

Poor performance of public investment that was in the past “input driven” as opposed to “output led”;

Low private sector involvement; and

Poor community mobilisation: the early irrigation projects were developed without the participation of the intended beneficiaries and consequently were too sophisticated for beneficiaries to operate and maintain.

It is envisaged that by unlocking finance for the entire agricultural value chain, some of the key challenges related to irrigation and water issues mentioned above

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<sup>12</sup>*Irrigation Practice in Nigeria*, (2011), Federal Ministry of Water Resources.

will be adequately addressed, that is, with increased confidence in the overall sector, this could provide incentives for increased investment in the irrigation sub-sector from both public and private sector parties.

**Table 1: Agribusiness Value Chain Categories and Potential E&S Risks**

<b>Value Chain Category</b>	<b>Category Name</b>	<b>Examples</b>	<b>Potential E&amp;S Risks</b>
<b>Category 1</b>	Preparation & Infrastructure	Land preparation Developing Water bodies / Irrigation Cluster Enabling Infrastructure	Land grabbing/conflict Involuntary physical and/or economic displacement Higher land values and rents for local communities Biodiversity loss Impact on water resources – conflict over water resources Climate change adaptation/mitigation considerations Conflict over use of land e.g. biofuel versus food security
<b>Category 2</b>	Inputs	Inputs (vaccines, veterinary products, animal feed, embedded power equipment, agricultural machinery, seeds, fertilizer, crop protection, micronutrients, and related material)	Genetically modified seeds/crops Pesticides/chemical pollution Disposal of agricultural waste Water supply issues (source)
<b>Category 3</b>	Planting, Nurturing & Harvesting	Livestock raising / husbandry lifecycle Fisheries Planting Crop management including weeding /	Deforestation and soil erosion Impact on soil structure and fertility Disposal of animal waste Greenhouse gas emissions Local labour (health & safety)

		replanting Harvesting	issues; employment practices) Animal welfare
<b>Category 4</b>	Storage and Post-Harvest Handling	Storage Post-Harvest Handling Access to Markets Transportation Logistics	Waste prevention and Energy requirements for storage (renewable) Consultation with local communities regarding transport links (roads etc.)
<b>Category 5</b>	Processing	Processing across all stages Packaging companies	Energy requirements for processing Prevention and Disposal of waste Health & safety of labour Employment practices Food safety/consumer health
<b>Category 6</b>	Distribution	Wholesale downstream distributors (export and domestic) Specialised services providers	Energy requirements for transportation

In addition to planned increased lending to the sector, the NIRSAL approach will include on-going stakeholder engagement aimed at modernising agriculture and transforming it into an attractive, rewarding and sustainable business opportunity.

### **Commitment of Banks to Agriculture Sector Financing**

Consistent with the Principles and Guidance Note and to promote the sustainable development of agriculture in Nigeria, banks shall:

Conduct E&S risk analysis and assessment of agricultural clients and activities, and ensure that identified risks are adequately monitored and managed.

Adhere to local E&S laws and international best practices (see Appendix 3).

In addition, and consistent with NIRSAL, banks shall:

Lend towards the establishment and efficient distribution of fertiliser by supporting fertiliser manufacturing companies in Nigeria that produce/procure and distribute fertiliser, as well as a transparent market-driven fertiliser distribution model.

Finance the manufacture and distribution of improved and high quality seeds, by lending to indigenous seed companies and importers of seed varieties.

Strive to ensure that farmers are able to procure seeds directly from seed manufacturers, by availing them with adequate finance.

With support from industry stakeholders, strive for the establishment of an Agricultural Value Chain Research Development Fund that produces high quality research on the needs of the value chain.

Encourage and finance providers of storage facilities for seeds, produce and other value-added products provided that they take into consideration energy efficiency issues.

Encourage and finance processors that add value to local products, whilst taking into consideration the E&S impacts of processing operations.

Endeavour to lend to farmers whose products have off takers and whose farming practices protect the environment e.g. minimise the use of harmful chemicals/pesticides, efficient use of water resources, adoption of conservation farming technologies etc.

While waiting for the reform of land use act, lend based on short and long leases that do not displace and/or negatively impact on the livelihoods of local communities Encourage the creation of public-private marketing corporations that provide adequate support to local products.

Support the decentralisation of agricultural insurance and encourage the development of a vibrant and competitive market for agricultural insurance by a range of companies.

Lend with assistance from NIRSAL (technical assistance, risk sharing, insurance and incentive pillars), and Lend to promote the use of appropriate and sustainable farm mechanisation and irrigation technology in agriculture.

### **E&S Risk Implementation**

To meet these commitments and successfully manage E&S issues associated with the provision of financial products and services to the agriculture sector, banks should refer to the Principles Guidance Note. Banks should seek to implement the recommended guidance as detailed in the Guidance Note appropriately. The following sections provide sector-specific guidance to be used in conjunction with the Guidance Note.

## **E&S Risk Categorisation of Agribusiness**

The following information serves to illustrate and support the categorisation of E&S risk for different agribusiness. Typically a transaction will be categorised as high, medium or low based on the nature of the E&S impacts associated with the client's agriculture activities and the client's ability to manage such impacts. The purpose of categorising the risk of a transaction or engagement is to guide banks on the degree of E&S due diligence required to determine credit risk approval decision-making and the appropriate level of E&S risk management that should be applied to the transaction.

A **high-risk** investment is one where activities carry potential significant adverse E&S risks and/or impacts that are diverse, irreversible, or unprecedented.

A **medium-risk** investment is one where activities carry potential limited adverse E&S risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.

## **Agriculture Sector Client Engagement and Monitoring**

Banks should engage with their Agriculture sector clients to encourage good E&S risk management practices as well as promote sustainable agriculture practices. Where some clients have not met certain standards due to a number of factors, they would be expected to develop a credible, documented, time-bound "action plan" to achieve the standards over time. E&S conditions or covenants will be included in the transaction documentation, where appropriate, to ensure E&S risks are monitored and on-going compliance is addressed with the client.

## **Agriculture Sector E&S Reporting**

In addition to general E&S risk reporting guidance provided, banks should consider adopting international best practice for reporting. The Global Reporting Initiative guideline provides detailed reporting guidance on certain activities and E&S risk issues.

## Appendix 1: E&S Risks Associated with Agricultural Production Sectors

### Examples of Select Environmental Risk Factors

SECTOR	ENVIRONMENTAL RISK	IMPACT	MITIGANTS
<b>Crop Production</b>	Risk of drought or inadequate rainfall.	Crop failure or low crop yield/ quality, relative to expected performance.	Fund only projects with reliable water supply or provision of irrigation systems and/or dams.
	Risk of soil and water pollution from nearby industries/mines/other farms.	Low crop yield or outright crop failure.	Avoid projects co-located or in close proximity to identified pollutants. Fund only projects with adequate bio-security and pollution control systems.
	Risk of climate change (long-time, non-immediate).	Low crop yield or outright crop failure.	N/A
	Environmental sustainability issues with respect to agronomic practices such as use of toxic pesticides and fertilizers that alter soil structures.	Pollutes the soil and water cycle and affects the health of farmers, farm animals and entire food chain. Penalties from regulatory standard agencies.	Ensure that customer uses only environmentally friendly fertilizers and agrochemicals certified and compliant with relevant regulatory bodies.
<b>Poultry &amp; Livestock Production</b>	Risk of hot and dry weather conditions.	Heat stress leads to low productivity, low quality products and sudden death syndrome in poultry and livestock.	Provision of water cooling systems and rearing of animals under controlled systems especially in hot and arid regions, as opposed to free range.

	Risk of air and water pollution.	Death of livestock.	Provision of effective bio-security Systems.
	Risk of sewage effluents pollution (ammonia poisoning) from residential and other nearby farms.	Low productivity. Disease outbreak. Death of livestock.	Provision of proper sewage waste drainage and special housing to avoid contamination
	Environmental sustainability issues as regards disposal of waste from poultry and livestock operations.	Pollutes the environment and affects both the health of humans and animals alike. Penalties from regulatory bodies.	Requirements for proper drainage and recycling of waste that can be safely ploughed back into the agro-industrial value chain. Compliance with relevant HSE standards of operations.
<b>Fisheries and Aquaculture</b>	Risk of water pollution from nearby industries/mines/other farms.	Death of fish population.	Avoid projects co-located or in close proximity to identified pollutants. Fund only projects with adequate bio-security and pollution control systems.
	Risk of sewage pollution.	Low productivity. Death of fishes.	Fund only projects with effective bio-security and pollution control systems such as re-circulatory water system.
	Risk of pollution from un-used pond water and waste from fish farming and processing.	Pollutes the water cycle and the human environment. Penalties from regulatory agencies	Use of re-circulatory aquaculture and compliance with relevant HSE standards.

### Examples of Select Social Risk Factors

SECTOR	SOCIAL RISK	IMPACT	MITIGANTS
<b>All areas of agricultural production</b>	Land Tenure/Host communities Issues	Impacts sustainability of production and concerns around the continuity of business. Could result in social conflict.	Ensure that land title issues have been clarified and the project effectively engages host communities.
	Health and safety of labour/abuse of labour (e.g. child labour)	Litigation and criminal prosecution/legal and regulatory compliance problems. Penalties and outright shut down of business entity.	Do due diligence in profiling customer's workforce and ensure compliance with international and national labour laws and regulations.
	International Food Safety and Quality issues – Organic Farming; phytosanitary requirements, genetic modification compliance etc.	Impacts on exportability, profitability and ability to earn premiums from global produce/commodity trade.	Ensure that necessary certifications and regulatory compliance are in place with regard to standards.
	Social equity/livelihoods/fair trade issues	Same as above	Ensure that customer has all necessary certifications and corporate social responsibility initiatives to address social equity/livelihoods and fair-trade issues.



## **Appendix 2: E&S Related Laws and Regulations for the Agriculture Sector**

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The following list of E&S related laws and regulations have been provided to draw attention to relevant issues. This list is not exhaustive and may be subject to change.

National Environmental Standards and Regulations Enforcement Agency Act 2007  
Environmental Impact Assessment Act of 1992

Harmful Wastes (Special Criminal Provisions etc.) Act of 1988

Land Use Act 1978

## **Appendix 3: Relevant E&S Standards Applicable to the Agriculture Sector**

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The following information references the relevant IFC Performance Standards and Environmental, Health and Safety (EHS) Guidelines and other recommended good international sector practice for managing E&S risks.

### **IFC Performance Standards, 2012**

The IFC Performance Standards on Social and Environmental Sustainability are the global benchmark for social and environmental performance for investments in non-OECD and low-income OECD countries. It also sets a framework for determining, assessing and managing of E&S risks of a business' activities. For more information access the latest version via this link.

### **IFC EHS Guidelines, 2006**

The EHS Guidelines are technical reference documents with general and industry-specific examples of Good International Industry Practice. They are to be used with the relevant Industry Sector EHS Guidelines. Where host country regulations differ from the levels and measures presented in the EHS Guidelines, operations are expected to achieve whichever is more stringent. The EHS Guidelines relevant to the Agriculture Sector Guideline include:

Mammalian Livestock Production  
Poultry Production  
Annual Crop Production (for Biofuels)

Plantation Crop Production (for Biofuels)  
 Aquaculture  
 Sugar Manufacturing  
 Vegetable Oil Processing  
 Dairy Processing  
 Fish Processing  
 Meat Processing  
 Poultry Processing  
 Food and Beverage Processing

For more information, access the latest versions by following this link.

Other relevant codes of conduct and standards for developments in the agriculture sector include:

<b>Relevant International Best Practice Standards / Sector Sustainability Initiatives</b>	<b>Link</b>
<p><b>Food and Agricultural Organisation (FAO)</b>            As part of the United Nation, the FAO aims to provide leading international best practice and guidelines on the sustainability of the Food and Agriculture sector globally.</p>	<p><a href="http://www.fao.org">www.fao.org</a></p>
<p><b>Sustainable Agriculture Best Practice</b></p> <p><b>Responsible Agriculture Initiative</b>            The World Bank has worked with FAO, IFAD and UNCTAD, and more recently an expanding set of governmental, non-governmental, and private partners, to formulate a set of principles to help governments, investors, communities, and other interested stakeholders to facilitate “responsible agro-investment that respects rights, livelihoods, and resources.”</p> <p><b>Rainforest Alliance (RA) standards set by the Sustainable Agriculture Network (SAN):</b> formally known as the Conservation Agriculture Network) have been designed to promote tropical conservation and steer commercial agriculture practices in the tropics. Rainforest Alliance</p>	<p><a href="http://www.responsibleagroinvestment.org/rai/node/232As">http://www.responsibleagroinvestment.org/rai/node/232As</a></p> <p><a href="http://www.rainforest-alliance.org/certification.cfm">http://www.rainforest-alliance.org/certification.cfm</a></p> <p><a href="http://www.ifc.org/ifcext/enviro.nsf/Attac">http://www.ifc.org/ifcext/enviro.nsf/Attac</a></p>

<p>Certified growers follow the criteria and standards designed by SAN.</p> <p><b>The IFC-WWF Better Management Practices program:</b> IFC is working with WWF and other partners to develop and test Better Management Practice (BMPs) for agricultural commodities that are having significant impacts on biodiversity and where there is a critical mass of interest from producers, buyers and investors to effect change.</p> <p><b>WWF Agriculture and Environment Guide to Commodities:</b> A comprehensive guide to biodiversity-related issues for 21 major agricultural commodities.</p> <p><b>The IFC's Biodiversity and Agricultural Commodities Program (BACP)</b> seeks to reduce the impact of agribusiness on biodiversity by leveraging market forces at all levels of the value chain. The program focuses on palm oil, cocoa, sugarcane and soybeans</p> <p><b>The Sustainable Food Lab:</b> than 60 private companies, banks, NGOs and government agencies from three continents have joined together to accelerate the movement of sustainably produced food from niche markets to the mainstream platform.</p> <p><b>The Sustainable Agriculture Initiative (SAI):</b> The SAI platform was founded by food companies Danone, Nestlé and Unilever to support the development and promotion of sustainable agricultural practices throughout the food products supply chain.</p> <p><b>The Centre for Environmental Leadership in Business Agriculture and Fisheries Program.</b></p>	<p>hmentsByTitle/art_CC FBMPIntro/\$FILE/BMP-Intro.pdf</p> <p><a href="http://www.panda.org/about_wwf/what_we_do/policy/agriculture_environment/commodities/index.cfm">http://www.panda.org/about_wwf/what_we_do/policy/agriculture_environment/commodities/index.cfm</a></p> <p><a href="http://www.ifc.org/Content/Biodiversity_BACP">www.ifc.org/Content/Biodiversity_BACP</a></p> <p><a href="http://www.sustainablefoodlab.org">www.sustainablefoodlab.org</a></p> <p><a href="http://www.sai.org">www.sai.org</a></p> <p><a href="http://www.celb.org/xp/CELB/programs/agriculture-fisheries">http://www.celb.org/xp/CELB/programs/agriculture-fisheries</a></p>
<p><b>Hydropower and Dams Standards (where dams are associated with irrigation, or impact agricultural operations)</b> International Hydropower Association</p>	<p><a href="http://www.iha.org">www.iha.org</a> <a href="http://www.dams.org">www.dams.org</a> <a href="http://www.unep.org/dams">www.unep.org/dams</a> <a href="http://www.eshab.be/">http://www.eshab.be/</a></p>

<p>World Commission on Dams          UNEP Dams and Development Program          European Small Hydropower Association</p>	
<p><b>Agriculture Sector Initiatives and Certification Schemes</b></p> <p><b>4C Association:</b> It is an open and inclusive membership association involving coffee producers, trade and industry and civil society. The association has developed a code of conduct and verification system.</p> <p><b>The Better Cotton Initiative:</b> Principles and criteria for the production and harvesting of cotton.</p> <p><b>Bon Sucro: Better Sugar Cane Initiative:</b> A product standard for the production and harvesting of sugar cane and certification scheme</p> <p><b>Roundtable on Responsible Soy Association:</b> A set of principles and criteria for producing responsible soy, which also includes a certification scheme.</p> <p><b>Cocoa Roundtable for Sustainable Cocoa Economy:</b> A platform that provides links to a variety of standards and certification initiatives for the sustainable management of cocoa production.</p> <p><b>Roundtable on Sustainable Bio-fuels:</b> A set of principles, criteria and guidance for sustainable biofuel production.</p> <p><b>Roundtable on Sustainable Palm Oil:</b> Principles and criteria for sustainable palm oil production, which also includes a supply chain certification scheme.</p> <p><b>Forest Stewardship Council:</b> A set of standards for the sustainable management of forestry.</p> <p><b>The Marine Stewardship Council (MSC):</b> First established by Unilever, the world's largest buyer of seafood, and WWF, the MSC uses a product labelling system to promote sustainable and well-managed fisheries.</p> <p><b>Sustainable Livestock Initiative:</b> Standards and guidance on the production of livestock.</p> <p>ISEAL Alliance, a global association of environmental and social standards.</p> <p><b>Fairtrade Certification Marks:</b> which are awarded to products when producers and traders have met Fairtrade Standards - they include social, environmental and</p>	<p>www.4c-coffeeassociation.org          www.bettercotton.org          www.bonsucro.com          www.responsiblesoy.org          www.roundtablecocoa.org          http://rsb.epfl.ch/          www.rspo.com          www.fsc.org          http://www.msc.org          www.sustainablelivestock.org/home          http://www.fairtrade.net</p>

<p>economic criteria, as well progress requirements and terms of trade. The Standards are designed to support the sustainable development of small-scale producers and agricultural workers in the poorest countries in the world.</p>	
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<b>Information Topic</b>	<b>Relevant E&amp;S Standards / Initiatives</b>	<b>Link</b>
<p>Environmental management system ISO14001</p>	<p>ISO 14001 standard specifies the requirements for an environmental management system. Fulfilling these requirements demands objective evidence that can be audited to demonstrate that the environmental management system is operating effectively in conformity to the standard. An independent accredited certification body can certify the conformity. However, the standard does not specify specific levels of environmental performance.</p>	<p><a href="http://www.iso.org">www.iso.org</a></p>
<p>Labour</p>	<p><b>ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998</b> The most basic labour rights have been codified by the International Labour Organization (ILO) under this Declaration, which identifies eight ILO conventions as fundamental to the rights of persons at work, irrespective of the level of development of a country. It declares that all ILO member states, whether they have ratified the relevant conventions or not, have an obligation due to their membership in the ILO to respect, promote and realise the fundamental rights which are the subject of those conventions.</p>	<p><a href="http://www.ilo.org">www.ilo.org</a></p>
<p>Occupational Health and Safety</p>	<p><b>OHSAS 18001</b> The OHSAS 18000 series is the most widely used standard for occupational health</p>	<p><a href="http://www.ohsas.org/">http://www.ohsas.org/</a></p>

Information Topic	Relevant E&S Standards / Initiatives	Link
	<p>and safety management. It was first developed in 1999 as a result of consultations between 42 different organisations from 28 countries. OHSAS 18001 has been developed by the British Standards Institution in response to consumer demand for a recognised, assessable and certifiable management system for health and safety.</p>	
Community Health and Safety	<p><b>Guidelines for Community Noise, World Health Organisation (WHO), 1999</b> - The scope of WHO's effort to derive guidelines for community noise is to consolidate actual scientific knowledge on the health impacts of community noise and to provide guidance to environmental health authorities and professional trying to protect people from the harmful effects of noise in non-industrial environments.</p>	<p><a href="http://www.who.int/docstore/peh/noise/guidelines2.html">http://www.who.int/docstore/peh/noise/guidelines2.html</a></p>
Sustainability Reporting	<p><b>The UN Global Reporting Initiative (GRI)</b>  The UN Global Reporting Initiative (GRI) vision is to make disclosure on sustainability performance as comparable and commonplace as financial reporting and of comparable importance to an organisation's measure of success. The GRI reporting framework provides sustainability reporting guidelines and sets out principles and indicators that organisations and companies can use as relevant to measure and report on their performance from a sustainability perspective.</p> <p>Sustainability reports based on the GRI framework can be used to benchmark organisational performance with respect</p>	<p>GRI <a href="http://www.globalreporting.org">www.globalreporting.org</a></p> <p>Global Reporting Initiative's Sustainability Reporting Guideline <a href="http://www.globalreporting.org/ReportingFramework/G31Guidelines/">http://www.globalreporting.org/ReportingFramework/G31Guidelines/</a></p> <p>GRI's Food Processing Sector Supplement <a href="http://www.globalreporting.org/Reporting">http://www.globalreporting.org/Reporting</a></p>

Information Topic	Relevant E&S Standards / Initiatives	Link
	to laws, norms, codes, performance standards and voluntary initiatives; demonstrate organisational commitment to sustainable development; and compare organisational performance over time.	gFramework/SectorS upplements/FoodPro cessing/

**Nigerian Sustainable Banking Principles**  
**Oil and Gas Sector Guideline**



# July 2012

## Nigerian Sustainable Banking Principles: Oil and Gas Sector Guideline

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### Introduction

The objective of this Guideline is to:

- shape the approach of Nigerian banks to effectively manage the environmental and social (E&S) risks associated with the provision of financial products and services to the Oil and Gas sector;
- support banks in implementing the **Nigerian Sustainable Banking Principles**;
- provide clear and practical sector-specific guidance not covered in the Nigerian Sustainable Banking Principles Guidance Note; and
- ensure that the complex E&S risks related to the sector are responsibly managed, and in a manner consistent with best practices and international standards.

This Guideline is intended for banks that are actively providing financial products and services to the Oil and Gas sector.

### Scope & Applicability

This Guideline **covers** the provision of financial products and services for upstream, downstream and servicing activities as follows:

Upstream

Exploration activities – aerial and seismic operations

Appraisal drilling

Development and production (including processing and initial storage)

Transportation

Decommissioning and rehabilitation

Downstream

Product refining

Transportation and distribution activities - via pipelines, roads (trucks) and sea vessels

Marketing – including product importation and storage

Servicing

Provision of technical support services for the upstream and downstream segments in the areas of drilling, well completion, well simulation, logistics, equipment supplies, etc.

The guideline **applies to** corporate lending, project and structured finance, equity and debt capital market activities, and advisory services provided to new and existing clients in the oil and gas sector. However, existing clients may not be required to retroactively implement E&S requirements but the guideline will apply to any additional facilities or services to existing clients.

This guideline does **not apply to** activities involving non-oil and gas related insurance, asset management or retail banking.

### **Oil and Gas Sector E&S Issues**

The environmental and social (E&S) issues related to the Oil and Gas are particularly salient and complex. There are a number of E&S risks associated with the sector that deserve consideration. E&S risks vary greatly depending on the scale and type of Oil and Gas activity being financed. **Appendix 1** provides a detailed overview of the main potential environmental, health and safety issues related to specific Oil and Gas activities. Some of the main E&S risks that may be encountered however include:

**Environmental and ecosystem damage:** Air, soil and water pollution from industry operations – especially from oil spills and gas flaring - has devastated the Niger Delta for more than half a century. An important wetland area of diverse and sensitive ecology that supports lives and livelihoods, the Niger Delta has sustained significant short and long-term impacts. They include declining fish stocks, loss of soil fertility and agricultural productivity, health damage from toxic substances released through gas flaring, and polluted water wells.

**Climate change impacts:** Nigeria is a top emitter of Green House Gas (GHG) , and is also particularly vulnerable to climate change impacts. The combination of climate change, deforestation, pollution and the failures associated with Nigeria's dependency on the oil industry have deepened its exposure to the devastating risks of water shortages, drought, and floods, especially in the Niger Delta region. Progress towards greener energy development, such as the anticipated growth in the natural gas industry and its use for domestic electrification can help mitigate these risks.

**Revenue management:** A priority issue in the Oil and Gas sector is the need ensure that revenues are appropriately managed for development and poverty

reduction. The sector has fuelled Nigeria's economic growth, accounting for 15.8% of Nigeria's GDP, 65% of government revenues and 95% of the country's export earnings. Despite this, the sector has failed to benefit Nigeria's progress: A large proportion of the people are without access to electricity, burning waste and biomass for home heating and energy use; poverty has increased; and the most recent UN Development Index (2011) ranked Nigeria 156 out of 187 countries.

**Community conflict and social unrest:** The extractive industry is particularly prone to problems with local communities. Contributing causes include lack of development benefits, damaging impacts from industry operations, and lack of opportunity for meaningful engagement with sector operators to resolve issues that are important to the community. The agitation and unrest in community relations in the Niger Delta have been costly to the sector and to Nigeria's progress; and security considerations continue to be a factor in financing problems that have delayed infrastructure projects.

**Health and Safety issues:** Oil and Gas exploration and production operations are known to be risky, and work-place accidents have resulted in injuries and fatalities in the sector. According to the IFC, occupational health and safety issues should be considered as part of a comprehensive hazard or risk assessment. The results should be used for health and safety management planning, in the design of the facility and safe working systems, and in the preparation and communication of safe working procedures.

**Local employment issues:** Given the need to create employment opportunities especially among young people and eliminate poverty, the Oil and Gas sector is expected to play a major role in creating jobs and engaging local businesses. It is hoped that with effective implementation of the Nigerian Local Content Act (2010), the sector will be in a position to employ more Nigerians and stimulate a robust supply chain among local businesses and entrepreneurs# thus reducing conflict and discontent with sector stakeholders.

International initiatives and best practices, including industry guidelines, provide benchmarks and approaches for the sector to make greater progress on sustainability. As important stakeholders in the sector, financial institutions can significantly influence industry performance. In recent years, they have become a major force in promoting sustainable growth. For example, they have used their influence to drive responsible corporate practices, and targeted funds to promote

sustainable products and services. For Nigeria's financial institutions, the sustainability challenges in the Oil and Gas sector offer significant scope for action.

### **Banking Requirements for Oil and Gas Sector Financing**

For all activities that fall within the scope of this Guideline, banks shall:

Undertake appropriate E&S due diligence on Oil and Gas sector clients and activities to identify and assess potential E&S risks, as well as, determine a client's ability to effectively manage identified risks. For additional E&S considerations see **Appendix 1**.

Require Oil and Gas sector clients to comply with Nigerian laws governing E&S issues. See **Appendix 2**.

Encourage Oil and Gas sector clients to meet the requirements of the IFC's Performance Standards and relevant Environmental, Health and Safety (EHS) guidelines that represent the minimum internationally accepted good practice. See **Appendix 3**.

Banks should refer to key sustainability initiatives and good practices relevant for Oil and Gas projects during E&S due diligence and request their clients to work towards enhanced performance consistent with such initiatives, standards and good practice including (but not limited to):

**Human Rights** - the Voluntary Principles on Security and Human Rights (VPSHR).

**Biodiversity** - the recommendations of The Energy and Biodiversity Initiative (EBI) and the Joint Nature Conservation Committee (JNCC) Guidelines for the offshore industry (for protecting marine animals).

**Transparency** - the Extractive Industries Transparency Initiative (EITI) through the Nigerian Extractive Industries Transparency Initiative (NEITI).

**Gas Flaring** - the Global Gas Flaring and Venting Reduction Voluntary Standard (GGFR).

**Emergency Response** – For maritime operations, the IMO Convention on Oil Pollution Preparedness, Response and Co-operation (OPRC, 1990).

**Marine Pollution** – International Maritime Organisations Conventions (IMO) to which

Nigeria is a signatory.

The guidelines defined by the International Petroleum Industry Environmental Conservation Association (IPIECA) and by the International Association of Oil and Gas Producers (OGP).

See **Appendix 3** for links and more information on relevant international best practice.

Explore opportunities in the sector reform initiatives (e.g. the Nigerian Oil & Gas Industry Content Development Act of 2010, The Nigerian Gas Master Plan, the Petroleum Industry Bill, 'green funds', etc.) for innovative sustainability-promoting products and services.

### **E&S Risk Implementation for Oil and Gas Sector Investments**

To meet these commitments and successfully manage E&S issues associated with the provision of financial products and services to the sector, banks should refer to the Principles' Guidance Note for implementing a robust E&S risk management system. Banks should seek to implement the recommended guidance as detailed in the Guidance Note appropriately. The Guidance Note includes information for developing policies, procedures, as well as, monitoring and reporting E&S risks. The following sections provide sector-specific guidance to be used in conjunction with the Guidance Note.

### **E&S Risk Categorisation of Oil & Gas Sector Investments**

The following information serve to illustrate and support the categorisation of E&S risks for different oil and gas projects. Typically a project will be categorised as high, medium or low risk but in the oil and gas sector, all projects carry either a high or medium level of risk. The purpose of categorising the risk of a transaction or engagement is to guide banks on the degree of E&S due diligence required to inform credit risk approval or underwriting decision-making and the appropriate level of E&S risk management and monitoring oversight that should be applied to the loan.

A **high-risk** transaction involves activities, which carry potential significant adverse E&S risks and/or impacts that are diverse, irreversible, or unprecedented.

A **medium-risk** transaction involves activities which carry potential limited adverse E&S risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.

Examples of major issues that may change the categorisation of Oil and Gas transactions would be operations:

Located in or near **natural habitats** and **protected areas** (including offshore/**sub-sea habitats** of significance);

In **remote areas** (and whose development will increase access to these areas by third parties);

That rely on **gas flaring** as a management strategy for associated gases (a significant source of **greenhouse gas (GHG) emissions**);

Whose development will result in the **displacement of people** (including relocation and loss of assets such as land, crops, water, houses);

That will affect **indigenous or traditional communities** or lands used by such communities;

In areas of **social conflict** or where armed government forces are deployed to control security; and/or

That is located in areas where there is a **history of tension** and **activism over Oil & Gas development** (including locations where there has been plant damage, closure or public campaigns).

### **Oil and Gas Sector Client Engagement and Monitoring**

Banks should engage with their Oil and Gas sector clients to encourage good E&S risk management practices as well as promote environmental and social best practice. Where some existing clients have not met certain standards due to a number of factors, they would be expected to develop a credible, documented, time-bound “action plan” to achieve the standards over time. E&S conditions or covenants will be included in the transaction documentation, where appropriate, to ensure E&S risks are monitored and ongoing compliance is addressed with the client.

## **Oil & Gas Sector Reporting**

Banks active in the Oil and Gas sector will need to monitor and report on their activities consistent with this guideline and the Nigerian Sustainable Banking Principles to demonstrate commitment to and progress against their objectives. Banks shall seek to externally report on their progress in a meaningful way. Details of reporting requirements are provided in the Guidance Note to the Nigerian Sustainable Banking Principles. The Global Reporting Initiative Oil and Gas Sector Supplement provides detailed reporting guidance on certain activities and E&S risk issues in the Oil and Gas Sector.

## Appendix 1: E&S Risks Associated with Different Oil and Gas Activities<sup>13</sup>

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<sup>13</sup> Environmental, health and safety issues related Oil and Gas activities (Adapted from EGASPIN, 2001)



Oil & Gas Lifecycle Stage	Lifecycle activities	Sources and Characteristics of Environmental, Health and Safety Issues
<p><b>Exploration and development operations</b></p>	<p><b>Exploration</b></p> <p>Consists of special surveys such as seismic, gravimetric and magnetic to determine the subsurface structure and estimate the potential for the oil and/or gas accumulation.</p> <p>Drilling is performed with a rotary drill outfitted to a mobile rig for drilling wells and determining the nature and extent of potential hydrocarbon reservoirs.</p> <p>Purpose of rig is to house rotary drilling equipment whose only function is to make a hole. Four main subsystems to perform this function are power, hoisting, rotating, and circulating.</p> <p>In Nigeria, there are two types of drilling muds; water based and oil based muds are used.</p> <p>Physic-chemically, mud is a mixture of clays, chemicals and either water or oil, all carefully formulated for optimum performance in a given</p>	<p><b>Seismic Activities</b></p> <p>Environmental pollution and safety problems associated with the use of explosives</p> <p><b>Exploration and Development</b></p> <p>Air pollution  Drilling fluids  Drill cuttings  Deck drainage  Sanitary waste  Oil spillage  Well treatment wastes</p>

	<p>well. Basic mud component include bentonite, barium sulphate and lime or caustic soda.</p> <p>Oil based mud represents a high potential source of pollution. A special approval for the use of oil-based muds must be obtained from the Department Of Petroleum Resources before its use.</p> <p><b>Development</b></p> <p>Development drilling is usually performed from a fixed platform to produce the field by drilling a large number of wells.</p> <p>Development drilling produces quantitatively the same kinds of discharges as exploration drilling. However, developmental drilling involves a great number of wells. Volume of discharge may be much greater than the exploratory well.</p>	
<p><b>Production Operations</b></p>	<p>Well drilling.</p> <p>Movement of hydrocarbon fluids to the surface.</p> <p>Separation of oil, gas, and water (gas from any liquids, oil from water).</p>	<p>Effluents (solids, liquids and gases) and accidental oil spills</p> <p>Atmospheric emissions from fuel combustion</p> <p>Probable continuous emissions from gas flaring (if any). Such emissions consist primarily of Carbon Monoxide</p>

	Gas dissolved in oil, is released as the pressure above the liquid phase is reduced.	(CO), Oxides of Nitrogen (NO <sub>x</sub> ), and Sulphur (SO <sub>x</sub> ) and particulate. Liquid wastes (may occur) from oil leaks. Produced water, derived in extracting oil from fluids (emanating from wells). Stored chemicals used in production that are hazardous to health, unstable corrosive, and may end up being discharged as waste. Radioactive elements and their daughter products.
<b>Terminal/Depot Operations</b>	<p><b>Storage /Pumping</b></p> <p>Storage of crude oil/petroleum products in cylindrical steel tanks. Loading pumps are driven by diesel/gas turbines and gas combustion engines (buster pumps) with connecting pipeline networks on land, swamp and offshore.</p> <p><b>Dehydration</b></p> <p>For well-refined oil, crude oil must undergo dehydration process. Total water drainage capacity per tank farm/terminal can be as high as 150,000 barrels/day.</p> <p><b>Accommodation</b></p>	<p><b>Oily Substances / Liquid Waste</b></p> <p>Oil spills Discharges from treatment facilities of oily brine formation water Storm water runoff Discharges from transporting vessels of ballast, bilge and cleaning waters Sanitary wastes</p> <p><b>Gaseous Emissions</b></p> <p><b>Solid Waste</b></p> <p><b>Chemical/ Hazardous Wastes such as tank bottoms/sludge, etc.</b></p>
<b>Hydrocarbon Processing Operations</b>	<p><b>Gasoline Refinery Operations</b></p> <p><b>Lube Oil Refinery</b></p>	<p><b>Fuel Oil / Gasoline Refinery</b></p> <p>Air emissions Water effluents</p>

	<p><b>Operations</b></p> <p><b>Petrochemical Refinery Operations</b></p>	<p>Solid waste</p> <p><b>Lube Oil Refinery</b></p> <p>Air emissions</p> <p>Water effluents</p> <p>Solid waste</p> <p><b>Petrochemical refinery</b></p> <p>Air emissions</p> <p>Water effluents</p> <p>Solids waste</p>
<p><b>Oil and Gas Transportation</b></p>	<p><b>Pipelines</b></p> <p><b>Barges, Ships, Tankers and FPSOs</b></p> <p><b>Road Tankers and Rail Wagons</b></p>	<p><b>Pipelines</b></p> <p>The trenching, excavating and/or dredging of land, river and sea floor for the laying of pipeline produce sediment and dredge spoils</p> <p>Leakage from pipelines</p> <p>Air emissions (hydrocarbons from spills and flue gases, smoke from pump station operation)</p> <p><b>Barges, Ships, Tankers and FPSOs</b></p> <p>Accidental discharges (spillages, leakages and operational malfunction)</p> <p>Air emission (hydrocarbons from loading racks and spills)</p> <p>Sanitary and general refuse wastes</p> <p><b>Road Tankers and Rail Wagons</b></p> <p>Accidental discharges (spillages, leakages and operational malfunction)</p> <p>Air emission (hydrocarbons from loading racks and spills)</p>
<p><b>Marketing Operations</b></p>	<p><b>Stock Taking</b></p> <p><b>Fiscalization</b></p> <p><b>Laboratory Analysis</b></p> <p><b>Custody Transfer</b></p>	<p>Tank failure, leakages, malfunctioning oil separators spills from overfilled tanks, etc.</p> <p>Domestic sanitary waste from toilets, sinks, showers and laundry</p>

## **Appendix 2: E&S Related Laws and Regulations for the Oil and Gas Sector**

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The following list of E&S laws and regulations have been provided to draw attention to relevant issues. This list is not exhaustive and may be subject to change.

**Department of Petroleum Resources (DPR) Environmental Guidelines and Standards for the Petroleum Industry in Nigeria (EGASPIN), 2002: Summary of Requirements:** Provides a detailed summary of relevant E&S laws and regulations for the Oil and Gas Industry.

**Petroleum Act (1969) and Related Regulations:** Provides encompassing framework for the regulation of upstream and downstream petroleum activities so as to protect the environment

**Environmental Impact Assessment (EIA) Act, 1992 :** Among other things, it sets out the procedures and methods that enable the prior consideration of EIA for certain public or private projects

**National Environmental Protection (Effluent Limitations) Regulations 1991-** The Act makes it mandatory for industries such as waste generating facilities to install anti-pollution and pollution abatement equipment on site

**National Environmental Protection (Pollution Abatement in Industries Generating Wastes) Regulations 1991:** imposes restrictions on the release of toxic substances and stipulate requirements for pollution monitoring units, machinery for combating pollution and contingency plan by industries

**National Environment Protection (Management of Hazardous and Solid Wastes) Regulations 1991:** define the requirements for groundwater protection, surface impoundment, land treatment, waste piles, landfills, and incinerators

**The Federal Environmental Protection Agency (FEPA) Act 1988:** The Act sets out the functions of the agency, particularly the protection and development of the environment in general

**The National Policy on the Environment (1989) revised 1999:** This Policy aims to achieve sustainable development in Nigeria

**Harmful and Toxic Wastes (Special Criminal Provisions) Act No. 42 (1988):** This Act prohibits and declares unlawful all activities relating to the purchase, sale, importation, transit, transportation, deposit, storage of harmful wastes.

**Oil Pipelines Act 1956 (Cap 338 (LFN), amended 1965):** Regulates all aspect of the construction, maintenance and operations of oil and gas pipelines

**Mineral Oils (Safety) Regulations. 1963:** The regulations provide framework for health, safety and environmental – friendly exploration and production activities

**Oil in Navigable Waters Act 1968:** This regulates the transportation of crude oil in Nigerian waters and prohibits the release or spillage of oil from any facility into the navigable waters of Nigeria

**The Associated Gas Re-injection Act 1979:** The Act deals with the gas flaring activities of oil and gas companies in Nigeria

**The Crude Oil (Transportation and Shipping) Regulations 1984:** These Regulations prescribe precautions to be taken in the loading, transfer and storage of petroleum products to prevent environmental pollution

**The Oil Terminal Dues Act (CAP 08 LFN 2004):** This Act regulates the payment of terminal dues on any ship evacuating oil from terminals in Nigeria

**The Labor Act (1990):** The Act protecting the employment rights of individual workers

**Workmen's Compensation Act (Cap 470) LFN, 1990:** This Act makes provision for the payment of compensation to workmen for injuries suffered in the course of their employment.

## **Appendix 3: Relevant Standards Applicable to the Oil and Gas Sector**

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As described in this Guideline's Section 4 "Banking Sector Commitment", the following information references the relevant IFC Performance Standards and Environmental, Health and Safety (EHS) Guidelines, which are considered to be the minimum standard for Oil and Gas sector clients to manage E&S risks. In addition, a list of recommended international sector best practice has been provided.

### **IFC Performance Standards, 2012**

The IFC Performance Standards on Social and Environmental Sustainability are the global benchmark for social and environmental performance for investments in non-OECD and low-income OECD countries. It also sets a framework for determining, assessing and managing of E&S risks of a business' activities. For more information access the latest version via this link.

### **IFC Environmental, Health and Safety (EHS) Guidelines, 2006**

The EHS Guidelines are technical reference documents with general and industry-specific examples of Good International Industry Practice. The general EHS Guidelines contain the performance levels and measures that are generally considered to be achievable in new facilities by existing technology at reasonable costs. They are to be used with the relevant industry sector EHS Guidelines. Where host country regulations differ from the levels and measures presented in the EHS Guidelines, operations are expected to achieve whichever is more stringent. The EHS Guidelines relevant to power sector guidelines include (click on hyperlinks to access):

- Offshore Oil and Gas Development
- Onshore Oil and Gas Development
- Liquefied Natural Gas (LNG) Facilities
- Natural Gas Processing
- Petroleum-based Polymers Manufacturing
- Petroleum Refining
- Gas Distribution Systems (Infrastructure)
- Crude Oil and Petroleum Product Terminals (Infrastructure)
- Retail Petroleum Networks (Infrastructure)

For more information, access the latest versions by following this link.

## Recommended International Best Practice Standards Relevant for the Oil and Gas Sector

Relevant Initiative	Link
<b>Voluntary Principles on Security and Human Rights (VPSHR)</b>	<a href="http://www.voluntaryprinciples.org">www.voluntaryprinciples.org</a>
<b>Energy and Biodiversity Initiative (EBI)</b>	<a href="http://www.theebi.org">www.theebi.org</a>
<b>Joint Nature Conservation Committee (JNCC) Guidelines</b>	<a href="http://www.jncc.defra.gov.uk">www.jncc.defra.gov.uk</a>
<b>Extractive Industries Transparency Initiative (EITI)</b>	<a href="http://www.eiti.org">www.eiti.org</a>
<b>Nigerian Extractive Industries Transparency Initiative (NEITI)</b>	<a href="http://www.neiti.org.ng">www.neiti.org.ng</a>
<b>Global Gas Flaring and Venting Reduction Voluntary Standard (GGFR)</b>	<a href="http://go.worldbank.org/NEBP6PEHS0">http://go.worldbank.org/NEBP6PEHS0</a>
<b>International Maritime Organization (IMO)</b>	<a href="http://www.imo.org">www.imo.org</a>
<b>Petroleum Industry Environmental Conservation Association (IPIECA)</b>	<a href="http://www.ipieca.org">www.ipieca.org</a>
<b>International Association of Oil and Gas Producers (OGP)</b>	<a href="http://www.ogp.org.uk">www.ogp.org.uk</a>
<b>International Finance Corporation (IFC)</b>	<a href="http://www.ifc.org">www.ifc.org</a>

Other issues that may be raised during Oil and Gas activities	Relevant E&S Standards / Initiatives	Link
Environmental management system	<b>ISO 14001</b> ISO 14001 standard specifies the requirements for an environmental management system. Fulfilling these requirements demands objective evidence that can be audited to demonstrate that the environmental management system is operating effectively in conformity to the standard. An independent accredited certification body can certify the conformity. However, the standard does not specify specific levels of environmental performance.	<a href="http://www.iso.org">www.iso.org</a>



Other issues that may be raised during Oil and Gas activities	Relevant E&S Standards / Initiatives	Link
Labour	<p><b>ILO Declaration on Fundamental Principles and Rights at Work, adopted in 1998</b></p> <p>The most basic labour rights have been codified by the International Labour Organization (ILO) under this Declaration, which identifies eight ILO conventions as fundamental to the rights of persons at work, irrespective of the level of development of a country. It declares that all ILO member states, whether they have ratified the relevant conventions or not, have an obligation due to their membership in the ILO to respect, promote and realise the fundamental rights which are the subject of those conventions.</p>	<a href="http://www.ilo.org">www.ilo.org</a>
Occupational Health and Safety	<p><b>OHSAS 18001</b></p> <p>The OHSAS 18000 series is the most widely used standard for occupational health and safety management. It was first developed in 1999 as a result of consultations between 42 different organisations from 28 countries. OHSAS 18001 has been developed by the British Standards Institution in response to consumer demand for a recognised, assessable and certifiable management system for health and safety.</p>	<a href="http://www.ohsas.org/">http://www.ohsas.org/</a>
Community Health and Safety	<p><b>Guidelines for Community Noise, World Health Organisation (WHO), 1999</b> - The scope of WHO's effort to derive guidelines for community noise is to consolidate actual scientific knowledge on the health impacts of community noise and to provide guidance to environmental health</p>	<a href="http://www.who.int/docstore/peh/noise/guidelines2.html">http://www.who.int/docstore/peh/noise/guidelines2.html</a>

Other issues that may be raised during Oil and Gas activities	Relevant E&S Standards / Initiatives	Link
	authorities and professional trying to protect people from the harmful effects of noise in non-industrial environments.	
Sustainability Reporting	<p><b>The UN Global Reporting Initiative (GRI)</b></p> <p>The UN Global Reporting Initiative (GRI) vision is to make disclosure on sustainability performance as comparable and commonplace as financial reporting and of comparable importance to an organisation's measure of success. The GRI reporting framework provides sustainability reporting guidelines and sets out principles and indicators that organisations and companies can use as relevant to measure and report on their performance from a sustainability perspective. Sustainability reports based on the GRI framework can be used to benchmark organisational performance with respect to laws, norms, codes, performance standards and voluntary initiatives; demonstrate organisational commitment to sustainable development; and compare organisational performance over time.</p>	<p>GRI  <a href="http://www.globalreporting.org">www.globalreporting.org</a></p> <p>Global Reporting Initiative's Sustainability Reporting Guideline  <a href="http://www.globalreporting.org/ReportingFramework/G31Guidelines/">http://www.globalreporting.org/ReportingFramework/G31Guidelines/</a></p> <p>GRI's Oil and Gas Sector Supplement  <a href="https://www.globalreporting.org/reporting/sector-guidance/oil-and-gas/Pages/default.aspx">https://www.globalreporting.org/reporting/sector-guidance/oil-and-gas/Pages/default.aspx</a></p>



**CENTRAL BANK OF NIGERIA**

Financial Policy & Regulation Department  
Central Business District  
P.M.B. 9187  
Garki, Abuja

Tel: 09-46237404  
E-mail: [fpri@cbn.gov.ng](mailto:fpri@cbn.gov.ng)

**FPR/DIR/CIR/GEN/01/031**

21<sup>st</sup> September, 2012

**CIRCULAR TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS -  
"INCLUSION OF INDEPENDENT NATIONAL ELECTORAL COMMISSION (INEC)  
VOTER'S REGISTRATION CARD AS A MEANS OF CUSTOMER  
IDENTIFICATION"**

Further to our circular on AML/CFT Regulation 2009 on acceptable means of identification for the purpose of account opening and transaction of banking business in Nigeria, it has become necessary as a result of the need to enhance financial inclusion, to extend the acceptable identification options.

Accordingly, all banks and other financial institutions are hereby advised to accept INEC Voter's Registration Card duly issued by INEC, bearing the holder's particulars such as name, photograph, date of birth and address as a valid additional means of identification of natural persons for the purpose of conducting banking business in Nigeria.

A handwritten signature in black ink, appearing to read 'Amugo, K. N.', written over a horizontal line.

**AMUGO, K. N.**

**For: DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT**



## CENTRAL BANK OF NIGERIA

Financial Policy & Regulation Department  
Central Business District  
P.M.B. 0187  
Garki, Abuja

09-46237401  
Tel: \_\_\_\_\_  
E-mail: [fpnd@cbn.gov.ng](mailto:fpnd@cbn.gov.ng)

FPR/DIR/CIR/GEN/01/029

September 06, 2012

### LETTER TO ALL BANKS

Dear Sir

#### ASSESSMENT OF COMPETENCIES IN THE NIGERIAN BANKING INDUSTRY

Further to the Exposure Draft on the Competency Framework for the Nigerian Banking Industry, issued on June 26, 2012, we advise stakeholders that we have noted and incorporated as appropriate, observations submitted in respect of the exposed draft.

However, there is the need to assess the skills, qualifications, experience and competencies of staff currently occupying controlled functions as provided in Appendix B of the Draft Framework. This will enable the Bankers' Committee identify at the preliminary stages, gaps that would impede the effective implementation of the Framework. It is important to remind stakeholders that the list of controlled functions is not exhaustive as other important roles and responsibilities may be added to it.

Accordingly, all Deposit Money Banks are directed to avail the CBN of the following details:

- i. Names of staff manning the controlled functions specified in Appendix B of the Draft framework;
- ii. Academic and other relevant qualifications of the incumbent staff;
- iii. Number of years' experience on the control function, post qualification and general banking experiences;
- iv. Other competencies that support the performance of the control functions; and

- v. Details of identified deficiencies in skills, qualifications, experience and competences as well as measures envisaged to remedy the positions within 18 months of the approval of the Framework

Your response should reach the Director, Financial Policy & Regulation Department before September 14, 2012. Soft copies of your response may also be mailed to [knamugo@cbr.gov.ug](mailto:knamugo@cbr.gov.ug).



Y. B. DUNIYA

FOR: DIRECTOR, FINANCIAL POLICY & REGULATION DEPARTMENT



## CENTRAL BANK OF NIGERIA

Financial Policy & Regulation Department  
Central Business District  
P.M.B. 0187  
Garki, Abuja

Tel: 09-46237404  
E-mail: [fpri@cbn.gov.ng](mailto:fpri@cbn.gov.ng)

**DATE:** 13<sup>th</sup> August, 2012

**OUR REF:** FPR/DIR/CON/BOF/01/036

### **Letter to All Deposit Money Banks, Discount Houses and Other Financial Institutions**

**Attention: Chief Compliance Officer**

#### **ISSUANCE OF AML/CFT RBS RETURN TEMPLATE, QUESTIONNAIRE, OTHER FORMATS AND EXPLANATORY NOTES**

The CBN has commenced the full implementation of its gazetted Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Risk Based Supervision (RBS) Framework, 2011. This measure is further supported by the importance the Financial Action Task Force (FATF) has attached to the Risk Based Approach (RBA) to AML/CFT supervision in its Revised 40 Recommendations issued on 16<sup>th</sup> February, 2012.

Successful implementation of RBA to combating money-laundering and terrorist financing depends on a sound understanding of the threats and vulnerabilities of the menace to each financial institution in particular and the entire financial industry in general. In order to achieve the above objective, the CBN and NFIU jointly developed and held workshop with the stakeholders on AML/CFT risk assessment template, questionnaire and other formats to be used to collect ML/FT risk information from financial institutions under CBN's regulatory purview.

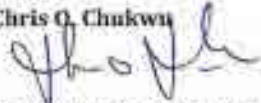
The risk assessment template (attached as Form 001) is designed to gather statistics on ML/FT risks associated with the structural factors and the significant activities/transactions performed by financial institutions. Such activities include the

lines of business, customers, products and transactions undertaken by your institution. The **risk assessment questionnaire (attached as Form 002)** is designed to obtain information that would enable the Bank Examiners assess the adequacy or otherwise of the control functions in place to **mitigate the ML/FT risks identified** in your institution. **Other AML/CFT Templates (attached as Forms 003 to 011)** provide uniform formats for all financial institutions to render their returns for ease of processing by the CBN and NFIU.

You are, by this letter, requested to render AML/CFT returns on **Forms 001 and 002** to the CBN only with **effect from the end of August, 2012** and on **Forms 003 to 011** to both the CBN and NFIU at the appropriate period.

For further clarifications outside the **Explanatory Notes attached**, please contact Mr. U. A. Obot via e-mail [uaphot@cbn.gov.ng](mailto:uaphot@cbn.gov.ng).

**Chris O. Chukwu**



**Director, Financial Policy and Regulation Department**

**FORM 001**

**AML/CFT RISK ASSESSMENT MONTHLY REPORT**

FOR THE MONTH OF \_\_\_\_\_

**NAME OF REPORTING INSTITUTIONS:**

**ADDRESS OF REPORTING INSTITUTION:**

**YEAR OF ESTABLISHMENT:**

**TOTAL ASSETS SIZE (N'000):**

**GROSS INCOME/PROFIT:**

**OWNERSHIP STRUCTURE:**

*PUBLIC -*  
*PRIVATE -*

**NO. OF SUBSIDIARY(IES)/OTHER GROUP MEMBERS:**

*LOCAL -*  
*FOREIGN -*

**CONTACT PERSON:**

**NAMES -**

**DESIGNATION -**

**TELEPHONE NO. -**

**E-MAIL ADDRESS -**



S/N	BRANCH INFORMATION			TYPE OF CUSTOMERS			
	LOCATION OF BRANCH (ADDRESS)	STATE	NO. OF CUSTOMERS	INDIVIDUAL		CORPORATE	
				No.	A/N/A \$1000	No.	A/N/A \$1000

TYPE OF CUSTOMERS																		
OTHERS																		
No.	RELIGIOUS ORGANISATIONS' ACCOUNTS			CHARITIES/CLUBS & SOCIETIES' ACCOUNTS			CLIENTS/EXECUTORSHIP/TRUSTS, NOMINEES & FIDUCIARY ACCOUNTS			3 TIERS OF GOVT. & PARASTATALS' MDA ACCOUNTS (MDAs)			OFF-SHORE TRUSTS/SPV's ACCOUNTS			MISCELLANEOUS		
	No.	MM	\$'000	No.	MM	\$'000	No.	MM	\$'000	No.	MM	\$'000	No.	MM	\$'000	No.	MM	\$'000

TOTAL DEPOSIT TRANSACTIONS			NATURE OF CUSTOMERS- ACCOUNT BALANCES FOR:								
			FINANCIAL INSTITUTIONS			OIL AND GAS COMPANIES					
						UPSTREAM		DOWNSTREAM			
No.	MM	\$'000	No.	MM	\$'000	No.	MM	\$'000	No.	MM	\$'000

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NATURE OF CUSTOMERS- ACCOUNT BALANCES FOR:											
PEPS			FEPs			NGOs/NPOs			OTHERS		
No.	M/M	\$'000	No.	M/M	\$'000	No.	M/M	\$'000	No.	M/M	\$'000

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NATURE OF CUSTOMERS' BUSINESS											
DESIGNATED NON-FINANCIAL INSTITUTIONS (DNFIs) CUSTOMERS- ACCOUNT BALANCES FOR:											
	HOTELS		JEWELLRY DEALERS		CAR & LUXURY GOOD DEALERS		INVESTMENT BROKERS				
No.	M/M	\$'000	No.	M/M	\$'000	No.	M/M	\$'000	No.	M/M	\$'000



NATURE OF CUSTOMERS' BUSINESS											
DESIGNATED NON-FINANCIAL INSTITUTIONS (DNFIs) CUSTOMERS - ACCOUNT BALANCES FOR:											
LAWYERS/ACCOUNTANTS			REAL ESTATE			CASINOS			OTHERS		
No.	A/M	\$'000	No.	A/M	\$'000	No.	A/M	\$'000	No.	A/M	\$'000

NATURE OF CUSTOMERS' BUSINESS

CASH-INTENSIVE BUSINESS CUSTOMERS- ACCOUNT BALANCES FOR:														
MONEY SERVICE BUSINESS OPERATORS	No.	\$'000	BUREAU DE CHANGE OPERATORS	No.	\$'000	VENDING MACHINE OPERATORS	No.	\$'000	PRIVATELY OWNED AUTOMATED TELLER MACHINES OPERATORS	No.	\$'000	OTHER CASH-INTENSIVE CUSTOMERS		
												No.	\$'000	

PRODUCTS/SERVICES									
CURRENT ACCOUNTS		SAVINGS ACCOUNTS		TIME DEPOSIT ACCOUNTS		DOMICILIARY ACCOUNTS		SUSPENSE/CONCENTRATION/AND OTHER SUCH ACCOUNTS	
NO. OF ACCOUNTS	M/M	NO. OF ACCOUNTS	M/M	NO. OF ACCOUNTS	M/M	NO. OF ACCOUNTS	\$'000	NO. OF TRANSACTIONS	M/M





ELECTRONIC CASH ACCOUNTS		DEPOSIT BROKERS, FUNDS & PORTFOLIO MANAGERS' ACCOUNTS		PRODUCTS/SERVICES				OTHERS		CLOSED ACCOUNTS	
NO. OF ACCOUNTS	M/M	NO. OF ACCOUNTS	M/M	NO. OF DORMANT ACCOUNTS	M/M	NO. OF ACTIVATED DORMANT ACCOUNTS	M/M	NO. OF ACCOUNTS	M/M		

PRODUCTS/SERVICES														
TRADING ACCOUNTS		LOANS AND ADVANCES		CASH SECURED FACILITIES		AUTOMATED CLEARING HOUSE (ACH) PAYMENT SYSTEM		THIRD PARTY PAYMENT PROCESSORS (CUSTOMERS)		LOCAL MONETARY INSTRUMENTS PURCHASED				
NO. OF TRANSACTIONS	N/M	NO.	N/M	NO.	N/M	NO. OF TRANSACTIONS	N/M	NO. OF TRANSACTIONS	N/M	NO.	N/M			

LOCAL MONETARY INSTRUMENTS SOLD	FOREIGN CURRENCY DRAFTS PURCHASED	FOREIGN CURRENCY DRAFTS SOLD	PRODUCTS/SERVICES									
			FOREIGN INWARD				FOREIGN OUTWARD		DOMESTIC INWARD		DOMESTIC OUTWARD	
			NO.	AMT \$'000	NO. OF TRANSACTIONS	AMT \$'000	NO. OF TRANSACTIONS	AMT \$'000	NO. OF TRANSACTIONS	AMT \$'000	NO. OF TRANSACTIONS	AMT \$'000

PRODUCTS/SERVICES													
PERSONAL HOME REMITTANCES FROM NIGERIA	NON-RESIDENT NIGERIAN ACCOUNTS				RESIDENT ALIENS				NON-RESIDENT ALIENS				EMBASSIES & FOREIGN CONSULATES
	NO.	\$'000	M/M	NO.	\$'000	M/M	NO.	\$'000	M/M	NO.	\$'000	M/M	

PRIVATE BANKING SERVICES				CORRESPONDENT BANKING				RESPONDENT BANKING				PAYABLE THROUGH ACCOUNTS			
PRIVATE BANKING (DOMESTIC)		PRIVATE BANKING (INTERNATIONAL)		NO. OF TRANSACTIONS		\$ 000		NO. OF TRANSACTIONS		\$ 000		NO. OF TRANSACTIONS		\$ 000	
NO.	M/M	NO.	\$ 000	NO. OF TRANSACTIONS	\$ 000	M/M	NO. OF TRANSACTIONS	\$ 000	M/M	NO. OF TRANSACTIONS	\$ 000	M/M	NO. OF TRANSACTIONS	\$ 000	M/M

PRODUCTS/SERVICES

BULK SHIPMENT OF CURRENCY		NON-DEPOSIT INVESTMENTS		PARALLEL BANKING		TRADE FINANCE		TRUST & ASSET MANAGEMENT SERVICES		POUCH ACTIVITIES	
NO. OF TRANSACTIONS	\$'000	NO. OF TRANSACTIONS	MM	NO. OF TRANSACTIONS	MM	NO. OF TRANSACTIONS	MM	NO. OF TRANSACTION	MM	NO. OF TRANSACTION	MM

AML/CT REPORTS FILED											OTHER REPORTS							
CTR	NO. OF TRANSACTIONS	M/M	FCTR	NO. OF TRANSACTIONS	\$'000	STR	NO. OF TRANSACTIONS	M/M	\$'000	NO	FRAUD		NO	ARMED ROBBERY		OTHER PREDICATE OFFENCES		
											AMT INVOLVED \$'000	N/M		AMOUNT INVOLVED \$'000	N/M	AMOUNT INVOLVED \$'000	N/M	AMOUNT INVOLVED \$'000

DEALINGS WITH PERSONS/SUBSIDIARIES RELATED TO YOUR FINANCIAL INSTITUTION				AML/CFT PENALTIES & FINES IMPOSED BY REGULATORY AUTHORITIES, COURTS, ETC					
LOCAL PERSONS	AMOUNT INVOLVED		FOREIGN PERSONS	AMOUNT INVOLVED		LOCAL		FOREIGN	
	\$'000	N/A		\$'000	N/A	NO.	N/A	NO.	\$'000
NO. OF TRANSACTIONS			NO. OF TRANSACTIONS						



## **EXPLANATORY NOTES FOR FORM 001**

### **AML/CFT RBS MONTHLY REPORTING TEMPLATE**

#### **1.0 INTRODUCTION**

##### **1.1 NAME OF THE REPORTING INSTITUTION:**

This is the registered name of the reporting institution.

##### **1.2 ADDRESS OF THE REPORTING INSTITUTION:**

This is the registered office address of the reporting financial institution.

##### **1.3 YEAR OF ESTABLISHMENT**

This is the year in which the reporting institution was initially licensed by the CBN.

##### **1.4 TOTAL ASSET SIZE**

This is the financial institution's balance sheet size.

##### **1.5 GROSS INCOME**

This refers to the financial institution's annual gross income.

##### **1.6 OWNERSHIP STRUCTURE**

Indicate the number of significant shareholders who have 5% interest and above.

##### **1.7 SUBSIDIARY**

Where a financial institution has subsidiaries (whether local or foreign), the number should be stated and where the bank is in holding company structure, state the number of members in the group.

## **2.0 BRANCH INFORMATION**

### **2.1 LOCATION/ADDRESS**

This is the place where the branch is located in the town/city, etc..

### **2.2 STATE**

Indicate the State in the Federation where the branch is located.

### **2.3 NO. OF CUSTOMERS**

Indicate the total number of customers that the branch maintains as at the end of the reporting month.

## **3.0 TYPE OF CUSTOMER**

### **3.1 INDIVIDUAL**

Indicate the total number of accounts opened by individual natural persons and the total amount (in naira for the naira accounts and foreign currency in United States Dollars for ease of collation).

### **3.2 CORPORATE**

Indicate the total number of accounts opened by corporate/legal persons and the total amount (in naira for the naira accounts and foreign currency accounts in United States Dollars for ease of collation).

### **3.3 OTHERS**

All other type of customers that cannot be classified under "Individual" or "Corporate" should be captured in this category. This includes religious organization accounts; charities/clubs & societies accounts; clients'/executorship/trust, nominees and fiduciary accounts; three tiers of government & parastatals accounts; off-shore trust/SPVs' and miscellaneous accounts consisting of asylum seekers' accounts; students/minor accounts; conventional family & absolute Nigerian trust accounts, etc.

## **4.0 TOTAL DEPOSIT TRANSACTIONS**

This is the total deposit transaction value for the reporting month in naira for naira transactions and US dollar equivalent for dollar and other currencies.

## **5.0 NATURE OF CUSTOMER**

### **5.1 FINANCIAL INSTITUTIONS (FIs)**

Where the nature of a customer's business is that of a financial institution, the total number and value should be stated (see Section 25 of the Money Laundering (Prohibition) Act (MLPA) 2011 for the definition of a financial institution).

### **5.2 POLITICALLY EXPOSED PERSONS (PEPS)**

The term "politically exposed persons" includes individuals who are or were entrusted with prominent public functions in Nigeria and/or foreign countries and people/entities associated with them. See section 1.10.1 of CBN AML/CFT Regulation, 2009 (as amended) for detailed explanation.

### **5.3 FINANCIALLY EXPOSED PERSONS**

Financially exposed persons (FEPs) are those individuals who hold executive management or board positions in the large companies and have access to corporate wealth due to their positions within the corporation.

### **5.4 NON-GOVERNMENTAL ORGANISATIONS (NGOs) /NOT-FOR PROFIT ORGANISATIONS (NPO)**

NGOs are private non-profit organizations that pursue activities intended to serve the public good. NGOs may provide basic social services, work to relieve suffering, promote the interests of the poor, bring citizens' concerns to governments, encourage political participation, protect the environment, or undertake community development to serve the needs of citizens, organizations or groups in one or more of the communities that they operate. An NGO can be any non-profit organization that is independent from government. NGOs can range from large regional, national or international charities to community-based self-help groups. NGOs here include research institutes, churches, professional associations and lobby groups. NGOs typically depend (in whole or in part) on charitable donations and voluntary service for support. They are incorporated by the Corporate Affairs Commission (CAC) and required to register with the Special Control Unit (SCUMUL).

### **5.5 OIL AND GAS COMPANIES**

These are companies (customers of the institution) involved in both upstream and downstream sectors of the oil industry. They are important money laundering prone customers and their operations often involve the use of foreign currencies.

## 5.6 OTHERS

These are customers that cannot be classified as FIs, PEPs, FEPs, OIL AND GAS or NGOs.

## 6.0 NATURE OF CUSTOMERS' BUSINESS

### 6.1 DESIGNATED NON-FINANCIAL INSTITUTIONS (DNFIs) CUSTOMERS

These mean dealers in jewelry, cars and luxury goods, chartered accountants, audit firms, tax consultants, clearing and settlement companies, legal practitioners, hotels, casinos, supermarkets, or such other businesses as the Federal Ministry of Trade and Investment or appropriate regulatory authorities may from time to time designate. See Section 25 of MLPA, 2011 and CBN circular referenced FPR/CIR/GEN/VOL.1/028 ON Additional KYC Requirement in respect of DNFBPs of 2<sup>nd</sup> August, 2012.

### 6.2 CASH INTENSIVE BUSINESS CUSTOMERS

Common examples of cash intensive businesses include but are not limited to, the following:

- i. **Money Service Business (MSB)** – This includes currency dealers; money transmitters; cheque cashers; and issuers of travellers' cheques, money orders, or stored value.
- ii. **Bureaux de change** – Although this falls under the MSBs, it is reported separately based on its ML/TF vulnerability.
- iii. **Vending machine operators** – These are companies that own machines which dispense items such as snacks, beverages, alcohol, cigarettes, lottery tickets, consumer products and even gold and gems to customers automatically after the customer inserts currency or credit card.
- iv. **Privately owned automated teller machines (ATM).**
- v. Convenience stores.
- vi. Restaurants.
- vii. Retail stores.
- viii. Liquor stores.
- ix. Cigarette distributors.
- x. Parking garages.
- xi. Others.

Financial institution's systems are therefore required to manage the risks associated with cash-intensive businesses. The affected entities are expected to have adequate processes

in place and their managements are required to have the ability to implement due diligence, monitoring and reporting systems effectively.

Cash-intensive businesses and entities, however, cover various industry sectors and most of them conduct legitimate businesses. Notwithstanding, some aspects of these businesses may be susceptible to money laundering or terrorist financing.

## **7.0 PRODUCTS AND SERVICES**

### **7.1 CURRENT ACCOUNTS**

All transactions conducted by current account holders (both individual and corporate entities) for the reporting period should be stated.

### **7.2 SAVINGS ACCOUNTS**

All transactions conducted on all forms of savings accounts (irrespective of the product name used) for the reported period should be stated.

### **7.3 TIME DEPOSIT ACCOUNTS**

Tenored deposit accounts operated by customers for the month should be stated.

### **7.4 DOMICILLIARY ACCOUNTS**

These are accounts that are operated in foreign currencies as either export proceeds or ordinary domiciliary accounts. These accounts can be funded through travellers' cheques, lodgement of foreign currency cheques, foreign currency cash inflows and cash deposits.

### **7.5 CONCENTRATION/SUSPENSE AND OTHER SUCH ACCOUNTS**

Concentration accounts are internal accounts established to facilitate the processing and settlement of multiple or individual customer transactions within the financial institution, usually on the same day. These accounts may also be known as **special-use, omnibus, suspense, settlement, intra-day, sweep, or collection accounts**. Concentration accounts are frequently used to facilitate transactions for private banking, trust & custody accounts, funds transfers and international affiliates.

### **7.6 ELECTRONIC CASH ACCOUNTS**

E-cash (e-money) is a digital representation of money. E-cash comes in several forms including computer-based, mobile telephone-based and prepaid cards. Computer e-cash is accessed through personal computer hard disks via a modem or stored-in-an-online repository. Mobile telephone-based e-cash is accessed through an individual's mobile telephone. Prepaid cards,

discussed in more detail below, are used to access funds generally held by issuing financial institutions in pooled accounts.

In the case of computer e-cash, monetary value is electronically deducted from the financial institution account when a purchase is made or funds are transferred to another person.

#### **7.7 DEPOSIT BROKERED ACCOUNTS**

The use of brokered deposits is a common funding source for many banks and other financial institutions. Recent technological developments allow brokers to provide bankers with increased access to a broad range of potential investors who have no relationship with the bank and/or other financial institutions. Deposits can be raised over the internet through certificates of deposit listing services or through other advertising methods.

Deposit brokers provide intermediary services for financial institutions and investors.

#### **7.8 OTHERS**

These include dormant and closed accounts

##### **7.8.1 DORMANT ACCOUNTS**

Where accounts have been inactive and classified dormant, the aggregates number and value at the end of each month for each branch should be reported.

##### **7.8.2 CLOSED ACCOUNTS**

The number and total value of accounts closed during the month should be stated.

#### **7.9 CAPITAL MARKET OPERATION**

This involves margin loans, underwriting activities, private placement and other capital market operations.

#### **7.10 LOANS AND ADVANCES**

The total number and value of loans and advances granted by the branches within the period concerned should be aggregated and reported. This should include credit card facilities.

#### **7.11 CASH SECURED LOANS**

A cash-secured loan is one that has a cash reserve/deposit balances as backing. For example, a bank consumer may be qualified for a cash-secured loan if he or she has already existing savings or

money market account with the said bank. The total number and naira value of such activities within the concerned period should be indicated. Note that this should also include secured credit cards.

#### **7.12 AUTOMATED CLEARING HOUSE (ACH) PAYMENT SYSTEM**

ACH system has been used for the direct deposit of payroll and government benefit payments and for the direct payment of mortgages and loans. The ACH has been expanding to include one-time debits and cheque conversion. ACH transactions are payment instructions to either credit or debit a deposit account. Examples of credit payment transactions include payroll direct deposit, social security, dividends and interest payments. Examples of debit transactions include mortgage, loan, insurance premium and a variety of other consumer payments initiated through merchants or businesses.

Merchants use the information on the cheque to initiate a type of electronic funds transfer known as an ACH debit to the cheque writer's account. The cheque is used to obtain the bank routing number, account number, cheque serial number and currency amount for the transaction. The cheque itself is not sent through the cheque collection system in any form as a payment instrument. Merchants use electronic cheque conversion because it can be a more efficient way for them to obtain payment than collecting the cheque.

RTGS is a central clearing facility for transmitting and receiving ACH payments and SWIFT/Interswitch which sends cross-border ACH credits and debit payments to some countries around the world.

#### **7.13 THIRD PARTY PAYMENT PROCESSOR**

Non-bank or third-party payment processors (processors) are bank or other financial institutions customers that provide payment-processing services to merchants and other business entities. Traditionally, processors primarily contract with retailers that have physical locations in order to process the retailers' transactions.

These merchant transactions primarily included credit card payments but also covered automated clearing house (ACH) transactions, **Remotely Created Cheques (RCCs)**, debit and prepaid cards transactions. With the expansion of the internet, retail borders have been eliminated. Processors now provide services to a variety of merchant accounts, including conventional retail and internet-based establishments, prepaid travel, telemarketers and internet gaming enterprises.

Third-party payment processors often use their commercial bank accounts to conduct payment processing for their merchant clients. For example, the processor may deposit into its account RCCs generated on behalf of a merchant client, or act as a third-party sender of ACH transactions. In either

case, the financial institution does not have a direct relationship with the merchant. The increased use by processor customers, particularly telemarketers of RCCs also raises the risk of fraudulent payments being processed through the processor's bank account.

#### **7.14 PURCHASE AND SALE OF LOCAL MONETARY INSTRUMENTS**

Monetary instruments are products provided by financial institutions and include cashier's cheques, traveller's cheques and money orders. Monetary instruments are typically purchased to pay for commercial or personal transactions and, in the case of traveller's cheques, as a form of stored value for future purchases.

#### **7.15 PURCHASE AND SALE OF FOREIGN CURRENCY DRAFTS**

Drafts denominated in foreign currency may be drawn on financial institutions in Nigeria. Where such services are rendered by a financial institution, the total number and value transacted within the period under consideration should be reported.

#### **7.16 WIRE TRANSFERS**

These methods of electronic fund transfer where the originator and beneficiary institutions are located in different jurisdictions are usually done in foreign currency.

#### **7.17 PERSONAL HOME REMITTANCES**

This could be in the form of transfer of money by a foreign worker to his or her home country or local transfers using licensed agents.

#### **7.18 NON-RESIDENT NIGERIAN ACCOUNTS**

These are accounts operated by Nigerians that are not resident within Nigeria. The number of such accounts and amount should be indicated.

#### **7.19 FOREIGN INDIVIDUALS ACCOUNTS**

Foreign individuals maintaining relationships with Nigerian financial institutions are separated into two categories of **resident aliens** and **non-resident aliens**.

##### **7.19.1 RESIDENT ALIENS**

Foreign individuals who have temporary or permanent residence in Nigeria may be called a **resident alien**.



#### **7.19.2 NON-RESIDENT ALIENS (NRAs)**

NRA are non-Nigerian citizens who: (i) are not lawful permanent resident of Nigeria during the calendar year and who do not meet the substantial presence test or (ii) have not been issued alien registration permits.

Although NRAs are not permanent residents, they may have legitimate needs to establish account relationships with a Nigerian financial institution. NRAs can use bank products and services for asset preservation (e.g., mitigating losses due to exchange rates), business expansion and investments.

#### **7.20 EMBASSY & FOREIGN CONSULATE ACCOUNTS**

Embassy accounts, including those accounts for a specific embassy office such as a cultural or education ministry, a defence attaché or ministry, or any such account should have a specific operating purpose, stating the official function of the foreign government office. Consistent with established practices for business relationships, these embassy accounts should have written authorization by the foreign government. See details in AML/CFT Framework, 2011.

#### **7.21 PRIVATE BANKING SERVICE**

A private banking account means an account (or any combination of accounts) maintained at a financial institution covered by the regulation that requires a minimum aggregate deposit of funds or other assets of not less than United States \$50,000 or its equivalent.

#### **7.22 CORRESPONDENT BANKING**

This is the provision of banking services by one bank (the correspondent bank) to another bank (the respondent bank). Large international banks typically act as correspondents for thousands of other banks around the world. In Nigeria, banks sometimes act as correspondent banks to other financial institutions such as primary mortgage institutions e. t. c. Respondent banks may be provided with a wide range of services, including cash management (e.g. interest-bearing accounts in a variety of currencies), international wire transfer of funds, cheque clearing, payable-through-accounts and foreign exchange services.

#### **7.23 PAYABLE THROUGH ACCOUNTS (PTA)**

A foreign financial institution may request for a PTA for its customers that want to conduct banking transactions in Nigeria through its account held at the Nigerian financial institution. The foreign financial institution provides its customers, commonly referred to as "sub account holders," with cheques that allow them to draw funds from the foreign financial institution's account held in Nigerian financial institution. The sub account holders, ( which may number several hundred or in the thousands for one PTA) are made to become signatories on the foreign financial institution's account

in the Nigerian financial institution. While payable through customers are able to write cheques and make deposits at a financial institution in Nigeria like any other accountholder, they might not be directly subject to the financial institution's account opening requirements in Nigeria.

#### **7.24 BULK SHIPMENT OF CURRENCY (FIs/CUSTOMER)**

Bulk shipments of currency entail the use of common, independent, or postal service's air/land/sea carriers to transport large volumes of bank notes (Nigeria or foreign) from sources either inside or outside Nigeria on behalf of a bank in Nigeria. Often, but not always, shipments take the form of containerized cargo.

Shippers may be "currency originators" i.e., individuals or businesses that generate currency from cash sales of commodities or other products or services (including monetary instruments or exchanges of currency).

Shippers also may be "intermediaries" that ship currency gathered from their customers who are currency originators. Intermediaries may also ship currency gathered from other intermediaries. Intermediaries may be other financial institutions, central banks, non-deposit financial institutions or agents of these entities.

Financial institutions receive bulk shipments of currency directly when they take possession of an actual shipment. Financial institutions receive bulk shipments of currency indirectly when they take possession of the economic equivalent of a currency shipment, such as through a cash letter notification.

#### **7.25 NON-DEPOSIT INVESTMENT PRODUCTS (NDIP)**

NDIP includes a wide array of investment products such as securities, bonds and fixed or variable annuities. Such programs may also include cash management sweep accounts to retail and commercial clients. These programs are offered by the bank directly. Banks and other financial institutions offer these investments to increase fee income and provide customers with additional products and services. The manner in which the NDIP relationship is structured and the methods with which the products are offered substantially affect the bank's/other financial institution's ML/FT risks and responsibilities.

#### **7.26 PARALLEL BANKING**

When at least one Nigerian financial institution and one foreign financial institution are controlled either directly or indirectly by the same person or group of persons who are closely associated in their business dealings or otherwise acting together, but are not subject to consolidated supervision by a single home country supervisor.

The foreign financial institution will be subject to different money laundering rules and regulations and a different supervisory oversight structure, both of which may be less stringent than Nigeria. The regulatory and supervisory differences heighten the ML/FT risk associated with parallel banking organizations.

#### **7.27 TRADE FINANCE**

Trade finance refers to financing international trading transactions. In this financing arrangement, the bank or other financial institutions of the importer may provide or pay for the goods imported on behalf of the importer. These include all trade finance products such as commercial letters of credit, trade credit insurance, export factoring, etc.

#### **7.28 TRUST AND ASSET MANAGEMENT SERVICE**

Trust accounts are generally defined as a legal arrangement in which one party (the trustor or grantor) transfers ownership of assets to a person or bank/other financial institution (the trustee) to be held or used for the benefit of others. These arrangements include the broad categories of court-supervised accounts (e.g., executorships and guardianships), personal trusts (e.g., living trusts, trusts established under a will, charitable trusts) and corporate trusts (e.g., bond trusteeships).

**Agency accounts are established by contract and governed by contract law.** Assets are held under the terms of the contract and legal title or ownership does not transfer to the financial institution as agent. **Agency accounts include custody, escrow, investment management and safekeeping relationships.** Agency products and services may be offered in a traditional trust department or through other financial institution departments.

#### **7.29 POUCH ACTIVITIES**

Pouch activity entails the use of a carrier, courier (either independent or common) or a referral agent employed by the courier to transport currency, monetary instruments and other documents from foreign countries to financial institutions in Nigeria.

Pouches can be sent by financial institutions or individuals. Pouch services are commonly offered in conjunction with foreign correspondent banking services. Pouches can contain loan repayments, transactions for demand deposit accounts or other types of transactions.

## **8.0 NUMBER OF AML REPORTS FILED**

AML/CFT Reports filed with the Nigeria Financial Intelligence Unit (NFIU) such as **Currency Transactions Reports (CTRs)**, **Foreign currency Transaction Reports (FTRs)** and **Suspicious Transactions Reports (STRs)** should be reported.

## **9.0 OTHER REPORTS FILED**

### **9.1 FRAUD**

Statistics of fraud committed by customers and staff of each branch within the time under consideration should be reported.

### **9.2 ARMED ROBBERIES**

Statistics of armed robberies that have occurred involving the branch of the bank within the time under consideration should be reported.

### **9.3 OTHER PREDICATE OFFENCES**

Section 1.1.1 of the CBN AML/CFT Regulation 2009 (as amended) requires financial institutions to identify and report to the CBN and NFIU the proceeds of crimes derived from participation in an organized criminal group and racketeering; terrorism, including terrorist financing; trafficking in human beings and migrant smuggling; fraud; counterfeiting and piracy of products; murder, grievous bodily injury; corruption and bribery; kidnapping, illegal restraint and hostage-taking and other predicate offences as contained in section 15, Money Laundering (Prohibition) Act, 2011.

## **10.0 DEALINGS WITH RELATED PERSONS/SUBSIDIARIES**

These can be categorized into local and foreign. Where the financial institution has had dealings with related persons or any of its subsidiaries, the total number and value for the period concerned should be reported.

## **11.0 ANTI-MONEY LAUNDERING/COMBATING FINANCING OF TERRORISM (AML/CFT) PENALTIES IMPOSED**

Financial institutions that contravene AML/CFT laws and regulations (whether in Nigeria or abroad) and are penalized or fined are required to report same accordingly.

FORM 002

CONTROL FUNCTION ASSESSMENT QUESTIONNAIRE – MONTHLY RETURNS

1. CORPORATE GOVERNANCE (CG) AND ROLE OF BOARD

CG refers to a set of policies, practices and internal processes that establish a system to control direct and manage the operations of your financial institution to ensure that ML/FT risks are minimized.

QUESTIONS:

- I. Does your board provide a **set of policies, practices and internal processes** that establish a system for controlling, directing and managing the operations of your institution to minimize ML/FT risks?

Yes [ ] or No [ ]

- II. Does your board provide a **code of ethics or conduct for staff** that focuses on ML/FT legal compliance with respect to the prevention, detection and reporting of AML/CFT in your institution?

Yes [ ] or No [ ]

- III. Does your board/top management **exercise oversight function** on the operations of your institution and ensure a transparent system of accountability?

Yes [ ] or No [ ]

2. RISK MANAGEMENT

Risk management is a framework to identify measure, assess, prioritize and control/minimize ML/FT risks to lower the probability of ML/FT occurring in your financial institution.

QUESTIONS:

- IV. Does your institution have a **board-approved** Enterprise Risk Management Framework (ERM) that captures ML/FT risks in place?

Yes [ ] or No [ ]

V. Does your ERM include **measures to identify, measure, assess, prioritize and control/minimize ML/FT risks** to lower the probability of ML/FT occurring in your institution?

Yes  or No

VI. Does your ERM provide measures to **identify the ML/FT risk inherent** in your institution's main products and business lines, customers, and **processes and reasonable steps to measure and control such risks**?

Yes  or No

VII. Does the approved framework have a **risk assessment process** in place that risk-profile new products, services or entry into new markets/locations?

Yes  or No

### 3. POLICIES AND PROCEDURES

These refer to ML/FT policies and procedures that address compliance with AML/CFT legislation and regulations.

#### QUESTIONS:

VIII. Does your institution have adequate **board-approved AML/CFT policies and procedures** with respect to customer acceptance and customer due diligence at take on?

Yes  or No

IX. Does your institution (on regular basis), monitor customer transactions and activities with the aim of identifying ML/FT risks?

Yes  or No

X. What is the frequency of such monitoring?

Daily  Weekly  or Monthly  (tick appropriately)

XI. Does your institution analyze and report unusual and suspicious activities to NFIU within 7 days that the transaction takes place?

Yes  or No

XII. Does your institution have in place **AML/CFT policies** that support the implementation of corporate governance and risk management framework?

Yes [ ] or No [ ]

#### 4. INTERNAL CONTROLS

XIII. At the Macro level (Organizational level), internal controls refer to AML/CFT systems such as internal and external audit, compliance and management information systems.

XIV. At the Micro level (business line level), internal controls refer to systems designed to minimize ML/FT risk in the various business activities, customers, etc of your financial institution.

#### QUESTIONS:

XV. Does your institution have in place a sound management information system?

Yes [ ] or No [ ]

XVI. Is your institution's internal control systems **risk-based and adequate** in addressing all the AML/CFT risk issues?

Yes [ ] or No [ ]

XVII. Does the internal audit have an **AML/CFT audit plan and audit programme** and generate **AML/CFT audit reports**?

Yes [ ] or NO [ ]

XVIII. Does your institution's audit plan cover all areas of ML/FT risks activities?

Yes [ ] or NO [ ]

XIX. Do the control staffs have the right professional qualifications, experience and competence?

YES [ ] or No [ ]

## 5. COMPLIANCE

This involves your compliance with ML/FT laws and regulations as well as compliance with internal policies and controls put in place in your financial institution.

### QUESTIONS:

- Is AML/CFT compliance embedded in all significant business lines and processes of your institution?  
Yes [ ] or No [ ]
- Is your board committed to ensuring sound corporate governance and implementation of your ML/FT risk management framework?  
Yes [ ] or No [ ]
- Does your board ensure that staff have appropriate AML/CFT training and information?  
Yes [ ] or No [ ]
- Do your board members participate in AML/CFT trainings?  
Yes [ ] or No [ ]
- Is there a system of detection and measurement of non-compliance with AML/CFT issues in your institution?  
Yes [ ] or No [ ]
- How many times has your institution been penalized for non-compliance with AML/CFT directives between the last reporting date and the current reporting date?  
Nil [ ] Once [ ] Twice [ ] Thrice [ ] More than Thrice [ ] (Tick one, please)

## 6. REPORTING

This entails compliance with reporting requirements set forth under the existing AML/CFT legal and regulatory framework on CTRs, PEPs, FEPs, STRs etc.



**QUESTION:**

- Does your institution have an **AML/CFT solution** in place to generate the various statutory and regulatory reports?

Yes [ ] or No [ ]

- Are your institution's systems for reporting these (whether automated or manual) and other reports **adequate**?

Yes [ ] or No [ ]

**7. TRAINING**

This refers to the general or specific/specialized AML/CFT training given to staff of your institution.

**QUESTIONS:**

- Does your institution give enhanced training to staff in its significant and higher risk areas of business e.g. wire transfers and NGO clients?

Yes [ ] or No [ ]

- What is the frequency of such trainings?

Quarterly [ ] Half-yearly [ ] Yearly [ ] (tick as appropriate)

- Does your institution have an **AML/CFT training budget**?

Yes [ ] or No [ ]

- What is the percentage of implementation?

Less than 30% [ ] Not more than 50% [ ] above 50% [ ] (Tick one, please)

- Does your institution give specialized training to staff in AML/CFT Units?

Yes [ ] or No [ ]

- Does your institution give specialized training to your Chief Compliance Officers?

Yes [ ] or No [ ]

- Does your institution give Senior Management and the board members AML/CFT training?

Yes [ ] or No [ ]

**MONTHLY RETURNS ON POLITICALLY EXPOSED PERSONS**  
 [SECTION 1.10.3 CAN AML/CFT REGULATION, 2009 (AS AMENDED)]

NAME OF REPORTING INSTITUTION: \_\_\_\_\_

REPORT REFERENCE NUMBER: \_\_\_\_\_

DATE OF THE REPORT: \_\_\_\_\_

S/N	BRANCH	ACCOUNT NAME	ACCOUNT NO	NAME OF THE PER	REP STATUS	RELATIONSHIP WITH PER	NATURE OF BUSINESS

1

WITHIN THE MONTH REPORTED:						
TOTAL CREDIT TRANSACTIONS (-N)	TOTAL DEBIT TRANSACTIONS (-N)	TOTAL CREDIT FOREIGN TRANSACTIONS (\$)	TOTAL DEBIT FOREIGN TRANSACTIONS (\$)	OTHER ACCOUNT NUMBER(S) INVOLVED IN THE TRANSACTION (REPORTED IF ANY)	ACCOUNT NUMBER(S) RELATED TO THE ACCOUNT HOLDER (IF ANY)	REMARKS

EXPLANATORY NOTE

MONTHLY RETURNS ON POLITICALLY EXPOSED PERSONS

[SECTION 1.10.3 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]

- The term "politically exposed persons" includes individuals who are or have been entrusted with prominent public functions in Nigeria and/or foreign countries and people/entities associated with them [see Section 1.10.1 of CBN AML/CFT Regulation, 2009 (as amended)]
- ❖ **Name of Reporting Entity:** Full name of the reporting entity should be provided.
- ❖ **Report Reference Number:** Report reference number should be the combination of the reporting entity's existing e-FASS code allocated to them by the CBN/ type of report/ the period covered/ year e.g. e-FASS Code/PEP/JAN/2012.
- ❖ **Date of the Report:** State the date that the report is prepared in the form of: DD/MM/YYYY
- ❖ **Serial Number:** All consolidated reports should be serially numbered.
- ❖ **Branch:** The financial institution's branch where the account is domiciled.
- ❖ **Account Name:** The name in which the account was opened and operated. Where the subject of the return is a corporate entity, it should be stated as such.
- ❖ **Account Number:** The account number of the PEP's account.
- ❖ **PEP Status:** The past or present position held by PEP that falls within the definition of PEP in the CBN AML/CFT Regulation, 2009 (as amended) should be specifically stated e.g. present or former Minister of Mines and Power etc.
- ❖ **Name of the PEP:** The full names of natural person that is the PEP
- ❖ **Relationship with PEP:** The type of relationship with PEP should be stated e.g. Son, Wife, Trustees, Nominees, Solicitor or Director in the company etc.

- ❖ **Nature of Business:** The known business of the customer. For **Natural Person**, the known source of funds and for **Legal Person** the known line of business.
- ❖ **Total Credit Transaction (=N=):** The total credit Naira transactions conducted by the PEP on the account(s) should be consolidated and reported.
- ❖ **Total Debit Transaction (=N=):** The total debit Naira transactions conducted by the PEP on the account(s) should be consolidated and reported.
- ❖ **Total Credit Foreign Currency Transaction (\$):** The total credit foreign transactions conducted by the PEP on the account(s) should be converted to US \$ at the prevailing rate as at the end of the reporting month, then consolidated and reported.
- ❖ **Total Debit Foreign Currency Transaction (\$):** The total debit foreign transactions conducted by the PEP on the account(s) should be converted to US \$ at the prevailing rate as at the end of the reporting month, consolidated and reported.
- ❖ **Other Account Number(s) Involved in The Transaction Reported (if any):** All the accounts that witnessed transactions within the reporting period should be listed.
- ❖ **Remarks:** Any additional information on the transactions that could provide better appreciation/understanding of the subject reported on in this format.

**ANNUAL RETURNS ON EMPLOYEE AML/CFT TRAINING**

[SECTION 1.18.6.1.3 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]

NAME OF REPORTING INSTITUTION: \_\_\_\_\_

REPORT REFERENCE NUMBER: \_\_\_\_\_

YEAR OF THE PROPOSED BUDGET: \_\_\_\_\_

DATE OF THE REPORT: \_\_\_\_\_

S/N	PROPOSED COURSE TITLE	PROPOSED COURSE DURATION	PROPOSED PERIOD TO HOLD THE COURSE	PROPOSED DURATION	CATEGORY/TYPE OF TRAINING			BUDGET	ACTUAL EXPENDED IN THE PRECEDING YEAR (-N-)
					BASIC	INTERMEDIARY	ADVANCED		

NAMES OF TRAINERS	PROPOSED NO. OF PARTICIPANTS BY FUNCTION						NOSH OF TRAINING		LOCATION/ BRANCHES OF PARTICIPANTS	PROPOSED VEHICLE	REMARKS
	NO OF BOARD MEMBERS	NO OF TOP MANAGEMENT OFFICERS	COO	NO OF COMPLIANCE OFFICERS	NO OF OTHER OFFICERS	TOTAL NO OF PROPOSED PARTICIPANTS	PHYSICAL PRESENCE	VEH-MASSD			

EXPLANATORY NOTE

ANNUAL RETURNS ON EMPLOYEE AML/CFT TRAINING

[SECTION 1.18.6.1.3 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]

- 1) See section 9 of MLPA, 2011 and section 1.18.6.1 of CBN AML/CFT Regulation.
  - Section 1.18.6.1.1 requires FIs to design comprehensive employee education and training programs for the effective discharge of their AML/CFT tasks.
  - Section 1.18.6.1.3 specifically requires FIs to submit their Annual AML/CFT Employee training program for the next year to CBN and NFIU not later than the 31<sup>st</sup> December every financial year.
  - ❖ **Name of Reporting Entity:** Full name of the reporting entity should be provided.
  - ❖ **Returns Reference Number:** Report reference number should be the combination of the reporting entity's existing e-FASS code allocated to them by the CBN/ type of report/ the period covered/ year e.g. e-FASS Code/TRG/JAN/2012.
  - ❖ **Date of the Report:** State the date that the report is prepared in the format of: DD/MM/YYYY
  - ❖ **Proposed Course Title(s):** The proposed course title(s) should be indicated here.
  - ❖ **Proposed Course Outline:** Brief description of the course contents and time frame.
  - ❖ **Proposed Period:** Date range or quarter of the year in which the training will take place.
  - ❖ **Proposed Duration:** State the period a particular training will take place. The number of days the training is likely to take.



- ❖ **Course Category:** AML/CFT training is categorized as basic, intermediate or advanced.
- ❖ **Budget:** The proposed employee AML/CFT training budget for the year.
- ❖ **Names of Trainers:** Names of the trainers and their qualifications/ experience should be provided.
- ❖ **Functions of Participants:** The roles of the participants should be stated, e.g. Board, Top Management, CCO, CO and Others.
- ❖ **Mode of Training:** The method of training adopted could be physical presence, web-based, etc.
- ❖ **Proposed Number of Participants:** Proposed number of staff to be trained for the year.
- ❖ **Location/Branches of the Participants:** Provide the branch location where the staff to be trained serves/works.
- ❖ **Proposed Venue:** This is where the training is to be conducted.
- ❖ **Remarks:** Provide comment that will assist in the appraisal of the returns rendered.

FORM 005

**QUARTERLY RETURNS ON EMPLOYEE AML/CFT TRAINING**  
[SECTION 1.18.6.1.2 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]

NAME OF REPORTING INSTITUTION: \_\_\_\_\_

REPORT REFERENCE NUMBER: \_\_\_\_\_

DATE OF THE REPORT: \_\_\_\_\_

S/N	QUARTER/ PERIOD	COURSE TITLE	COURSE OUTLINE	VALUE OF TRAINING	NAME OF FACILITATORS	CATEGORY/TYPE OF TRAINING			MODE OF TRAINING	
						BASIC	INTERMEDIARY	ADVANCED	PHYSICAL PRESENCE	WEB- BASED

NUMBER OF PARTICIPANTS	DESIGNATION/FUNCTION OF PARTICIPANTS						LOCATION/BRANCHES OF PARTICIPANTS	AMOUNT BUDGETED FOR THE QUARTER IN	ACTUAL AMOUNT EXPENDED IN	REMARKS
	NO OF BOARD MEMBERS	NO OF TOP MANAGEMENT OFFICERS	CHIEF COMPLIANCE OFFICER	NO OF COMPLIANCE OFFICERS	NO OF OTHER PARTICIPANTS					

EXPLANATORY NOTE

QUARTERLY RETURNS ON EMPLOYEE AML/CFT TRAINING

[SECTION 1.18.6.1.2 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]

- Section 1.18.6.1.2 specifically requires FIs to render quarterly returns on level of compliance with its annual AML/CFT Employee training program with CBN and NFIU.
- Quarterly returns should be done latest end of 2<sup>nd</sup> week of the new quarter.
- ❖ **Name of Reporting Institution:** Full name of the reporting institution should be provided.
- ❖ **Returns Reference Number:** Report reference number should be the combination of the reporting institution's existing e-FASS code allocated to it by the CBN/ type of report/ the period covered/ year e.g. e-FASS Code/TRG/Q1/2012.
- ❖ **Date of the Report:** State the date that the report is prepared in the format of: DD/MM/YYYY.
- ❖ **Training Period:** The Period the training was conducted should be stated such as DD/MM/YYYY – DD/MM/YYYY.
- ❖ **Course Title:** Title of the course should be indicated here.
- ❖ **Venue of Training:** This is where the training was conducted.
- ❖ **Course Outline:** Brief description of the course content and time frame.
- ❖ **Name(s) of Trainers:** Names of the trainers and their qualifications/ experience should be provided.
- ❖ **Category/ Type of Training:** AML/CFT training is categorized as Basic, Intermediate or Advanced.
- ❖ **Mode of Training:** The method of training adopted could be physical presence, web-based etc.
- ❖ **Number of Participants:** This is the total number of staff that participated in the training.
- ❖ **Designation/Function of Participants:** The roles of the participants should be stated, e.g, Board, Top Management, CCO, CO and Others.

- ❖ **Location/Branches of Participants:** This is the branch location where the staff trained serves/works.
- ❖ **Amount Budgeted for the Quarter:** The proposed employee AML/CFT training budget for the quarter.
- ❖ **Actual Amount Expended:** The total actual amount expended from the proposed annual budget.
- ❖ **Remarks:** Any comment that will add value to and assist the understanding of the returns.

FORM 006

**SEMI-ANNUAL RETURNS ON MONITORING OF EMPLOYEES' CONDUCT**

[SECTION 1.18.7.1 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]

NAME OF REPORTING INSTITUTION: \_\_\_\_\_

REPORT REFERENCE NUMBER: \_\_\_\_\_

DATE OF THE REPORT: \_\_\_\_\_

S/N	EMPLOYER'S NAME	EMPLOYER'S STATUS	ACCOUNT NUMBER(S)	BRANCH	EMPLOYER'S HOME ADDRESS	AMOUNT INVOLVED		RELATED ACCOUNT NUMBER (S)	SUSPICIOUS CONDUCT	REMARKS
						=N=	5'000			

EXPLANATORY NOTE

SEMI-ANNUAL RETURNS ON MONITORING OF EMPLOYEE'S CONDUCT

[SECTION 1.18.7.1 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]

- For potential signs of ML, FIs are required to monitor their employees' conduct and accounts (Know Your Employee-KYE) as well as customers' accounts. This is to be done under the supervision of the CCO and compliance reports including findings are to be rendered to the CBN and NFIU.
- Reports should be rendered at the end of June and December every year.
- ❖ **Name of Reporting Institution:** Full name of the reporting institution should be provided.
- ❖ **Returns Reference Number:** Report reference number should be the combination of the reporting entity's existing e-FASS code allocated to them by the CBN/ type of report/ the period covered/ year e.g. e-FASS /SAR/JAN/2012.
- ❖ **Date of the Report:** State the date that the report is prepared in the form of: DD/MM/YYYY.
- ❖ **Serial Number:** All consolidated reports should be serially numbered.
- ❖ **Employee's Name:** The full names of the employee should be provided in the format of: Surname, First Name, and Middle Name.
- ❖ **Employees' Status:** State the status of the employee as at the time of the report.
- ❖ **Account Number(s):** The account number(s) of the employee involved in the transactions.

- ❖ **Branch:** The branch where the employee works as at the time of the observed misconduct.
- ❖ **Employee's Home Address:** State the known permanent address of the employee.
- ❖ **Amount:** State the total amount involved in the suspicion.
- ❖ **Related Account Numbers:** Give the account numbers that the employee is related to by way of transaction, human relationship, etc.
- ❖ **Suspicious Conduct:** Indicate the observed suspicious conduct i.e. theft, suppression of cheques, transfer of funds into the staff account, connivance with third parties, etc.
- ❖ **Remarks:** Give detail activities of staff that elicited the suspicion.



**FORM 007**

**QUARTERLY RETURNS ON ADDITIONAL AREAS OF AML/CFT RISKS  
[SECTION 1.19.1 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]**

NAME OF REPORTING INSTITUTION: \_\_\_\_\_

REPORT REFERENCE NUMBER: \_\_\_\_\_

DATE OF THE REPORT: \_\_\_\_\_

S/N	IDENTIFIED ADDITIONAL POTENTIAL RISK	REVIEW/ ADDITIONAL PROCEDURES	MITIGATING FACTORS

FORM 007

**EXPLANATORY NOTE**

**QUARTERLY RETURNS ON ADDITIONAL AREAS OF AML/CFT RISKS**

**[SECTION 1.19.1 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]**

- FIs are required to **REVIEW**, **IDENTIFY** and **RECORD** other areas of potential ML risks not covered by AML/CFT Regulation 2009 (as amended) and report same QUARTERLY to CBN and NFIU.
- ❖ **Name of Reporting Entity:** Full name of the reporting entity should be provided.
- ❖ **Returns Reference Number:** Report reference number should be the combination of the reporting entity's existing e-FASS code allocated to them by the CBN/ type of report/ the period covered/ year e.g. e-FASS /SAR/JAN/2012.
- ❖ **Date of the Report:** State the date that the report is prepared in the format of: DD/MM/YYYY
- ❖ **Serial Number:** All consolidated reports should be serially numbered.
- ❖ **Identified Additional Potential Risks:** These are additional areas of potential money laundering risks not covered by the **AML/CFT** Regulation.
- ❖ **Review/Additional Procedures:** Review the additional procedures in place to determine the effectiveness.
- ❖ **Mitigating Factors:** Indicate factors that pose hindrance to effective additional procedures in place.

FORM 008

**ANNUAL RETURNS ON ADDITIONAL PROCEDURES AND MITIGANTS**

[SECTION 1.20 CBN AMU/OFT REGULATION, 2009 (AS AMENDED)]

NAME OF REPORTING INSTITUTION: \_\_\_\_\_

REPORT REFERENCE NUMBER: \_\_\_\_\_

DATE OF THE REPORT: \_\_\_\_\_

S/N	IDENTIFIED ADDITIONAL RISKS	SERVICE OR PRODUCT AREA AFFECTED	ASSESSMENT OF RISK (HIGH, MEDIUM OR LOW)	MITIGANTS/ CONTROL PUT IN PLACE	ASSESSMENT OF THE PREVENTIVE/DETECTIVE CONTROL MEASURES	REMARKS

**EXPLANATORY NOTE**

**ANNUAL RETURNS ON ADDITIONAL PROCEDURES AND MITIGANTS**

[SECTION 1.20 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]

- Where the FIs have reviewed their AML/CFT Frameworks and identified new areas of potential ML risks, they are required to DESIGN and adopt ADDITIONAL PROCEDURES AND MITIGANTS AS CONTINGENCY PLAN in their AML/CFT Operational Manual.
- Details of Contingency plan are to be rendered to CBN and NFIU as at 31<sup>st</sup> December every financial year.
- ❖ **Name of Reporting Entity:** Full name of the reporting entity should be provided.
- ❖ **Returns Reference Number:** Report reference number should be the combination of the reporting entity's existing e-FASS code allocated to them by the CBN/ type of report/ the period covered/ year e.g. e-FASS /SAR/JAN/2012.
- ❖ **Date of the Report:** State the date that the report is prepared in the format of: DD/MM/YYYY.
- ❖ **Serial Number:** All consolidated reports should be serially numbered.
- ❖ **Identified Additional Risks:** State the type of additional risks identified.
- ❖ **Service or Product Area:** State the type of service or product where additional risks have being identified.
- ❖ **Assessment of Risk:** This is the level or extent of additional risk identified i.e High, Medium, or Low.
- ❖ **Mitigants/Control:** State the measures put in place to control identified additional risks.
- ❖ **Assessment of Preventive/Detective Control Measures:** Assess or comments on the effectiveness of measures put in place to control identified additional risks.

**FORM 009**

**ANNUAL RETURNS ON TESTING FOR THE ADEQUACY OF AML/CFT COMPLIANCE**

[SECTION 1.21 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]

NAME OF REPORTING INSTITUTION: \_\_\_\_\_

REPORT REFERENCE NUMBER: \_\_\_\_\_

DATE OF THE REPORT: \_\_\_\_\_

S/N	STATE YOUR POLICY COMMITMENT FOR AML/CFT PROGRAM TO INDEPENDENT TESTING	DATE TEST WAS CONDUCTED	TEST WAS CONDUCTED BY	STATE THE OUTCOME (WEAKNESSES OR INADEQUACIES IDENTIFIED)	MEASURES PUT IN PLACE TO ADDRESS THEM	REMARKS

EXPLANATORY NOTE

ANNUAL RETURNS ON TESTING FOR THE ADEQUACY OF AML/CFT COMPLIANCE

[SECTION 1.20 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]

Every FI is required to make a policy commitment and to subject its AML/CFT Compliance Program to independent testing or require its internal audit function to determine its adequacy, completeness and effectiveness.

- This should be rendered to CBN and NFIU every financial year as at 31<sup>st</sup> December.
- Any identified weakness or inadequacies should be promptly addressed by the FIs.
- ❖ **Name of Reporting Entity:** Full name of the reporting entity should be provided.
- ❖ **Returns Reference Number:** Report reference number should be the combination of the reporting entity's existing e-FASS code allocated to them by the CBN/ type of report/ the period covered/ year e.g. e-FASS /SAR/JAN/2012.
- ❖ **Date of the Report:** State the date that the report is prepared in the form of: DD/MM/YYYY.
- ❖ **Serial Number:** All consolidated reports should be serially numbered.
- ❖ **Policy commitment for AML/CFT Program Independent Testing:** Indicate policy commitment for AML/CFT program by providing documentary evidence.
- ❖ **Test Conducted by:** State the name of the person or the organization that conducted the test.
- ❖ **Outcome:** State if the test conducted is adequate, complete and effective.
- ❖ **Measures Put in place to Address them:** Indicate the type of measures put in place to address the identified gap in policy commitment.
- ❖ **Remarks:** The report should capture basic items of AML/CFT Laws and Regulations.

FORM 010

### QUARTERLY RETURNS ON MONEY OR VALUE TRANSFER SERVICES

[SECTION 1.25.2 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]

NAME OF REPORTING INSTITUTION: \_\_\_\_\_

REPORT REFERENCE NUMBER: \_\_\_\_\_

DATE OF THE REPORT: \_\_\_\_\_

S/N, OPERATOR	NAME OF AGENTS/CORRESPONDENT	ADDRESS	DATE OF ENGAGEMENT	CURRENT LIST OF AGENTS	COMMENTS ON ADEQUACY OF AML/CFT CONTROLS OF AGENTS	NUMBER OF NEW CORRESPONDENT RELATIONSHIP	NUMBER OF NEW CORRESPONDENTS APPROVAL OBTAINED FROM CBN

**FORM 010**

**EXPLANATORY NOTE**

**QUARTERLY RETURNS ON MONEY OR VALUE TRANSFER SERVICES**

**[SECTION 1.25.2 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]**

- Section 1.25.2 of requires all MVT Service Operators to maintain a current list of their agents and render quarterly returns to the CBN.
- ❖ **Name of Reporting Entity:** Full name of the reporting entity should be provided.
- ❖ **Returns Reference Number:** Report reference number should be the combination of the reporting entity's existing e-FASS code allocated to them by the CBN/ type of report/ the period covered/ year e.g. e-FASS /SAR/JAN/2012.
- ❖ **Date of the Report:** State the date that the report is prepared in the form of:  
DD/MM/YYYY.
- ❖ **Serial Number:** All consolidated reports should be serially numbered.
- ❖ **Name of Agents/Correspondent Operator:** The full name(s) of the agents/ operators should be stated.
- ❖ **Address:** State the Address of the Agent/Operators.
- ❖ **Date of Engagement:** State the date of engagement of the Agents/Correspondent Operator.
- ❖ **Current List of Agents:** List the names of the Agents.
- ❖ **Comments on Adequacy of AML/CFT Controls of Agents:** A brief comment on the effectiveness of controls on Agents/Operators.
- ❖ **Number of New Correspondent Relationship:** State the total numbers here.
- ❖ **Number of New Correspondents Approval Obtained from CBN:** Indicate the total number of approved Correspondents.



FORM 011

### QUARTERLY RETURNS ON FINANCIALLY EXCLUDED PERSONS

[SECTION 2.6.1.5.9, 2.6.1.5.12 CBI AML/CFT REGULATION, 2009 (AS AMENDED)]

NAME OF REPORTING INSTITUTION: \_\_\_\_\_

REPORT REFERENCE NUMBER: \_\_\_\_\_

DATE OF THE REPORT: \_\_\_\_\_

S/N	BRANCH	NUMBER OF SUCH ACCOUNTS OPENED	BALANCES IN THE ACCOUNTS (M4)	REASONS FOR FINANCIAL EXCLUSION	ALTERNATE DOCUMENTARY EVIDENCE OF PERSONAL IDENTIFICATION COLLECTED

9/26/12

**FORM 011**

**EXPLANATORY NOTE**

**QUARTERLY RETURNS ON FINANCIALLY EXCLUDED PERSONS**

[SECTION 2.6.1.5.9, 2.6.1.5.12 CBN AML/CFT REGULATION, 2009 (AS AMENDED)]

- Section 2.6.1.5.9 requires that when FI has decided to treat a client as “financially excluded”, it should record the reasons for doing so along with the account opening documents and returns on such should be rendered to CBN and NFIU quarterly.
- ❖ **Name of Reporting Entity:** Full name of the reporting entity should be provided.
- ❖ **Returns Reference Number:** Report reference number should be the combination of the reporting entity’s existing e-FASS code allocated to them by the CBN/ type of report/ the period covered/ year e.g. e-FASS /SAR/JAN/2012.
- ❖ **Date of the Report:** State the date that the report is prepared in the following form of: DD/MM/YYYY.
- ❖ **Serial Number:** All consolidated reports should be serially numbered.
- ❖ **Branch:** The branch where the report is being prepared.
- ❖ **Number of Accounts Opened:** The number(s) of accounts opened in that branch.
- ❖ **Balances in the Accounts:** The balance standing in the account as at the period of report.
- ❖ **Reasons for Financial Exclusion:** State the reason(s) why the Customer is considered financially excluded.
- ❖ **Alternate Means of Identification:** State the type of means of identification used in opening the account.



## CENTRAL BANK OF NIGERIA

Financial Policy & Regulation Department  
Central Business District  
P.M.B. 0167  
Garki, Abuja

Tel: 09-46237402  
E-mail: [fp@cbn.gov.ng](mailto:fp@cbn.gov.ng)

FPR/DIR/CIR/GEN/VOL01/027

July 25, 2012

### **CIRCULAR TO ALL DEPOSIT MONEY BANKS IN NIGERIA**

#### **REVIEW OF CASH RESERVE REQUIREMENT**

We refer to our circular FMD/DIR/GEN/CIR/02/004 dated October 11, 2011 and the decision of the Monetary Policy Committee at their meeting of Monday and Tuesday July 23 and 24, 2012, and write to notify all deposit money banks as follows:

1. The rate for the cash reserve requirement has been revised upward by 400 basis points from 8% to 12% of all eligible deposit liabilities with effect from July 25, 2012.
2. The excess cash reserve (4 per cent) above the previous 8% will be remunerated by the Central Bank of Nigeria at the rate of three (3) per cent per annum.

The maintenance period, however, remains unchanged.

Thank You

**CHRIS O. CHUKWU**

**Director, Financial Policy & Regulation Department**



## CENTRAL BANK OF NIGERIA

Financial Policy & Regulation Department  
Central Business District  
P.M.B. 0107  
Garki, Abuja

Tel: 09-46237404  
E-mail: fprd@cbn.gov.ng

January 10, 2012

Ref: FPR/DIR/CIR/GEN/01/022

### CIRCULAR TO OTHER FINANCIAL INSTITUTIONS (PRIMARY MORTGAGE INSTITUTIONS, MICROFINANCE BANKS AND FINANCE COMPANIES)

To avoid regulatory arbitrage and provide a level playing field for all operators, it has become necessary to adopt a uniform accounting year end in the Other Financial Institutions (OFIs) sub-sector. In this regard, the CBN circular number BSD/DIR/GEN/CIR/VOL.2/004 of June 18, 2009, requiring all banks and discount houses in Nigeria to adopt 31<sup>st</sup> December as a uniform accounting year-end from 2009 shall henceforth be applicable to OFIs.

For the avoidance of doubt, all primary mortgage institutions, microfinance banks and finance companies, are required to adopt 31<sup>st</sup> December as their accounting year-end with effect from December, 2012. Accordingly, directors of OFIs are hereby advised, as a first step, to pass a resolution to that effect and inform the relevant agencies in line with Section 334(4) of the Companies and Allied Matters Act (CAMA) 1990, as amended.

During the period of transition, a maximum accounting period of eighteen (18) months and a minimum of six (6) months are allowable, in line with accepted accounting practice. In the circumstance, OFIs whose accounting year end on 31<sup>st</sup> December, should as usual, forward their full year's accounts for CBN approval not later than four (4) months after the year-end. Those with year-ends between January and May, 2012 should submit the normal audited accounts (12 months) for CBN approval and thereafter, submit their audited accounts for the pro-rated period to 31<sup>st</sup> December, 2012 as follows:

S/No.	Current year-end dates	Period to 31 <sup>st</sup> December 2012
1	31 <sup>st</sup> January, 2012	11 months
2	29 <sup>th</sup> February, 2012	10 months
3	31 <sup>st</sup> March, 2012	9 months
4	30 <sup>th</sup> April, 2012	8 months
5	31 <sup>st</sup> May, 2012	7 months
6	30 <sup>th</sup> June, 2012	Options of 12 months or 18 months
7	31 <sup>st</sup> July to 30 <sup>th</sup> November, 2012	Elongate to 31 <sup>st</sup> December, 2012

The audited accounts for the pro-rated period should equally be submitted not later than four (4) months after the period-end for CBN approval and subsequent publication, in line with Section 27 & 28 of BOFIA, 1991 (as amended).



**CHRIS O. CHUKWU**  
**Director, Financial Policy & Regulation Department**



## CENTRAL BANK OF NIGERIA

Financial Policy & Regulation Department  
Central Business District  
P.M.B. 0187  
Cankara, Abuja.

Tel: December 30, 2011  
E-mail: [fpird@cbn.gov.ng](mailto:fpird@cbn.gov.ng)  
FPR/DIR/CIR/GEN/01/024

### **CIRCULAR TO ALL BANKS**

#### **DEFINITION AND STRUCTURE OF HOLDING COMPANIES IN PURSUANCE OF THE NEW BANKING MODEL**

Following the repeal of the Universal Banking Guidelines by the Central Bank of Nigeria in pursuance of one of its objectives of promoting a sound financial system, it was deemed necessary to expound upon the licencing requirements for commercial, merchant and specialized banks, with the aim of providing clarity on the conduct of banking business.

Consequently, in exercise of its powers under Section 57 (1) of BOFIA, and other enabling powers in that regard, it issued the Regulation on the Scope of Banking Activities & Ancillary Matters, No. 3, 2010 (Regulation 3).

In the light of enquiries from various stakeholders, it was deemed necessary to issue this circular to define the Holding Company structure as envisaged in the Regulation 3.

As a general rule, a Holding Company (HoldCo) is defined as "any corporation that owns controlling shares in another company (subsidiary) or companies (subsidiaries) to influence decision making process". Under Regulation 3, it is expected that banks will adopt a financial holding company which can be defined as "other financial institution" licensed and regulated as such by the Central Bank of Nigeria for the purpose of making and managing, (for its own account), equity investments in companies engaged in the provision of financial services.

The nature and characteristics can be derived from the definition above.

The structure is as shown in the example below:



A financial HoldCo must be registered with the Corporate Affairs Commission as a Holding Company. The incorporation documents must state and list the subsidiaries as well as the nature of business engaged in by the subsidiaries. The CAC registration must conform with Regulation 3 establishing the New Banking Model.

A non-operating financial HoldCo must control at least one bank or other financial institution. Control is gauged by the holding of more than 50% of the voting shares of the subsidiary by the financial HoldCo. The only income stream for the non-operating financial HoldCo shall be dividend plus service fees, as appropriate, from the subsidiaries under the structure. However, a non-operating financial HoldCo is at liberty to transform to an operating financial HoldCo. In so doing, it must amend its Memorandum of Association (MEMART) and re-file same with the Corporate Affairs Commission (CAC) and other relevant regulatory authorities. It must also obtain the prior approval of Central Bank of Nigeria.

A HoldCo within another HoldCo structure may be permissible, under Regulation 3, with the prior approval of the CBN. However, all commercial banking activities whether offshore or onshore must come under the commercial banking subsidiary.

This circular is for your guidance and direction,

*f. c. o. CHUKWU*

**ACTING DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT**

*Extraordinary*



# Federal Republic of Nigeria

## Official Gazette

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**No. 119 Lagos - 5th December, 2011 Vol. 98**

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Government Notice No. 269

FPR/DIR/CIR/GEN/01/025

**CIRCULAR TO BANKS AND OTHER FINANCIAL INSTITUTIONS :**

**AMENDMENT OF ANTI-MONEY LAUNDERING/COMBATING THE FINANCING OF TERRORISM (AML/CFT) REGULATION, 2009 TO ALIGN WITH MONEY LAUNDERING (PROHIBITION) ACT (MLPA), 2011 AND TERRORISM (PREVENTION) ACT (TPA), 2011**

Further to our circular dated May 5, 2010, referenced FPR/DIR/CIR/AML/CFT/01 / 001, the following sections of the AML/CFT Regulation, 2009 are hereby amended :

**FORMS OF REPORTING**

Section 1.15.2

Financial institutions are required to investigate suspicious transactions and report their findings to the Nigerian Financial Intelligence Unit (NFIU) in the Economic and



Financial Crimes Commission (EFCC) within 7 days of the transaction in compliance with section 6 (2) (c) of MLPA, 2011.

### Section 1.18.3

Financial institutions are required to report in writing any single transaction, lodgment or transfer of funds in excess of ₦5,000,000 and ₦10,000,000 or their equivalent made by an individual and body corporate respectively to the NFIU in accordance with section 10 (1) of the MLPA, 2011.

In compliance with section 2(1) of the MLPA, 2011 financial institutions are also required to render reports on transfers to or from a foreign country of funds or securities by a person or body corporate including a Money Service Business of a sum exceeding US\$10,000 or its equivalent to Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC) and EFCC in writing within 7 days from the date of the transaction.

Furthermore, in compliance with section 14 of the Terrorism (Prevention) Act (TPA), 2011, financial institutions are required to, within a period of not more than 72 hours, forward the following reports of suspicious transactions relating to the NFIU:

- (a) Fund derived from illegal or legal sources but are intended to be used for any act of terrorism ; or
- (b) Proceeds of a crime related to terrorism financing ; or
- (c) Proceeds belonging to a person, entity or organization as terrorist.

Please note that financial institutions are not statutorily liable for violation of confidentiality rules for every lawful action taken in furtherance of their obligations under the CBN AML/CFT Regulation, 2009 (as amended). Also, details of a report sent by the institution shall not be disclosed by the institution or any of its officers to any other person.

## **SANCTIONS**

### Section 1.18.1.2

The above section has equally been amended to include the fact that no financial institution or its officers shall benefit from violation of extant AML/CFT laws and regulations.

Accordingly, incidence of false declaration, or false disclosure or non-declaration or non-disclosure in the returns rendered under the AML/CFT Regulation, 2009 (as amended) by a financial institution or its officers shall be subject to administrative review, criminal prosecution and sanction. While criminal cases will be referred to EFCC or other law enforcement agencies for prosecution, the offender will forfeit any pecuniary benefit obtained as a result of the violation or breach.

The failure of any officer to follow his/her institution's internal procedure will be considered a serious misconduct which will attract termination of appointment in line with section 48(4)(5) &(6) of the Banks and Other Financial Institutions Act (BOFIA), Cap. B3 Laws of the Federation of Nigeria 2004, and offender blacklisted from employment in the financial services industry. In addition, the defaulting institutions will be made to bear the financial loss suffered by any victim of a financial crime.

However, the amount of penalties for infraction still remains at a maximum limit of ₦2 million per infraction.

In compliance with the various provisions of AML/CFT Regulation, 2009 (as amended), we attach herewith the list of returns to be rendered jointly to CBN & NFIU (Appendix I ) ; and to NFIU exclusively (Appendix II ) for your information and necessary action. Financial institutions are hereby required to render a nil return where there is nothing to report on each of the items in the appendices.

CHRIS O. CHUKWU

Director, Financial Policy and  
Regulation Department

**LIST OF RETURNS REQUIRED TO BE RENDERED JOINTLY TO THE CBN AND NFIU ; AND THOSE TO BE RENDERED EXCLUSIVELY TO NFIU BY FINANCIAL INSTITUTIONS IN COMPLIANCE WITH THE AML/CFT REGULATION, 2009 (AS AMENDED)**

**APPENDIX I**

**LIST OF RETURNS TO BE RENDERED TO BOTH CBN AND NFIU**

(i) B1396 SECTION 1.1.1

**SCOPE OF OFFENSIVE PROCEEDS**

This section requires financial institutions to identify and report to the CBN and NFIU the proceeds of crimes derived from :

- Participation in an organized criminal group and racketeering ;
- Terrorism, including terrorist financing ;
- Trafficking inhuman beings and migrant smuggling ;
- Sexual exploitation, including sexual exploitation of children ;
- Illicit trafficking in narcotic drugs and psychotropic substances ;
- Illicit arm trafficking ;
- Illicit trafficking in stolen and other goods ;
- Corruption and bribery ;
- Fraud ;
- Counterfeiting currency ;
- Counterfeiting and piracy of products ;
- Environmental crime ;
- Murder, grievous bodily injury ;
- Kidnapping, illegal restraint and hostage-taking ;
- Robbery or theft ;
- Smuggling ; (including in relation to customs and excise duties and taxes);
- Tax crimes (related to direct taxes and indirect taxes) ;
- Extortion ;
- Forgery ;
- Piracy ;

· Insider trading and market manipulation ; and all other predicate offences as contained in section 15 of Money Laundering (Prohibition) Act, 2011.

(ii) B 1400 SECTION 1.6.4

### **LEVEL OF RISK OF CUSTOMERS, TRANSACTIONS OR PRODUCTS**

Financial institutions are required to adopt CDD measures on a risk sensitive basis and to have regard to the risk involved in the type of customer, product, transaction or the location of the customer. Where there is doubt they are directed to clarify with the CBN.

(iii) B 1402 SECTION 1.10.3

### **POLITICALLY EXPOSED PERSONS**

Senior management approval must be obtained by financial institutions before they establish any business relationship with a PEP and they must render monthly returns to the CBN and NFIU.

(iv) B 1404 SECTION 1.14.1

### **MAINTENANCE OF RECORDS ON TRANSACTIONS**

This section requires financial institutions to maintain all necessary record, in respect of domestic or international transactions for a minimum period of 5 years following completion of the transaction. They shall keep such record longer if requested by the CBN and NFIU in specific cases.

(v) B 1405 SECTION 1.15.2

### **COMPLEX, UNUSUAL (LARGE) AND SUSPICIOUS TRANSACTIONS**

Financial institutions are required to examine as far as possible the background and purpose of suspicious transactions and make available their findings to the CBN, NFIU and other competent authorities and auditors. Returns on suspicious transactions, however, are to be rendered to the NFIU in compliance with section 6(2) of MLPA, 2011.

(vi) B 1408 SECTION 1.18.3

## **CURRENCY TRANSACTION REPORT**

Financial institutions are required to report all cash transactions in any currency above a threshold of ₦5 million for individual and ₦10 million for corporate bodies to the CBN and NFIU. This directive is overtaken by section 10 of MLPA, 2011 that requires these returns to be rendered solely to the NFIU.

(vii) B 1409 SECTION 1.18.5.3

## **FOREIGN BRANCHES AND SUBSIDIARIES**

Financial institutions are required to inform the CBN in writing when their foreign branches or subsidiaries are unable to observe the appropriate AML/CFT measures because they are prohibited by the host country's laws, regulations or other measures.

(viii) B 1410 SECTION 1.18.6.1.2

## **EMPLOYEE EDUCATION AND TRAINING PROGRAMME**

Financial institutions are required to design a comprehensive training program for employees and to render quarterly returns on their level of compliance to the CBN and NFIU.

(ix) B 1410 SECTION 1.18.6.1.3

Financial institutions are required to submit their Annual AML/CFT Employee Training Program for the next year to the CBN and NFIU not later than 31st December every financial year.

(x) B 1411 SECTION 1.18.7.1

## **MONITORING OF EMPLOYEE CONDUCT**

For potential signs of money laundering, financial institutions are required to monitor employees as well as customers' accounts. This is to be done under the supervision of the Chief Compliance Officer and compliance reports, including findings are to be rendered to the CBN and NFIU at the end of June and December every year.

(xi) B 1411 SECTION 1.19.1

## **ADDITIONAL AREAS OF AML/CFT RISKS**

Financial institutions are required to review, identify and record other areas of potential money laundering risks not covered by AML/CFT Regulation, 2009 ( as amended) and report same quarterly to the CBN and NFIU.

(xii) B 1411 SECTION 1.20

## **ADDITIONAL PROCEDURES AND MITIGANTS**

Where the financial institutions have reviewed the AML/CFT framework and identified new areas of potential money laundering risks, they are required to design additional procedures and mitigants as contingency plan in their AML/CFT Operational Manual. Details of the contingency plan are to be rendered to the CBN and NFIU as at 31st December every financial year.

(xiii) B 1411 SECTION 1.21

## **TESTING FOR THE ADEQUACY OF THE AML/CFT COMPLIANCE**

Every financial institution is required to make a policy commitment and to subject its AML/CFT Compliance Program to independent-testing or require its internal audit function to determine its adequacy, completeness and effectiveness. Report of compliance is required to be rendered to the CBN and NFIU as at 31st December every financial year.

(xiv) B 1412 SECTION 1.22

## **FORMAL BOARD APPROVAL OF THE AML/CFT COMPLIANCE**

The Board of a financial institution is required to ensure that a comprehensive AML/CFT Operational Regulation is formulated by its management and presented to the Board for consideration and final approval. Copies of the approved Regulation are to be forwarded to the CBN and NFIU within six (6) months of the release of AML/CFT Regulation, 2009.

(xv) B 1412 SECTION 1.25.2

## **MONEY OR VALUE TRANSFER (MVT) SERVICES**

All MVT service operators are required to maintain a current list of its agents and quarterly returns of such be rendered to the CBN.

(xvi) B 1413 SECTION 1.25.3

Before establishing new correspondent relationships, MVT operators are required to obtain approval from the CBN and to also document/ maintain a checklist of the respective AML/CFT responsibilities of each of its agents and correspondent operators.

(xvii) B 1427 SECTION 2.6.1.5.9

## **FINANCIALLY EXCLUDED PERSONS**

Returns should be rendered to the CBN and NFIU quarterly on financially excluded persons/customers.

(xviii) B 1448 SECTION 2.8.8.3

## **LINKED TRANSACTIONS**

In the event where returns have been rendered to the NFIU after suspicion of money laundering arising from linked transactions, the financial institution is required to maintain copies of supporting cheques, application forms and other relevant records until such financial institution is informed by the CBN, NFIU or the investigating officer that the records are of no further interest.

## **APPENDIX II**

### **LIST OF RETURNS TO BE RENDERED EXCLUSIVELY TO NFIU**

(i) B 1401 SECTION 1.8.2

### **FAILURE TO COMPLETE CDD**

Any financial institution that has already commenced business relationship and later comes to realize lapses in the completion of CDD is required to terminate such relationship and render suspicious transaction reports to the NFIU.

(ii) B 1403 SECTION 1.10.5

## **PEP**

Where a financial institution is in a business relationship with a PEP and notices any abnormal transaction, it is required to flag the account and report same immediately to the NFIU.

(iii) B 1405 SECTION 1.15.2

## **COMPLEX, UNUSUAL (LARGE) AND SUSPICIOUS TRANSACTION**

Financial institutions are required to examine as far as possible the background and purpose of such transactions and forward the report of their findings to the NFIU.

(iv) B 1406 SECTION 1.16.2.5

## **SUSPICIOUS TRANSACTIONS**

A financial institution that suspects or has reason to suspect that funds are the proceeds of a criminal activity or is related to terrorist financing is required to report promptly its suspicion to the NFIU.

Financial institutions are also required to report suspicious transactions relating to terrorism financing to the NFIU.

(v) B1414 SECTION 1.26.9

## **WIRE TRANSFERS**

Financial institutions are required to report to the NFIU any wire transfer that lacks complete originator information as this is considered a factor for assessing suspicious transactions.

(vi) B 1419 SECTION 2.4.8.5

## **TIME-FRAME FOR IDENTIFICATION REQUIREMENTS**

Where an applicant refuses to provide satisfactory identification evidence within a reasonable time-frame without adequate explanation, the financial institution is



required to make a suspicious transaction report to the NFIU based on the information in its possession before the funds involved are returned to the potential client or where they came from.

(vii) B 1419 SECTION 2.4.9

### **CANCELLATION AND COOLING-OFF RIGHTS**

In the event where abnormal exercise from cancellation and cooling-off rights by an investor or in respect of business introduced through an intermediary becomes apparent, financial institutions are required to treat the matter as suspicious and report same to the NFIU.

(viii) B 1430 SECTION 2.6.1.8.5

### **NON FACE TO FACE IDENTIFICATION**

Where a financial institution's business is operated electronically, computerized monitoring systems/solutions designed to recognize unusual transactions and related patterns of transactions should be put in place to recognize suspicious transactions. AML/CFT Compliance officers are required to review these systems/solutions, record exemptions and report same quarterly to the NFIU.

(ix) B 1432 SECTION 2.6.2.2.6

### **OFFSHORE TRUSTS**

Any application to open an account or undertake a transaction on behalf of another without the applicant identifying their Trust or Nominee capacity should be regarded as suspicious and should lead to further enquiries and rendition of reports to the NFIU.

(x) B 1434 SECTION 2.6.2.6.4

## **EXECUTORSHIP ACCOUNTS**

In the event that suspicions are aroused concerning the nature or origin of assets comprising an estate that is being wound up, the reports of the suspicions are to be rendered to the NFIU.

(xi) B 1435 SECTION 2.6.2.7.4

## **“CLIENT ACCOUNTS” OPENED BY PROFESSIONAL INTERMEDIARIES**

Financial institutions are required to make reasonable enquiries about transactions passing through such accounts that give cause for concern and should report any suspicious transaction to the NFIU.

(xii) B 1448 SECTION 2.8.6.3

## **LINKED TRANSACTIONS**

Where transactions are believed to be linked and money laundering is suspected, the financial institution should investigate and render returns on same together with documentary evidence to the NFIU



**CENTRAL BANK OF NIGERIA**

Financial Policy & Prudential Department  
Central Business Centre  
P.M.B. 3187  
Lagos, Nigeria

09-46237401  
Email: [complaints@cbn.gov.ng](mailto:complaints@cbn.gov.ng)

[www.cbni.gov.ng](http://www.cbni.gov.ng)

August 10, 2011

EPR/DIR/CIR/GEN/01/026

*Web Team  
Approved for  
dissemination to  
CBN website  
Jk-elt  
24/8/11*

To all Banks, Discount Houses and Other Financial Institutions

**CIRCULAR DIRECTING DEPOSIT MONEY BANKS TO EXPAND THE EXISTING ATM HELP DESK TO HANDLE ALL CONSUMER COMPLAINTS AND FOR DISCOUNT HOUSES AND ALL OTHER FINANCIAL INSTITUTIONS TO ESTABLISH A CONSUMER COMPLAINT HELP DESK**

We have observed, with concern, the significant increase in the number of complaints the Central Bank of Nigeria (CBN) receives from customers of financial institutions especially deposit money banks' customers on various banking products and services.

The complaints range from allegation of excess charges, unauthorized deductions, excess commission-on-borrower (COB), other frivolous charges, frauds etc. This situation is a clear indication of customer dissatisfaction with the quality of services offered by and the absence of proper redress mechanism within the financial institutions. To this end, it has become necessary for banks and other financial institutions to adopt appropriate and effective mechanisms to address customers' grievances (reduce the spate of customer complaints, enhance public confidence and customer satisfaction).

Banks are hereby directed to expand their existing ATM help desks established following the CBN circular REF: BOD/DIR/CIR/2009/GEN/10 dated 18<sup>th</sup> December, 2009 on consumer help desk (ATM) to handle all categories of customer complaints. In the same vein, discount houses and other financial institutions are directed to establish customer help desks to handle customer complaints. The consumer help desk should be managed by an officer not below the grade of Assistant General

Manager (AGM) and/or senior banking officer of considerable years of experience in banking at the head offices and branches respectively.

The CBN has further directed that:

- All deposit money banks, discount houses and other financial institutions to establish e-mail addresses dedicated to customers' complaints handling.
- Henceforth, customer complaints against banks, discount houses and other financial institutions **MUST FIRST** be filed with the bank or other financial institutions for resolution. A copy of the complaint should be forwarded to the Director, Financial Policy and Regulation Department of the CBN. Such complaints should be resolved within two weeks from the date of receipt.
- Any financial institution unable to resolve a customer's complaint within the 14-day time frame should forward such complaints, with evidence of action taken to resolve the complaint to the Director, Financial Policy and Regulation Department immediately after the 14-day deadline, and advise the complainant accordingly.
- All financial institutions must submit monthly returns on ALL customer complaints received (whether resolved or not) to the CBN starting 31<sup>st</sup> October, 2011. The monthly returns should be submitted (using the attached template) to the Director, Financial Policy and Regulation Department, CBN not later than five(5) days after the end of each month; and
- Financial institutions are required to report the number of complaints received during the period, number resolved, number not resolved; but referred to the CBN for intervention and total disputed amount in their approved annual reports and the published abridged financial statements.

As an alternative to filing complaints directly with deposit money banks, discount houses and other financial institutions consumer complaints can also be filed, electronically, at CBN branches or by logging onto [www.cbn.gov.ng](http://www.cbn.gov.ng).

Appropriate sanctions will be imposed on any bank, discount house or other financial institution that contravenes any of the provisions of this circular.

  
C. O. CHUKWU

AG, DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

MONTHLY RETURNS ON COMPLAINTS RECEIVED AND PROCESSED BY ... BANK PLC/ LTD

S/N	Customer/ Partner	Subject	Category***	Date Received mm/dd/yy	Status		Amount In Dispute = \$	Amount Refunded = \$
					Date Received	Unresolved		
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								

\*\*\* The category column comprises:

1. ATM Fraud
2. Other Fraud Charges
3. Dishonored Guarantees
4. Conversion of Deposits
5. Loans
6. Dishonored Checks
7. Misappropriations
8. Check Conversion
9. Securities
10. Excess Charges
11. Staff Matters
12. Unauthorized Reductions
13. Foreign Remittance Issues
14. Others

*Handwritten signature and date:*  
 A. O. O. O.  
 20/1/11



**09-46237404**

**cochukwu@cbn.gov.ng**

**June 21, 2011**

**FPR/DIR/CIR/GEN/01/016**

**CIRCULAR TO ALL BANKS, DISCOUNT HOUSES AND OTHER FINANCIAL INSTITUTIONS  
(OFIs) ON APPROVED PERSONS' REGIME**

Further to the on-going reforms in the banking system and the CBN's determination to ensure that only "fit and proper persons" are considered for appointment to top management positions in banks, discount houses and other financial institutions as well as serve as significant shareholders (5% and above), the Bank has reviewed its circular referenced BSD/DO/CIR/VOL.1/01/2001, dated January 4, 2001, which specified criteria for board and top management appointments in Nigerian banks. The circular has been replaced with the "**Assessment Criteria for Approved Person's Regime for Financial Institutions**" in Nigeria.

Details are contained in the attached guidelines, which stipulate appropriate criteria for such appointments as well as the assessment of significant shareholders for your information and necessary compliance.

The guidelines, which take immediate effect, supersede those earlier issued on the same subject.

**CHRIS O. CHUKWU**  
**DIRECTOR,**  
**FINANCIAL POLICY AND REGULATION DEPARTMENT**

# **ASSESSMENT CRITERIA FOR APPROVED PERSONS' REGIME FOR FINANCIAL INSTITUTIONS**

## **1.0 Introduction**

The CBN in its determination to ensure that only “fit and proper persons” are approved for appointment to board, top management/executive and critical operational positions in banks, discount houses and other financial institutions reviewed its circular referenced BSD/DO/CIR/VOL.1/01/2001 dated January 4, 2001 on the criteria for board and top management positions in Nigerian banks.

In the light of the above, the minimum conditions specified in these guidelines will be required (as appropriate) for candidates occupying or intending to occupy the under listed top management and board positions in Nigerian banks, discount houses and other financial institutions.

## **1.1 Objective**

The objective is to provide a broad framework for assessing a person's capacity as “fit and proper” for the position for which he is being considered.

## **1.2 Applicability**

These Guidelines supersedes our circular referenced BSD/DO/CIR/VOL.1/01/2001 dated January 4, 2001 and applies to banks (Regional, National and International), Specialized financial institutions, Discount Houses and other financial institutions.

## **2.0 CRITERIA FOR ASSESSING PROPRIETY**

Fitness tests assess the competence of candidates for Board, top management and critical operational positions and their capacity to fulfill the responsibilities of their positions while propriety tests assess their integrity and suitability.

In assessing a candidate's integrity and suitability, elements to be considered include:

Breach of Sections 19 (1)(a) and 44 of BOFIA 1991 (as amended), where such a person is or has been: of unsound mind or as a result of ill- health is incapable of

carrying out his duties; or declared bankrupt or suspends payments or compounds with his creditors including his bankers; or convicted of any offence involving dishonesty or fraud; or guilty of serious misconduct in relation to his duties; or disqualified or suspended from practicing a profession; or a director of or directly involved in the management of a bank which has been wound up by the Federal High Court; And whether: the candidate is or has been the subject of any proceedings of a disciplinary or criminal nature, or has been notified of any impending proceedings or any investigation, which might lead to such proceedings; such appointment would result in conflict of interest thus contravening the provisions of sections 19 (2) and (3) of BOFIA 1991 (as amended); the candidate, or any business in which he has controlling interest or exercises significant influence, has been investigated, disciplined, suspended or criticized by a regulatory or professional body, a court or tribunal, whether publicly or privately; the person has been the subject of any justified complaint relating to regulated activities; the person has been dismissed, asked to resign from employment or from a position of trust, fiduciary appointment or similar position because of questions about his honesty and integrity; the person has ever been disqualified under BOFIA or CAMA or any other legislation or regulation, from acting as a director or serving in a managerial capacity; the person deliberately misled (or attempts to mislead) by act or omission a client, the institution and/or the regulators; the person deliberately falsified documents to mislead a client, the institution and/or regulators; the person has deliberately failed to inform the client, institution and/or regulator, without reasonable cause, of the fact that their understanding of a material issue is incorrect, despite being aware of their misunderstanding; the person had deliberately failed to disclose the existence of falsified documents; the person has deliberately prepared inaccurate or inappropriate records or returns.

### **3.0 Criteria for Assessing Fitness (Competence and Capability)**

To assess competence of candidates for Board and top management positions, their capacity to fulfill the responsibilities of their positions and their ability to understand the technical requirements of the business, the CBN shall take into account all relevant considerations, including but not limited to factors listed against each of the positions.

Performance on the job is an integral part of this assessment, thus candidates shall be subjected to a continuous fitness and propriety test every 2 years or any other period as may be specified by the CBN.



### **3.1 General Guidelines for all Financial Institutions**

Candidates will be expected to meet the following general guidelines: complete an “Approved Persons Regime” questionnaire to be administered by the CBN; provide a satisfactory status report from the last place of work, court (records), security agencies, CBN and other regulatory agencies in the financial services sector; satisfy the CBN that he/she is able to meet personal financial obligations/commitments on a continuous basis and demonstrate satisfactory discharge of fiduciary responsibilities; and provide three reference letters, two of which must be from the last place of work, in the last five years and from persons not below the rank of a director.

### **3.2 Fitness Requirements for Banks and Discount Houses**

The fitness requirements for appointment of candidates to the under-listed Board and top management positions in banks and discount houses are as stated below:

#### **3.2 A Managing Director/Deputy Managing Director/Executive Director**

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

A minimum of fifteen (15) years post qualification experience out of which, at least, ten (10) must be in management and leadership positions; and

The bank must provide evidence that the candidates possess proven skills and competences.

#### **3.2 B General Manager/Deputy General Manager/Assistant General Manager**

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

A minimum of ten (10) years post qualification experience out of which, at least, seven (7) must have been in the relevant areas of job role;

The bank must provide evidence that the candidates possess proven skills and competencies in their field.

### 3.2 C Non-Executive Directors

Without prejudice to the provisions of the Code of Corporate Governance, candidates must possess:

A first degree or its equivalent in any discipline;

Proven skills and competencies in their fields;

Knowledge of the operations of banks/discount houses and relevant laws and regulations guiding the financial services industry;

Ability to make meaningful contributions to board deliberations.; and

All the conditions stipulated in the propriety principles shall apply;

Non-Executive Directors shall, in addition, be required to:

Undergo directors' training at the institution's expense, aimed at acquiring or having the prerequisite knowledge of their responsibilities and duties as non-executive directors;

Provide three reference letters from individuals of reputable standing in the country.

In considering nominees with limited industry experience, the CBN shall take into account the following:

- i. The size, scope and complexity of the institution;
- ii. The relevant experience and qualifications of other Board members;
- iii. The existence and number of Independent Directors on the Board;
- iv. An assurance that the proposed director(s) would be exposed to accelerated training over a short period of time;
- v. Assignment of responsibilities commensurate with their experiences.

Notwithstanding the requirements stated above, the CBN may at its discretion, consider and approve the appointments of candidates under special circumstances.

### **3.2 D Company Secretary/Chief Legal Officer**

For Company Secretary, candidate must possess a minimum of first degree in any discipline in addition to membership of any one of Chartered Institute of Secretaries and Administrators (CISA), Institute of Chartered Accountants of Nigeria (ICAN) or any other body statutorily recognized for this purpose.

For Chief Legal Officer or a combination of both, candidates must possess a minimum of first degree in law (BL) from a recognized university and membership of the Nigerian Bar Association (NBA).

In addition, candidates for the above positions shall possess;  
Knowledge of the rules, regulations and practices of banking ; and  
Knowledge of alternative dispute resolution mechanism.

The CBN may also exercise regulatory interest in the following positions in banks and discount houses and issue regulations at the appropriate time.

Currency traders;

Heads of products development;

Head, customer service;

Investment advisers;

Mortgage advisers.

## **4.0 FITNESS REQUIREMENTS FOR OTHER FINANCIAL INSTITUTIONS (OFIs)**

The fitness requirements for appointment of the under-listed Board and top management positions in other financial institutions are as stated below:

### **4.1 A Managing Director/Executive Director**

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

For Primary Mortgage Institutions, a minimum of 10 years postqualification experience out of which, at least, 5 must have been in financial services industry and at least, 3 at the senior management level;

For Finance Companies and Micro-Finance Banks, a minimum of 8 years post-qualification experience out of which, at least, 5 must have been in financial services industry and at least, 3 at the senior management level;

The institution must provide evidence that the candidates possess proven skills and competences.

#### **4.1 B Top Management (Departmental Heads)**

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

A minimum of 5 years post-qualification experience out of which, at least, 4 must have been in financial services industry and at least, 2 at the senior management level.

#### **4.1 C Non-Executive Directors**

Without prejudice to the provisions of the Code of Corporate Governance, candidates must possess:

A first degree or its equivalent in any discipline;

A minimum of 5 years post qualification experience;

Proven skills and competencies in their fields;

Knowledge of the operations of the financial institution and relevant laws and regulations guiding the financial industry;

Ability to make meaningful contributions to board deliberations; and

All the conditions stipulated in the propriety principles shall apply.

Non-Executive Directors shall, in addition, be required to:

Undergo directors' training at the institution's expense; aimed at acquiring or having the prerequisite knowledge of their responsibilities and duties as the institution's non-executive directors;

Provide three reference letters from individuals of reputable standing in the country.

Notwithstanding the requirements stated above, the CBN may at its discretion, consider and approve the appointments of candidates under special circumstances.

## **5.0 SIGNIFICANT SHAREHOLDERS FOR ALL FINANCIAL INSTITUTIONS**

Any investor with significant shareholding of 5% and above in any

Financial Institution in Nigeria shall:

be of good character, honest, reputable and reliable;

have financial resources sufficient to meet commitments on a continuing basis;

be able to meet and has been meeting outstanding obligations as they become due;

ensure adequate control of financial risks on a continuing basis;

certify that the funds used in the acquisition of the shares were not borrowed from within the banking system or are the proceeds from money laundering and/or any criminal activity;

not have been indicted in the failure or mismanagement of any financial institution;

fulfill all the conditions stipulated in the propriety principles;

attend an oral interview with the CBN;

complete an "Approved Persons Regime" questionnaire to be administered by the CBN;

provide three reference letters from individuals of reputable standing in the country;

The CBN at its discretion may use any available information in addition to those provided by financial institutions and/or candidates, to assess the fitness or propriety of a person.



## **GUIDELINES FOR THE REGULATION AND SUPERVISION OF INSTITUTIONS OFFERING NON-INTEREST FINANCIAL SERVICES IN NIGERIA**

### **1.0 Preamble**

#### **WHEREAS:**

The Central Bank of Nigeria, (CBN) New Banking Model authorizes the establishment of the following banking structures as defined under the Banks and Other Financial Institutions Act (BOFIA) 1991 as amended:

- (i) Commercial Banks;
- (ii) Merchant Banks; and
- (iii) Specialised Banks.

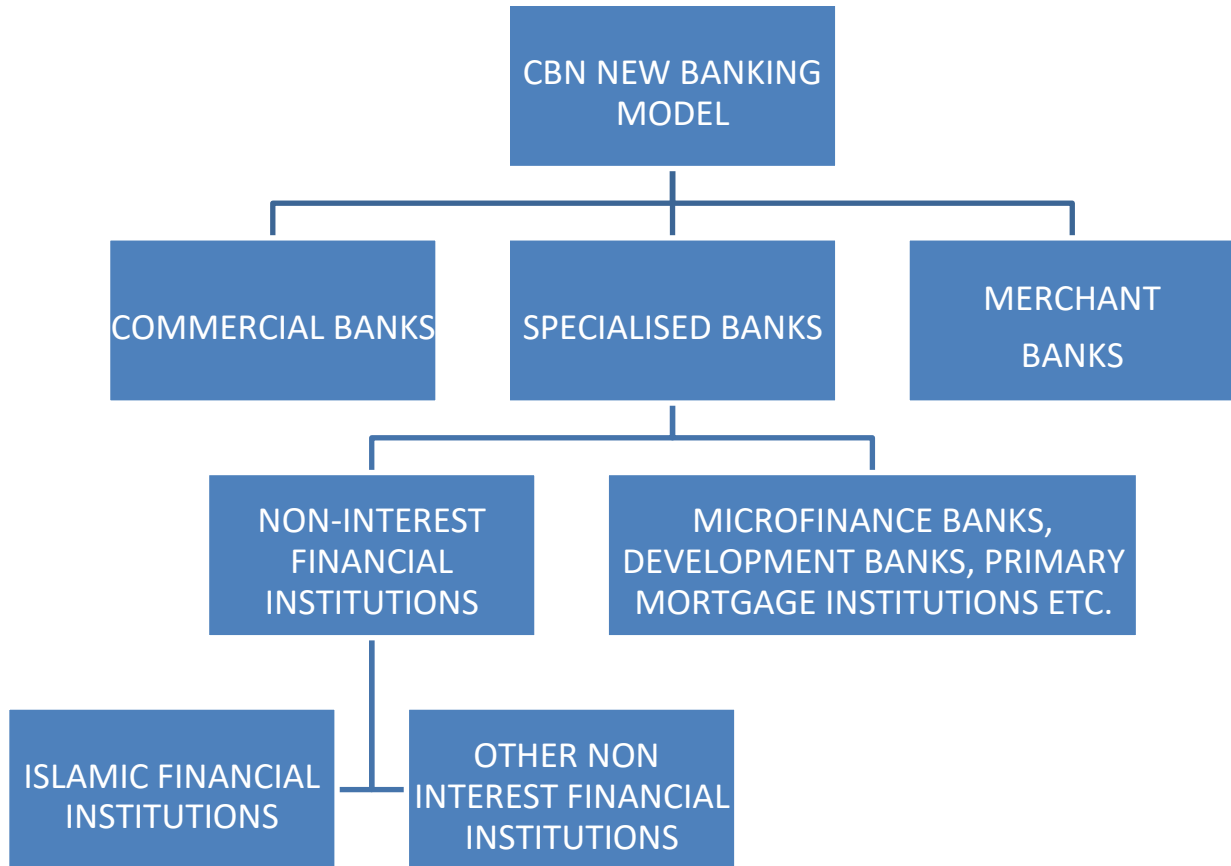
Specialised Banks include non-interest banks, microfinance banks, development banks, mortgage banks and such other banks as may be designated by the CBN from time to time.

Guidelines for some of the specialized financial institutions, e.g., microfinance banks primary mortgage institutions and finance companies have been issued under a separate cover. Guidelines for other categories of non-interest banking will be issued upon request which shall be consistent with international best practice.

The emphasis of this guideline is on Non-Interest Financial Institutions operating under the principles of Islamic Commercial Jurisprudence, one of the categories of Non-Interest Financial Institutions (NIFI). In addition, other guidelines in the conduct of banking under the principles of Islamic commercial jurisprudence, e.g., operational, corporate governance, product compliance, risk management and capital adequacy, etc. will be issued in due course.

NIFI means a bank or Other Financial Institution (OFI) under the purview of the Central Bank of Nigeria (CBN), which transacts banking business, engages in trading, investment and commercial activities as well as the provision of financial products and services in accordance with any established non-interest banking principles.

Non-interest banking and finance models are broadly categorized into two:



1. Non-interest banking and finance based on Islamic commercial jurisprudence;
2. Non-interest banking and finance based on any other established non-interest principle.

Islamic banking as one of the models of non-interest banking, serves the same purpose of providing financial services as do conventional financial institutions save that it operates in accordance with principles and rules of Islamic commercial jurisprudence that generally recognizes profit and loss sharing and the prohibition of interest, as a model.

Other non- permissible transactions include those involving any of the following:

- uncertainty or ambiguity relating to the subject matter, terms or conditions;
- gambling;
- speculation;
- unjust enrichment;
- exploitation/unfair trade practices;
- dealings in pork, alcohol, arms & ammunition, pornography and;
- other transactions, products, goods or services which are not compliant with the rules and principles of Islamic commercial jurisprudence.

Given the increasing number of requests from persons, banks and other financial institutions desiring to offer non-interest banking products and services based on Islamic commercial jurisprudence in Nigeria, the CBN has developed these guidelines for the regulation and supervision of institutions offering Islamic financial services (IIFS) referred to in this guideline.

All non-interest financial institutions under this model are required to comply with these and any other guidelines that may be issued by the CBN from time to time.

The reference to IIFS for the purpose of these guidelines means:

- i. Full-fledged Islamic bank or full-fledged Islamic banking subsidiary of a conventional bank;
- ii. Full-fledged Islamic merchant or full-fledged Islamic banking subsidiary of a conventional merchant bank;
- iii. Full-fledged Islamic microfinance bank;
- iv. Islamic branch or window of a conventional bank;
- v. Islamic subsidiary, branch or window of a non-bank financial institution;
- vi. A development bank regulated by the CBN offering Islamic financial services;
- vii. A primary mortgage institution licensed by the CBN to offer Islamic financial services either full-fledged or as a subsidiary; and
- viii. A finance company licensed by the CBN to provide financial services, either fullfledged or as a subsidiary.

## **2.0 Objective**

2.1 The objective of these guidelines is to provide minimum standards for the operation of IIFS in Nigeria.

1.2 Accordingly, these guidelines are applicable to IIFS only and do not seek to regulate other non-interest financial institutions which may be established from time to time.

## **3.0 Legal Framework**

### **3.1 Legal Basis**

These guidelines are issued pursuant to the Non-Interest banking regime under Section 33 (1) (b) of the CBN Act 2007; Sections 23(1) 52;



55(2); 59(1)(a); 61 of Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended) and

Section 4(1)(c) of the Regulation on the Scope of Banking Activities and Ancillary Matters, No. 3, 2010. It shall be read together with the provisions of other relevant sections of BOFIA 1991 (as amended), the CBN Act 2007, Companies and Allied Matters Act (CAMA) 1990 (as amended) and circulars/guidelines issued by the CBN from time to time.

### 3.2 Corporate Powers

A non-interest financial institution under this model shall ensure that its Memorandum and Articles of Association (MEMART) state that its business operations will be conducted in accordance with the principles and practices of Islamic commercial jurisprudence.

## 4.0 Licensing Requirements

A non-interest financial institution under this model shall be licensed in accordance with the requirements issued by the CBN from time to time.

- 4.1 Applications for the grant of license shall be accompanied by evidence of a technical agreement executed by the promoters of the proposed institution with an established and reputable Islamic bank or financial institution. The agreement shall explicitly specify the role of the two parties and shall subsist for a period of not less than 3 years from the date of commencement of operations of the licensed IIFS.
- 4.2 A license to undertake Islamic banking business operations may be issued by the CBN upon such terms and conditions which authorize the operation of a non-interest financial institution on a regional or national basis for banks, or any other basis for other financial institutions.
- 4.3 An IIFS with regional banking authorization shall be entitled to carry on its banking business operations within a minimum of six (6) and a maximum of twelve (12) contiguous States of the Federation, lying within not more than two (2) Geo-Political Zones, as well as within the Federal Capital Territory (FCT).
- 4.4 An IIFS with national banking authorization shall be entitled to carry on banking business operations within every State of the Federation including the Federal Capital Territory (FCT), Abuja.

- 4.5 The detailed licensing requirements can be obtained directly from the Financial Policy and Regulation Department (FPRD), Central Bank of Nigeria, Abuja or downloaded at [www.cbn.gov.ng](http://www.cbn.gov.ng).

## **5.0 Financing Modes and Instruments**

IIFS shall transact business using only financing modes or instruments that are compliant with the principles under this model and approved by the CBN.

## **6.0 Commissions and Fees**

- 6.1 An IIFS may charge such commissions or fees as may be necessary in accordance with the principles under this model and the Guide to Bank Charges.
- 6.2 The funds received as commissions and fees shall constitute the bank's income and shall not be shared with depositors.

## **7.0 Establishment And Operation Of An Islamic Subsidiary, Window or Branch of a Conventional Bank**

- 7.1 Conventional banks and other financial institutions operating in Nigeria may offer or sell products and services in line with the principles under this model through subsidiaries, windows or branches only.
- 7.2 An Islamic subsidiary of a conventional bank or financial institution shall be established in line with the licensing requirements for the establishment of a full fledged non-interest financial institution.
- 7.3 Similarly, an Islamic window or branch of a conventional bank or financial institution shall be established and operated in line with the guidelines on windows/branches issued by the CBN.
- 7.4 **Cross-Selling of Products/Services and Shared Facilities**  
The Islamic subsidiaries, windows or branches may operate using the existing facilities or branch network of the conventional bank. The subsidiary, window or branch shall however, not sell products/services that do not comply with the principles under this model.
- 7.5 **Execution of Service Level Agreements in Respect of Shared Services**  
Conventional banks or other financial institutions with Islamic subsidiaries, branches or windows shall execute Service Level

Agreements (SLA) in respect of shared services with their subsidiaries, branches or windows.

#### **7.6 Intra-Group Transactions and Exposures**

All transactions and exposures between an Islamic subsidiary, window or branch of a financial institution and the parent shall be in accordance with the principles and practices under this model.

### **8.0 Corporate Governance**

8.1 All licensed IIFS shall be subject to:

- Guidelines on corporate governance for non-interest financial institutions issued by the CBN;
- The provisions of the Code of Corporate Governance for Banks in Nigeria issued by the CBN and any subsequent amendments thereto; and
- All relevant provisions of BOFIA 1991 (as amended) and CAMA 1990 (as amended).

8.2 All licensed IIFS shall have an internal review mechanism that ensures compliance with the principles under this model. They shall also have an Advisory Committee of Experts (ACE) as part of their governance structure. The detailed guidelines for the appointment, operation, qualification, duties and responsibilities of member of the ACE are contained in separate guidelines to be issued by the CBN.

### **9.0 Cbn Advisory Council of Experts**

9.1 There shall be an advisory body to be called CBN Advisory Council of Experts to advise the CBN on matters relating to the effective regulation and supervision of IIFS in Nigeria. The qualification, duties, responsibilities etc of members of the Council are contained in guidelines to be issued by the CBN.

### **10.0 Conduct of Business Standards**

#### **10.1 Branding**

In line with the provisions of Section 39 (1) of BOFIA 1991 (as amended), the registered or licensed name of an IIFS shall not include the word "Islamic" , except with the consent of the Governor of the

CBN. IIFS shall, however, be recognized by a uniform symbol designed by the CBN. All the signages and promotional materials of IIFS shall bear this symbol to facilitate recognition by customers and the general public.

## **10.2 Approval of Contracts, Products and Services**

All contracts, products and services offered or proposed to be offered by IIFS shall be reviewed and approved by each institution's ACE. The introduction of new products/services shall require the prior written approval of the CBN.

## **10.3 Product Literature**

An IIFS shall state in its product literature/marketing materials the ACE (indicating names of all the members) that certified the product or services being offered.

## **11.0 Profit Sharing Investment Accounts**

- 11.1 An IIFS shall ensure that relevant disclosures are made to Profit Sharing Investment Accounts (PSIA) holders in a timely and effective manner and also ensure the proper implementation of investment contracts.
- 11.2 An IIFS shall inform its prospective PSIA client(s) operating under profitsharing, loss-bearing contracts, in writing that the risk of loss rests with the client(s) and that the institution will not share in the loss unless there is proven negligence or misconduct for which the institution is responsible.
- 11.3 IIFS with PSIAs may maintain a Profit Equalization Reserve (PER) which would serve as an income smoothing mechanism and risk mitigation tool to hedge against volatility of returns to investment account holders. They may also maintain an Investment Risk Reserve (IRR) to cushion against future losses for PSIA holders.
- 11.4 The basis for computing the amounts to be appropriated to the PER and IRR should be pre-defined and disclosed.

## **12.0 Audit, Accounting and Disclosure Requirements**

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

- Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI);
- Islamic Financial Services Board (IFSB); and
- Nigerian Accounting Standards Board (NASB).

12.1 All IIFS shall comply with the requirements of section 29 of BOFIA 1991 (as amended) and applicable guidelines/directives issued by the CBN as well as the relevant provisions of CAMA 1990 (as amended) regarding the appointment, re-appointment, resignation, rotation, change and removal of auditors.

12.2 All IIFS shall comply with the Generally Accepted Accounting Principles (GAAP) codified in local standards issued by the NASB and the International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS). For transactions, products and activities not covered by these standards, the relevant provisions of the financial accounting and auditing standards issued by the AAOIFI shall apply.

12.3 Where there is a conflict between the local and international standards, the provisions of the local standard(s) issued by NASB shall apply to the extent of the inconsistency. All IIFS shall have an internal review and audit mechanism to examine and evaluate on periodic basis the extent of compliance with the rules and principles pertinent to this model.

## **13.0 Prudential Requirements**

### **13.1 Minimum Capital Adequacy Ratio**

All IIFS shall maintain a minimum Capital Adequacy Ratio (CAR) as may be prescribed by the CBN from time to time.

The minimum Capital Adequacy Ratio (CAR) for IIFS shall be consistent with the prevailing CAR as may be prescribed for conventional banks and financial institutions by the CBN from time to time.

## **13.2 Liquidity Management**

13.2.1 All IIFS are required to put in place appropriate policies, strategies and procedures which ensure that they maintain adequate liquidity at all times to fund their operations.

13.2.2 IIFS shall not invest their funds in interest-bearing securities or activities. They are required to invest their funds in eligible instruments for the purpose of meeting the CBN prescribed minimum liquidity ratio. Liquid assets shall be held in line with the provision of section 15 of BOFIA 1991 (as amended), provided they comply with the principles under this model.

### **13.3 Other Prudential Requirements**

All IIFS are expected to comply with other prudential requirements on exposure and concentration limits as may be prescribed by the CBN from time to time and standards of best practices.

## **14.0 Risk Management**

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

- i. CBN Prudential Guidelines;
- ii. Risk Management Guidelines issued by the Basel Committee on Banking Supervision; and
- iii. IFSB Guiding Principles of Risk Management for Institutions Offering Only Islamic Financial Services.

## **15.0 Anti-Money Laundering and Combating of the Financing of Terrorism (Aml/Cft)**

**15.1** All IIFS and their promoters are required to screen shareholders, customers, counterparties, transactions, products and activities

against the proceeds of crime, corruption, terrorist financing and other illicit activities using legal and moral filters.

- 15.2** All IIFS are required to have effective AML/CFT policies and procedures and comply with relevant statutes and guidelines for combating money laundering and the financing of terrorism issued by the CBN and other relevant agencies.

## **16.0 General**

- 16.1** Consistent with the CBN objective of promoting financial inclusion in Nigeria, no IIFS shall engage in act(s) or practice(s) that appear inimical to the achievement of this overall objective as well as the integrity, credibility and long term interest and sustainability of the Islamic financial services sub sector.
- 16.2** Discrimination on grounds of faith or ethnicity or any other grounds in the participation by individuals or institutions as promoters, shareholders, depositors, employees, customers or other relevant parties in any transaction regarding a non-interest financial institution, whether based on Islamic or other model, is strictly prohibited.
- 16.3** In line with extant banking laws, the CBN shall provide level playing field for all categories of financial institutions under its regulatory purview without discrimination or special favors.

## Glossary of Terms

In this guidelines, unless the context requires, the terms below shall have the following meanings:

<b>S/N</b>	<b>TERM</b>	<b>MEANING</b>
1.	Profit Equalisation Reserve	An amount appropriated by a NIFI out of the gross income of the profit sharing investment before allocating the entrepreneur's share in order to maintain a certain level of return on investment for the investment account holders and to increase
2.	Investment Risk Reserve	An amount appropriated by a NIFI in a profit sharing investment activity out of investment account holder's income, after allocating the entrepreneur's share, in order to cushion against future investment losses for the investment account holders.
3.	Displaced Commercial Risk	This is the risk that arises when a non-interest bank is under commercial pressure to pay its investors-depositors a rate of return higher than what should be payable under the "actual" terms of the investment contract. This can occur when a non-interest bank under-performs during a period and is unable to generate adequate profits for distribution of the account holders.
4.	Fiduciary Risk	This is the risk that arises from an institution's failure to perform in accordance with explicit and implicit standards applicable to its fiduciary responsibilities, which could lead to legal risks.
5.	Transparency Risk	This is the risk of incurring loss due to bad decisions based on incomplete or inaccurate information or lack of transparency.
6.	Reputational Risk	This is the risk that the irresponsible actions or behaviour of the management of a non-interest



		financial institution will damage the trust of the institution's clients.
7.	Equity Investment Risk	The risk arising from entering into a partnership for the purpose of undertaking or participating in a particular financing or general business activity as described in the contract and in which the provider of finance shares in the business risk.
8.	Rate of Return Risk	This is the risk associated with the potential impact of market factors affecting rates of return on assets in comparison with the expected rates of return for investment account holders (IAHs).
9.	Non-interest Window	A non-interest window is defined as a dedicated unit of a Conventional bank or other financial institution that provides fund management (investment accounts), financing, and investment and other banking services that are compliant with the principles under this model.



**CENTRAL BANK OF NIGERIA**  
Financial Policy & Regulation Department,  
Central Business District,  
P.M.B. 0187  
Garki, Abuja.

Tel:.....09-462-37401  
09-462-37411

E-mail:.....

Website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

May 26, 2011

FPR/DIR/CIR/GEN/01/015

**CIRCULAR TO ALL BANKS IN NIGERIA.**

**RE: ESTABLISHMENT OF AGRICULTURAL FINANCE DEPARTMENTS/ UNITS /DESKS IN HEAD OFFICES/ZONAL/REGIONAL AND DESKS BY DEPOSIT MONEY BANKS (DMBs)**

All Deposit Money Banks are hereby required to establish Agricultural Finance Department/ Units /Desks in their Head/Zonal/Regional offices and branches to facilitate lending to Agricultural value chain in Nigeria.

**1.0 DEPOSIT MONEY BANKS ARE REQUIRED TO IMPLEMENT THE FOLLOWING INITIAIVES WITHIN SIX (6) MONTHS:**

- 1.1 Establish Agricultural Finance Departments/Units/Desks in their Head Offices, Regional and Branch Offices.
- 1.2 Appoint qualified agricultural graduates and other professionals with relevant experience in Agriculture to handle all agricultural lending activities.
- 1.3 Develop sound financial delivery system that would serve the needs of farmers and the sector at large.
- 1.4 Lend to the entire agricultural value chain (Agric input supply, Production, Storage, Processing, Marketing and other areas of agric development);
- 1.5 Provide advisory services to their target clientele; and
- 1.6 Establish reliable data base on agricultural finance for use in planning by government and the private sector.

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## **2.0 FUNCTIONS OF THE DEPARTMENT/ REGIONAL OFFICES AND DESKS**

- 2.1 The Agricultural Finance Department in the Head Office Shall have two Units. These are (i) Business Plan Unit; and (ii) Development and Advisory Unit.
  - (i) Business Plan Unit shall:**
    - 2.1.1 Assist farmers to fit into the agricultural value chain.
    - 2.1.2 Give policy direction on agricultural lending processes and Procedures.
    - 2.1.3 Maintain the data base of all agricultural lending activities.
  - (ii) Development and Advisory Unit shall:**
    - 2.1.4 Assess credit risks and develop markets.
    - 2.1.5 Develop need-based products targeted at agricultural value chain financing.
    - 2.1.6 Develop Business plan for the operations of the Department.
    - 2.1.7 Determine capacity building requirements of all agricultural personnel/Desk Officers.
    - 2.1.8 Develop reporting lines that are in consonance with the bank's structure.
- 2.2 **Agricultural Regional/Zonal Offices:**
  - 2.2.1 Monitor and supervise the performance of field Officers.
  - 2.2.2 Identify bank customers.
  - 2.2.3 Provide technical/advisory services to the bank's clients on Agricultural lending.
  - 2.2.4 Liaise with Government/private sector organizations and other relevant agencies connected with agricultural development.
- 2.3 **Agric Desks at the Branch Offices:**
  - 2.3.1 Identify loan beneficiaries.
  - 2.3.2 Ensure proper loan documentation.
  - 2.3.3 Receive and carry out appraisal of loan applications.
  - 2.3.4 Recommend applications for approval (after pre-sanction visit to the borrower's farm/business).
  - 2.3.5 Disburse loans, re-structure and monitor Agric financed projects.
  - 2.3.6 Undertake loan recovery visits and manage loan delinquency.
  - 2.3.7 Provide technical advice to borrowers.

### 3.0 MANNING LEVELS

- 3.1 The Department shall be headed by a **General Manager or Deputy General Manager** with Post graduate Degree in Agricultural Sciences, Specializing in Agric Economics, having at least 10 years exposure in handling Agricultural Credit/ Development Credit portfolios covering the real sector. Relevant experience in product development, investment banking, risk management and project financing should be an advantage.
- 3.2 The Units shall be headed by an **Assistant General Manager or Principal Manager or Senior Manager**, a graduate of Agricultural Science, with relevant experience in management and supervision of field staff, risk and investment analysis in agriculture and products development.
- 3.3 The Agricultural Desks shall be headed by **middle level Managers** with relevant qualifications in agriculture and cognate experience in investment/risk management.

### 4.0 RENDITION OF RETURNS

- 4.1 Each Deposit Money Bank shall render returns on its Agricultural business portfolio to the Development Finance Department, Central Bank of Nigeria, Abuja, on quarterly, half yearly and annual basis, on forms that would be provided by the CBN.
- 4.2 Failure to render such returns shall attract sanctions from the CBN.

### 5.0 TAKE OFF DATE:

- 5.1 This circular takes immediate effect while Deposit Money Banks are required to establish Agricultural Departments/Regional/Desks Offices within a period of six months from the date of the circular.

  
**SOLA AWOYUNGBO**  
For: **DIRECTOR, FINANCIAL POLICY & REGULATION DEPARTMENT**

# Central Bank of Nigeria

Website: [www.cenbank.org](http://www.cenbank.org)  
Email: [info@cenabnk.org](mailto:info@cenabnk.org)



09 -46237401, 09-46237404

**FPR/DIR/CIR/GEN/01/014**

**March 3, 2011**

## **CIRCULAR TO ALL DEPOSIT MONEY BANKS IN NIGERIA**

### **MODIFICATIONS TO THE CASH RESERVE REQUIREMENT FRAMEWORK**

All Deposit Money Banks are hereby notified that the framework for the computation and maintenance of Cash Reserve Requirement (CRR) has been modified as follows:

#### **1.0 Reserve Averaging**

- 1.1.** At the beginning of each maintenance period, banks will be advised of their CRR, based on a simple average of banks' daily deposit liabilities (less domiciliary account balances) of the computational period and the applicable ratio announced by the CBN.
- 1.2.** A bank will have complied with the CRR if its daily average balances in its operating accounts at the CBN (currently RTGS and T24 accounts) throughout the maintenance period, are equal to, or greater than the CRR as computed by the CBN.

#### **2.0 Length and timing of the computational and maintenance periods**

- 2.1** The computational and the maintenance periods for the CRR are increased from two weeks, to four or five weeks, depending upon the expected timing of key Government transactions.
- 2.2** The computational and maintenance periods will start on a Wednesday and finish on a Tuesday (holidays permitting) and will be announced at least two periods in advance by the CBN.
- 2.3** A maintenance period is lagged immediately by one period to the computational period.

**2.4** A maintenance period will be for the same period as the computational period upon which the CRR is calculated for the subsequent maintenance period.

### **3.0 Remuneration of the CRR and Penalties for non-compliance**

**3.1** No remuneration will be paid on the CRR but the CBN may from time to time, consistent with its monetary policy stance, remunerate the balances held by banks in excess of the CRR.

**3.2** A bank that has not maintained the required average balance in its operational accounts over the maintenance period will be considered non-compliant with the CRR and will incur a penalty.

**3.3** The penalty will be calculated by multiplying the average daily deficit by the penalty interest rate by the number of days in the maintenance period divided by 365.

**3.4** Where a bank has complied with its CRR in the three immediate prior maintenance periods, the penalty interest rate will be two and a half times the rate applicable on the Standing Lending Facility (SLF), otherwise it will be five times the rate applicable on the SLF.

**3.5** Penalties, when applicable, will be automatically charged by the CBN against a bank's operational account at the CBN not later than three days after the end of the maintenance period.

**3.6** The CBN would consider other penalties, monetary or otherwise, in circumstances where a bank repeatedly, is in non-compliance with the CRR.

### **4.0 Implementation and transitional arrangements**

**4.1** The first maintenance period of the new framework will be from Wednesday March 9, 2011 to Tuesday April 5, 2011.

**1.2** The CRR for the first maintenance period will be calculated for the period 28 days immediately prior to the first maintenance period; Wednesday February 9, 2011 to Tuesday March 8, 2011.

**4.3** On Wednesday March 9, 2011 (the first day of the new framework), balances in banks' CRR accounts will be transferred to their T24 accounts, and the CRR accounts will be immediately closed.

**O. Chukwu,**

**AG. DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT**



# **GUIDELINES ON SHARIAH GOVERNANCE FOR NON-INTEREST FINANCIAL INSTITUTIONS IN NIGERIA**

## **1. Introduction**

Compliance with Shariah principles is a critical element of non interest banking and finance. A shariah review and advisory framework is imperative in ensuring such compliance. An effective Shariah framework will harmonise the Shariah interpretations, strengthen the regulatory and supervisory oversight of the industry and nurture a pool of competent Shariah advisers.

Consequently, all non-interest banks and other financial institutions under the purview of the Central Bank of Nigeria (CBN), herein designated as Non-Interest Financial Institutions (NIFIs) in Nigeria are required to establish a Shariah advisory body as part of their governance structure to be known as “Shariah Advisory Committee” (SAC).

In recognition of the foregoing, the CBN has developed the following guidelines for the appointment, duties and responsibilities of the Shariah advisory committees of NIFIs.

To effectively play its role, the SAC shall operate as an independent body, with the principles of competence, confidentiality and consistency properly enshrined in its operations. It is expected that an independent SAC will command public confidence, thereby promoting the growth and development of the industry.

## **Objectives**

These Guidelines aim to:

set out the rules, regulations and procedures in the establishment of a Shariah Advisory Committee of a NIFI; define the role, scope of duties and responsibilities of the Committee and its members; outline the functions relating to Shariah review and audit processes; and define relationship and working arrangement between the Committee and the CBN Shariah Council (CSC).

## **Scope of Application**

These Guidelines shall be applicable to all licensed NIFIs. The reference to NIFIs for the purpose of these Guidelines means:

Full- fledged non-interest deposit money bank or subsidiary;

Full-fledged non-interest microfinance bank or subsidiary;

A non-interest branch or window of a conventional bank or financial institution. iv. A development finance institution registered with the CBN to offer non-interest financial services, either full-fledged, or as a subsidiary;

A primary mortgage institution registered with the CBN to offer non-interest financial services either full-fledged, or as a subsidiary; and

A finance company registered with the CBN to provide non-interest financial services, either full-fledged, or as a subsidiary.

### **Establishment of Shariah Advisory Committee (Sac)**

All licensed NIFIs shall establish a Shariah Advisory Committee (SAC) to be approved by the CBN.

### **Membership of Sac**

#### **Appointment**

The Board of Directors of a NIFI shall appoint members of the SAC subject to the approval of the CBN. The appointment shall be for a renewable term of four years subject to a maximum of three terms.

#### **Qualification**

A member of the SAC shall be an individual and not a company, institution or body;

The proposed member of the SAC shall at a minimum, have an academic qualification or possess necessary knowledge, expertise or experience in the sciences of the Shariah with particular specialisation in the field of Islamic Transactions/Commercial Jurisprudence (Fiqh al Mua'amalat); and It is highly desirable for the member to have: skills in the philosophy of Islamic Law (Usul al Fiqh), good knowledge of written Arabic, ability to speak in both Arabic and English, and exposure in the areas of business or finance especially Islamic Finance.

#### **Composition**

For the effective functioning of the SAC, its composition shall consist of a minimum of three (3) members.



The SAC may engage the services of consultants who have expertise in the field of business, economics, law, accounting or any other field that will assist it in making informed judgement on the Shariah compliance of banking and financial products and services. Such consultants may attend meetings of the SAC but shall not take part or exercise voting rights in giving a Shariah legal opinion or verdict by the SAC.

### **Application Procedures**

The application for the appointment or reappointment of members of the SAC shall be submitted to the CBN in writing. The application shall be accompanied by detailed Curriculum Vitae of the nominee and a resolution of the board of directors of the NIFI approving the appointment.

### **Disqualification**

The members of the Shariah committee shall be persons of acceptable reputation, character and integrity. The CBN reserves the right to disqualify any member who fails to meet the requirements.

No person shall be appointed or remain a member of a SAC who:-

- i is of unsound mind or as a result of ill-health is incapable of carrying out his/her duties; or
- ii is declared bankrupt or suspends payments or compounds with his/her creditors
- iii including his/her bankers; or
- iv is convicted of any offence involving dishonesty or fraud; or
- v is guilty of serious misconduct in relation to his/her duties; or
- vi fails to attend 75% of the meetings of the SAC in a year without satisfactory excuse.
- vii in the case of a person possessed of professional qualification, is disqualified or suspended (except on his own request) from practicing his profession in Nigeria by the order of any competent authority made in respect of the person personally.

No person who has been a member of a SAC, director of or directly concerned in the management of a NIFI which failed or was wound up by the Federal High Court shall, without the express authority of the CBN act or continue to act as a SAC member of any other NIFI.

Any person whose appointment with a NIFI has been terminated or who has been dismissed for reason of gross misconduct, fraud, dishonesty or conviction for an offence involving dishonesty or fraud shall not be appointed by any other NIFI in Nigeria.

Where a member of a SAC becomes unfit to hold such appointment as provided in these Guidelines and/or in the letter of approval from the CBN, the NIFI shall terminate the appointment of the SAC member.

### **Resignation, Termination and Dismissal**

A NIFI shall notify the CBN of any resignation, termination of appointment or dismissal of a member of the SAC. The notice shall state the reason(s) for such resignation/termination or dismissal.

## **6. Restrictions on Sac Membership**

The following restrictions shall apply in respect of the membership of a SAC:

- i. No one individual shall belong to more than one SAC of financial institutions belonging to the same category.
- ii. A member of the CBN Shariah Advisory Council (CSC) shall not be a member of a Shariah advisory committee in a bank or financial institution under the regulatory purview of the CBN.
- iv. A member of the SAC shall not be a member of the board of directors of the institution.
- v. No member of the SAC of a NIFI shall be a director or executive management staff, or significant shareholder of the NIFI.

## **7.0 Duties and Responsibilities of the Sac**

### **7.1 It shall be the duty and responsibility of the SAC to:**

- i. be responsible and accountable for all Shariah decisions, opinions and views provided by them.
- ii. advise the NIFI's board and management on Shariah matters so as to ensure the institution's compliance with Shariah principles at all times.
- iii. review and endorse Shariah related policies and guidelines. This shall include a periodic review of products and services to ensure that operational activities and transactions of the institution are made in accordance with the principles of the Shariah.
- iv. endorse and validate relevant documents for new products and services to ensure that they comply with the Shariah. These include:
  - v. terms and conditions contained in forms, contracts, agreements or other legal documentation used in executing the transactions; and
  - vi. the product manual, marketing materials, sales illustrations and brochures used to describe the product or service.
- vii. ensure that the necessary ex-post considerations are observed after the product offering stage, namely the internal Shariah review processes and Shariah compliance reporting. This is in order to monitor the NIFI's consistency in Shariah compliance and effectively manage Shariah compliance risk that may arise over time.
- viii. assist or advise related parties to the NIFI, such as its legal counsel, auditors or other consultants on Shariah matters upon request.
- ix. provide written Shariah opinion to the NIFI in respect of new products and other issues referred to it.
- x. provide support to the NIFI in respect of questions or queries that may be raised regarding the Shariah compliance of its products.
- xi. issue recommendations on how the NIFI could best fulfill its social role as well as promote non-interest banking and finance.

- xii. provide checks and balances to ensure compliance with Shariah principles.
- xiii. assist the internal audit of the NIFI on Shariah compliance audit.
- xiv. carry out any other duties assigned to it by the board of the NIFI.

## **8.0 Duties and Responsibilities of Nifis**

To ensure the smooth running of the SAC, a NIFI shall: -

### **Refer all Shariah issues to the SAC**

The NIFI shall refer all Shariah issues in its business operations to the SAC for advice and decision. The submission for advice or decision shall be made in a comprehensive manner for effective deliberation by the Committee. This shall include explaining the process involved, documents to be used and other necessary information.

### **Implement the SAC's advice and decision**

The NIFI shall be responsible for implementing the SAC's advice and decision.

### **Ensure that product documents are validated**

The NIFI shall obtain validation of the SAC relating to Shariah issues in all product documentations.

### **Prepare a Shariah Compliance Manual**

The NIFI shall prepare a Shariah Compliance Manual which shall be endorsed by the SAC. The Manual shall provide a general guideline on the operational procedures of the SAC as well as a code of ethics and conduct for its members. The NIFI shall ensure that adequate systems are in place to monitor compliance with the code.

### **Provide the SAC access to all relevant documents**

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

## **Provide the S1AC with sufficient resources**

The NIFI shall provide the SAC with sufficient financial resources, independent expert consultation, reference materials, training and development or any other support the SAC may require to perform its duty.

## **Remunerate the members of the SAC**

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

## **9.0 Reporting Relationship**

**9.1** The SAC shall directly report to the Board of Directors of the NIFI and have a dotted line reporting relationship to the MD/CEO. All cases of non-compliance with the Shariah shall be recorded and reported to the Board by the SAC, and it shall recommend appropriate remedial measures. In cases where Shariah non-compliance is not effectively or adequately addressed, or no remedial measures were taken by the NIFI, the SAC shall inform the CBN.

**9.2** In the case of conflict of opinion among members of the SAC concerning a Shariah ruling, the board of directors of the NIFI may refer the matter to the CSC, which shall have the final authority on the matter.

## **10.0 Report of the Sac**

**10.1** The Board and Management of a NIFI shall ensure that the decisions and opinions of the SAC are issued and disseminated to all stakeholders appropriately.

**10.2** The SAC shall also issue an annual report which complies with the AAOIFI Governance Standard (No. 1) regarding the basic elements of a SAC report. The NIFI shall also publish the SAC report in its annual financial report.

## **11.0 Independence of the Sac**

- 11.1** The independence of the SAC shall be observed at all times for it to play its oversight role over the NIFI without undue influence, especially from the management of the NIFI.
- 11.2** Members of the SAC shall not have such relationships with the NIFI, its related companies or officers that could interfere or be reasonably perceived to interfere with the exercise of independent judgment in the best interest of the NIFI by the SAC.
- 11.3** The management of a NIFI has an obligation to provide the SAC with complete, accurate and adequate information in a timely manner before all meetings and on an ongoing basis in order for the SAC to fulfill its responsibilities.
- 11.4** The SAC shall have independent access to the NIFI's internal Shariah control/review officer/unit/department to check whether internal control and compliance have been appropriately followed.

## **12.0 Competence of Members of the Sac**

- 12.1** Members of the SAC shall at all times demonstrate the competence and ability to understand:
- the technical requirements of the business;
  - the inherent risks in the business; and
  - the management processes required to conduct its operations effectively with due regard to the interest of all stakeholders.
- 12.2** The NIFI shall facilitate continuous professional development of members of the SAC as well as the officer(s) of the internal Shariah control/review organ of the institution.
- 12.3** The NIFI shall specify and adopt a process for formal assessment of the effectiveness of the SAC and of the contribution of each SAC member to its effectiveness. The process should also identify relevant gaps to enable appropriate training and exposure for the SAC members.

### **13.0 Confidentiality and Consistency**

- 13.1** Internal and privileged information obtained by the SAC in the course of its duties shall be kept confidential at all times and shall not be misused.
- 13.2** Notwithstanding the above, the SAC shall not be liable for breaching the confidentiality and secrecy principle if the sensitive information is reported to the CBN in good faith for corrective actions, in the performance of its duty in reporting serious breaches of the Shariah by the NIFI or in compliance with the order of a court of competent jurisdiction.
- 13.3** The NIFI shall ensure that the SAC follows a structured process in making Shariah decisions in such a way as to ensure quality and consistency of the decisions and their proper documentation and disclosure.
- 13.4** The NIFI shall ensure that the SAC adopts a specified process for changing, amending or revising any Shariah pronouncements/resolutions issued by it. Appropriate and timely disclosure shall be made to all stakeholders and/or the public whenever the SAC and/or its members depart from or revise any of its Shariah pronouncements/resolutions.

### **14.0 Internal Shariah Compliance Unit**

- 14.1** All NIFIs are required to have a dedicated Internal Shariah Compliance Unit comprising officer(s) with appropriate qualifications and experience in Shariah and conventional finance to serve as the first point of reference for Shariah compliance issues. The unit may also serve as the secretariat to the SAC.
- 14.2** The appointment and removal of members of the secretariat shall be appropriately carried out in consultation with the SAC.

**Financial Policy & Regulation Department  
December 31, 2010.**



**GUIDELINES ON NON-INTEREST WINDOW AND BRANCH OPERATIONS OF  
CONVENTIONAL BANKS AND OTHER FINANCIAL INSTITUTIONS**



## **1.0 INTRODUCTION**

A non-interest window operation is defined as part of a conventional financial institution (which may be a branch or a dedicated unit) that provides fund management (investment accounts), financing, investment and other banking services that are Shariah compliant.

The following specific guidelines shall apply to the non-interest window operations or branches of conventional banks and other financial institutions:

## **2.0 ESTABLISHMENT OF NON-INTEREST WINDOWS/BRANCHES**

**2.1** A conventional bank or financial institution may establish a non-interest window/branch upon written application and prior approval in writing by the CBN.

**2.2** A non-interest branch shall be established in line with the extant CBN regulation on branch expansion.

**2.3** The application to establish a non-interest window/branch shall be submitted to the Director, Financial Policy and Regulation Department, Central Bank of Nigeria and accompanied by a report of feasibility study justifying the establishment of the window/branch.

**2.4** The feasibility report shall among others, contain the following details:

- The proposed location of the non-interest window/branch
- The Shariah compliant products and services to be offered
- A 3-year financial and profitability projection
- Staffing and manpower requirement
- The market potential and prospects to support the establishment of the window/branch.

## **3.0 CROSS-SELLING OF PRODUCTS/SERVICES**

**3.1** Conventional banks and other financial institutions operating in Nigeria may offer Shariah-compliant products and services through their noninterest branches or windows. Such branches or windows however, shall not offer interest-based or non-Shariah compliant products and services.

#### **4.0 ESTABLISHMENT OF A NON-INTEREST UNIT/DIVISION/DEPARTMENT**

**4.1** A conventional financial institution with non-interest window or branch(es) shall establish a dedicated unit/division/department to oversee the noninterest operations of the institution. The division shall have the following duties and responsibilities, among others:

- Develop and ensure compliance with the rules, policies and procedures for the institution's non-interest windows or branches,
- Set up the institution's Shariah Advisory Committee and the internal Shariah compliance mechanism as well as maintaining coordination with them and the other divisions/offices of the institution.
- Ensure that funds received on behalf of clients are invested in compliance with the Shariah.
- Facilitate sustainable capacity development for the management and staff of the non-interest window or branch.
- Ensure the submission of timely and reliable returns to the CBN.
- Ensure compliance with the guidelines/regulations on non-interest banking and finance issued by the CBN.

**4.2** The organizational structure together with the qualifications and experience of staff of the unit/division shall be submitted to the CBN for review and approval.

#### **5.0 SHARIAH REVIEW AND COMPLIANCE MECHANISM**

**5.1** There shall be a Shariah Advisory Committee (SAC) to review and provide Shariah guidance and opinions in respect of products and services offered as well as transactions and contracts involving the non-interest window or branch of a conventional bank.

The detailed guidelines for the appointment, operations, qualification, duties and responsibilities of the SAC are contained in the Guidelines on Shariah Governance for Non-interest Financial Institutions in Nigeria, issued by the CBN.

**5.2** There shall be an internal Shariah audit on a periodic basis to examine and evaluate the extent of compliance with Shariah rules.

#### **6.0 EXECUTION OF SERVICE LEVEL AGREEMENTS IN RESPECT OF SHARED SERVICES**

**6.1** Conventional banks and other financial institutions with non-interest windows or branches shall execute a Service Level Agreement (SLA) in respect of shared

services between the window/branch and other departments or units of the institution.

## **7.0 SEPARATION OF RECORDS**

**7.1** A conventional financial institution shall not co-mingle its funds with those from its non-interest window or branch operations. Consequently, separate accounting books and records shall be maintained. It shall also maintain a separate account with the CBN for its non-interest window or branch operations. In addition, all documents such as forms, letter-heads, books, deposit receipts, cheque books, etc are to be designed with the CBN approved symbol to make them distinct from those used in the conventional operations.

## **8.0 Publication of Financial Statements**

**8.1** A conventional financial institution with non-interest window/branch(es) shall as part of its annual published accounts separately include as a note to the account, the detailed results of operations of its non-interest window(s) or branch(es). The account statement for the non-interest window or branch operations shall comply with the accounting standards specified by the CBN for Non-Interest Financial Institutions.

## **9.0 Prudential and Disclosure Requirements**

**9.1** Non-interest windows and branches of conventional institutions shall comply with the prudential and disclosure requirements as outlined in the Framework for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria.

## **10.0 CONVERSION OF CONVENTIONAL FINANCIAL INSTITUTIONS' NON-INTEREST WINDOWS/BRANCHES**

**10.1** A conventional financial institution may convert its non-interest window/branch into a full-fledged NIFI in line with the following:

**10.1.1** Upon written application and subject to the prior approval of the CBN, a conventional financial institution may convert its non-interest window operations to a full branch. An application for conversion to a branch shall be treated in line with extant CBN regulations on bank branch expansion.

**10.1.2** Similarly, a conventional branch of a financial institution may convert to a non-interest branch of the same institution in line with guidelines issued by the CBN.

**10.1.3** A conventional financial institution wishing to convert its noninterest window or branch to a full-fledged subsidiary shall comply with the extant CBN policy on establishment of subsidiaries.

**10.2** A full-fledged non-interest financial institution, window and branch cannot however, convert to their conventional equivalents.

## **11.0 CLOSURE/DISCONTINUATION OF NON-INTEREST WINDOW OR BRANCH**

**11.1** A conventional bank or financial institution may close or discontinue its non-interest window or branch, subject to satisfactory justification and the prior approval in writing of the CBN.

## **12.0 GENERAL**

**12.1** The above guidelines shall be read in conjunction with the Framework for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria and the Guidelines for Shariah Governance for Non-Interest Financial Institutions in Nigeria.

**12.2** In addition, the CBN may prescribe additional guidelines as may be necessary from time to time.

**12.3** All enquiries should be forwarded to the Financial Policy & Regulation Department, Central Bank of Nigeria, Abuja.

**Financial Policy & Regulation Department**

**December 31, 2010.**



**09-462-37404**

**09-462-37406**

**November 2, 2010**

**FPR/DIR/CIR/FXM/01/004**

**CIRCULAR TO BANKS, OTHER FINANCIAL INSTITUTIONS, BUREAUX DE CHANGE, FOREIGN EXCHANGE MARKET: WITHDRAWAL OF CLASS 'A' BUREAU DE CHANGE LICENSES**

In line with the Circular Reference No: **TED/FEM/FPC/GEN/01/026** of February 26, 2009 restructuring Bureau De Change into A & B Categories in order to further liberalize the foreign exchange market and enhance its allocative efficiency, the CBN has further reviewed the two-tier structure following its failure to achieve the stated objectives

The main objective was to facilitate end user access to foreign exchange supply from official sources in order to boost economic growth by promoting productive efficiency of small and medium scale enterprises.

The latest appraisal of the policy initiative however has revealed gross abuses of the enhanced official funding of the Class A Category of the BDCs and the negation of the expected benefit to the economy. Available information to CBN has also revealed that the target end-users have been sidelined while large transactions that should have been channeled through the banking system have been carried out through Class 'A' BDCs.

Furthermore, returns from the Nigerian Customs Services on foreign currency declaration by travellers show that large amounts of up to US\$3 million cash have been taken out of the country by individuals in single trips. The Bank has also been

inundated with complaints from foreign countries that some Nigerian travelers indulge in carrying large amounts of money in cash. These are worrisome developments that negate the expected benefits from further liberalization of the foreign exchange market.

In view of this unhealthy development, and in line with its avowed commitment to the eradication of money laundering, the Central Bank of Nigeria has decided to withdraw all the licenses of the existing Class 'A' BDCs' with effect from November 8, 2010.

The Class 'A' BDCs whose licenses have been so withdrawn are however, free to apply for Class 'B' license with the attendant privileges by fulfilling stipulated licensing requirements.

Following the withdrawal of the licenses and termination of the attendant privileges, the CBN shall within 30 days refund all mandatory caution deposits lodged with the Bank.

The CBN shall continue to monitor the operations of the BDCs with a view to finetuning the operational guidelines for enhanced efficiency.

**CHRIS O. CHUKWU**

**Ag. DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT**



**GUIDELINES FOR GRANTING LIQUID ASSET STATUS TO  
STATE GOVERNMENT BONDS**

**September, 2010**

## **1.0 Introduction**

State governments as agents of development are saddled with responsibilities that are sometimes beyond their current resources, given the level of economic development in the country. The recourse to the capital market to fund projects, especially of long gestation periods, should therefore be encouraged as this will not only improve the socio-economic well-being of the people but also deepen the capital market.

It is believed that conferring liquidity status on state government bonds would promote investments in these securities, encourage the regular issuance of the bonds by state governments, stimulate primary and secondary market activities and facilitate the development of the Nigerian capital market.

It is in light of the foregoing that the Central Bank of Nigeria (CBN), on March 2, 2010, decided to confer liquid asset status on eligible state government bonds in accordance with the CBN Act (2007). The CBN hereby issues the following Guidelines to operationalise the decision.

## **2.0 Eligibility Criteria**

### **2.1 Enabling Legislation**

The issuance of bonds shall be backed by a law enacted by the State House of Assembly, specifying that Sinking Funds fully funded from the consolidated revenue fund account of the State be established.

### **2.2 Fiscal Responsibility Law**

The State government shall have in place a fiscal responsibility law, with provisions for public debt management, in order to enhance investors' confidence in the issuer.

### **2.3 State Debt Management Departments**

The State Government shall establish a debt management department in order to enhance transparency and the professional management of debt issues.



## **2.4 Credit Rating**

The bond shall, at inception and throughout its tenor, be of investment grade as determined by a rating agency accredited by the Securities and Exchange Commission (SEC).

## **2.5 Utilisation of Proceeds**

A SEC confirmation that the proceeds have been disbursed in line with the provisions of the prospectus shall be submitted to the CBN at the anniversary of the bond issuance. Subsequent SEC confirmations shall be required on amounts that have not been disbursed by the first anniversary.

## **2.6 Repayment Structure – Sinking Funds**

Repayment structure should be from funded sinking funds (i.e. a legislated irrevocable standing payment order (ISPO) and/or other legislated sources of repayments disclosed in the offer documents).

The Trustee(s) to the bond should submit, every six (6) months, (a) a statement of accounts of the sinking funds' investments and (b) statement of declaration on the sufficiency of the sinking funds' investments and investment income in meeting the debt service and redemption obligations to the Financial Policy & Regulation Department in CBN.

The Trustees shall advise the CBN on the action taken in the event that the Trustees are of the opinion that the sinking fund may be inefficient or there is the likelihood of default in line with Sections 255 and 256 of the Investment and Securities Act 2007 or any amendment thereto.

## **2.7 Irrevocable Letter of Authority (ILoA)**

Evidence of an irrevocable letter of authority issued by the Accountant-General of the State to deduct at source from the statutory allocation due to the State in the event of default by or failure of the State to meet its payment obligations or a SEC waiver of the ILoA.

## **2.8 Tenor of Bonds**

The State government bonds shall be limited to a maximum maturity of seven (7) years in order to be considered for liquid asset status.

## **3.0 BENEFITS OF LIQUID ASSET STATUS**

### **3.1 Risk-Weights for Capital Adequacy Ratio**

3.1.1 For the purpose of computing the capital adequacy ratios of banks and discount houses, state government bonds with liquid asset status shall be assigned a weight of 20 percent or as may be prescribed by the CBN from time to time.

### **3.2 Repurchase Transactions**

3.2.1 State government bonds which meet the criteria for liquid asset status shall be eligible for repurchase or “repo” transactions and the CBN shall open an account with the Central Securities Clearing System (CSCS) Limited to warehouse the securities.

3.2.2 The collateral provided by counterparties towards the repo shall have a “haircut” applied as may be prescribed by the CBN from time to time.

## **4.0 Investment Limits**

The maximum investment a bank shall make in any bond issue of a State government or its agencies is limited to 10% of the total amount outstanding of that bond issue. This is an investment limit per issue and not per issuer.

The portfolio of a bank in bonds of State governments and their agencies shall not exceed 30% of the bank's total portfolio in debt securities. Debt securities for this purpose are - Treasury bills, FGN bonds, FGN-guaranteed notes, Sovereign debt notes, any other Nigerian sovereign debt securities, CBN Bills, Bonds Collateralised with FGN bonds, State government bonds, State government agencies' bonds, Corporate bonds and Dated preference shares.

The underwritten positions of State bonds shall not be regarded as investments and therefore will not be counted in determining these limits. However, a monthly return on the underwritten positions and the sell-off strategy shall be rendered to the Banking Supervision Department of CBN.

Until such time that the Nigerian State bond market presents banks and discount houses with the opportunity of having trading books in State bonds, all State bond

holdings shall be classified as investments i.e. Available-For-Sale (AFS) and/or Held-To-Maturity (HTM) for the purpose of CBN reporting.

## **5.0 Ceiling on Lending to Sub-National Governments**

5.1 State government bonds shall not be included in the computation of the 10 percent ceiling on lending to all tiers of government as specified in the CBN's Circular reference BSD/DIR/GEN/CIR/03/011 dated June 26, 2009.

## **6.0 Risk-Weights for Bonds that do not Qualify as Liquid Assets**

### **6.1 Capital Adequacy Ratio**

For the purpose of computing the capital adequacy ratios of banks and discount houses, State government bonds that do not qualify as liquid assets shall be assigned a risk-weight of 50 percent or as may be prescribed by the CBN from time to time.

### **6.2 General Issues**

The State government bonds shall comply with all the relevant provisions of the Investment and Securities Act (ISA 2007) including amendments thereto as well as SEC's rules as may be prescribed from time to time.

## **7.0 Application Procedure and other Matters**

7.1 These guidelines shall apply to both previously issued state government bonds and new issues of state government bonds.

7.2 State governments seeking liquid asset status for their bonds shall apply to the Director, Financial Policy and Regulation Department, Central Bank of Nigeria, Abuja, through their financial advisers.

7.3 The CBN shall regularly publish, on its website, state government bonds that qualify for liquid asset status.

## **8.0 Review of the Guidelines**

These guidelines shall be reviewed from time to time.

## **Glossary of Terms**

Bond – A debt instrument with a maturity greater than one year.

Irrevocable Standing Payment Order (ISPO) – A written mandate given by the issuer (State government) of a bond to the Accountant-General of the Federation (AGF) authorising the AGF to deduct, at source, predetermined sums of money from the statutory allocation of the issuer.

Issue Date – The date on which a bond is issued.

Maturity Date – The date on which a bond becomes due and payable.

Primary Market – The market for new issues of debt instruments.

Secondary Market – The market where previously issued instruments are traded.

Sinking Fund – A fund into which an issuer sets aside money over time, in order to retire its debt instruments.



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FPR/DIR/CIR/CFP/Vol.1/003

July 15, 2010

**CIRCULAR TO ALL BANKS, DISCOUNT HOUSES AND OTHER FINANCIAL INSTITUTIONS**

**ESTABLISHMENT OF A PROCEDURE FOR HANDLING SEPARATED BANK EMPLOYEES' CLEARANCE AND ISSUANCE OF REFERENCES**

The Central Bank of Nigeria has noted with concern, the upsurge in disputes between banks and separated employees on the issue of clearance certificates. These complaints are in respect of the unwillingness of banks to issue clearance and/or references in respect of staff exiting their employment.

The protraction of these complaints, mostly to the disadvantage of the affected parties, necessitates the need for banks to urgently review their processes for handling affairs in relation to their separated employees.

Consequently, Banks and Other Financial Institutions are by this Circular directed to review their processes for handling exited staff matters and to ensure that clearances and/or references (favourable or adverse) are issued to separated employees not later than 60 days from the date of the receipt of request for reference.

Financial Institutions are to note that failure to comply with the above directive will attract appropriate sanctions.

This Circular is effective immediately.

**Chris O. Chukwu**

**Director, Financial Policy and Regulation Department**



09-46236441,

09-462 36418

June 17, 2010

FPR/DIR/GDL/01/002

**CIRCULAR TO BANKS AND OTHER FINANCIAL INSTITUTIONS:**  
**TERRORIST INDIVIDUALS AND ORGANIZATIONS**

Further to our earlier circulars on Anti-Money Laundering/Counter Terrorism Financing (AML/CTF), we attached herewith for your action the various versions of the name of Al-Dari, Muthanna Harith, an individual related to AQI, a terrorist organisation included in the United Nations Security Council Resolutions 1267.

In addition to the provisions of section 1.24 of the AML/CFT Regulation 2009 under Special Recommendations, you are required to constantly review your transactions and report within five working days to the CBN the existence of accounts or any other relationships with the various names of this person. You are also required to ensure that your subsidiaries and associate companies conduct these checks and render returns/reports accordingly.

As usual, where accounts are not maintained for this individual and others previously blacklisted, **a nil return is required to be submitted quarterly.**

**I.T. Nwaoha**

**For: Ag. DIRECTOR, FINANCIAL POLICY AND REGULATION**

**LIST OF THE VARIOUS VERSION OF NAMES OF AL-DARI, MUTHANNA HARITH'S NAME**

Real name: **Al-Dari, Muthanna Harith**

- Variously addressed as:
1. **Al-Dari, Dr. Muthanna**
  2. **Al-Dari, Muthana Harith**
  3. **Al-Dari, Muthanna Harith Sulayman**
  4. **Al-Dhari, Muthanna Harith Sulayman**
  5. **Al-Dhari, Muthana Hareth**
  6. **Al-Dhari, Muthana Haris**
  7. **Al Dari Al-Zawba', Doctor Muthanna HarithSulayman**
  8. **Al-Dari Al-Zobai, Muthanna Harith Sulayman**
  9. **Al-Dari al-Zawba'i, Muthanna Harith Sulayman**



09-462 37404

09-462 37409

May 5, 2010

**FPR/DIR/CIR/AML/CFT/01/001**

**CIRCULAR TO BANKS AND OTHER FINANCIAL INSTITUTIONS:  
REVISED CBN ANTI-MONEY LAUNDERING/COUNTER TERRORISM  
FINANCING (AML/CFT) REGULATION, 2009**

In October 2009, the CBN circulated the Anti-Money Laundering/Counter Terrorism Financing (AML/CFT) Compliance Manual as an Exposure Draft for comments from stakeholders via our circular **Ref: BSD/DIR/GEN/AML/03/009/1**.

The Manual has now been finalized and gazetted to give it full effect of law. It is now renamed as “**CBN AML/CFT REGULATION (2009)**” and can be accessed on the CBN website, [www.cenbank.org](http://www.cenbank.org).

Consequently, all banks and other financial institutions are, by this circular, required to comply with the requirements of the **CBN AML/CFT Regulation** attached to this circular.

The Exposure Draft released vide our circular **Ref: BSD/DIR/GEN/AML/03/009/1** of October 2009 is hereby recalled.

**I.T. NWAOHA**

**For: DIRECTOR FINANCIAL POLICY AND REGULATION**



*Extraordinary*



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Federal Republic of Nigeria  
Official Gazette

## INTRODUCTION

There have been increased stringent AML/CFT measures worldwide, particularly since the September 11, 2001 terrorist attacks in the U.S. Nigeria, not being left out in the global efforts to fight the menace, has taken some AML/CFT measures in recognition of the dangers posed.

With the enactment of AML/CFT legislations in Nigeria, the country is giving increased attention to implementing these laws. Indeed, the benefits of having AML/CFT laws in place would not be realized unless there is diligent implementation of the enforcement measures by the CBN and compliance by financial institutions. It is against the above back ground that this *AML/CFT Regulation* was developed for the guidance of the financial institutions under the regulatory purview of the CBN.

The Regulation has been enriched by the enabling AML/CFT legislation enacted by Nigeria, particularly by the relevant FATF Recommendations, the Guidelines of the Basle Committee on Banking Supervision and some international best practices documents.

To provide a further guide and to avoid ambiguity, the Guidance on KYC is also provided to assist financial institutions in their implementation of this Regulation.

### PURPOSE AND OVERVIEW OF THIS REGULATION

Financing of Terrorism (FT) is defined here to include both legitimate and illegitimate money characterized by concealment of the origin or intended criminal use of the funds.

Money Laundering (ML) is defined as the process whereby criminals attempt to conceal the origin and/or ownership of property and assets that are the fruits or proceeds of criminal activities. It is, thus, a derivative crime.

Money laundering and terrorist financing are global phenomena and there has been growing recognition in recent times, and indeed well-documented evidence, that both money laundering and terrorist financing pose major threats to international peace and security which could seriously undermine Nigeria's development and progress.

Consequently, concerted global efforts have been made to check these crimes. Financial institutions, in particular, have come under unprecedented regulatory pressure to enhance their monitoring and surveillance systems with a view to preventing, detecting and responding appropriately to money laundering and terrorist financing.

This Regulation covers the following key areas of AML/CFT policy: compliance officer designation and duties; the requirement to cooperate with the competent/supervisory authorities; customer due diligence; monitoring and responding to suspicious transactions; reporting requirements; record keeping; AML/CFT employee training program, among others.

Financial institutions are exposed to varying money laundering risks and serious financial and reputational damage if they fail to manage these risks adequately. Diligent

**B 1394**

implementation of the provisions of this Regulation would not only minimize the risks faced by financial institutions of being used to launder the proceeds of crime but also provide protection against fraud and reputational and financial risks. In this connection, the affected institutions are urged to adopt a risk-based approach in the identification and management of their AML/CFT risks.

Nigerian financial institutions are also reminded that AML/CFT laws in all the jurisdictions in which they operate should not only designate money laundering and predicate offences but should prescribe sanctions for non-compliance with the relevant laws and regulations on customer due diligence, non-remittance of prescribed reports and not keeping of appropriate records. It is, therefore, in their best interest to entrench a culture of compliance which would be facilitated by this Regulation.

This Regulation is structured in two parts. *Part A* is made up of the new AML/CFT Directives while *Part B* provides guidance on KYC.



**ANTI-MONEY LAUNDERING/ COMBATING FINANCING OF  
TERRORISM (AML/CFT) REGULATION  
FOR BANKS AND OTHER FINANCIAL INSTITUTIONS IN NIGERIA**

The Governor of the Central Bank of Nigeria in exercise of the powers conferred on him under Section 57(1) of the Banks and Other Financial Institutions Act, 2004 and of all other powers enabling him in that behalf hereby issues Anti-Money Laundering/ Combating Financing of Terrorism (AML/CFT) Regulation for Banks and other Financial Institutions in Nigeria.

PART A—AML/CFT DIRECTIVES

**AML/CFT INSTITUTIONAL POLICY FRAMEWORK**

1. Every financial institution is required to adopt policies stating its commitment to comply with AML/CFT obligations under the law and regulatory directives and to actively prevent any transaction that otherwise facilitates criminal activity or terrorism.

General  
Guidelines  
on  
Institutional  
Policy.

Every financial institution is requested to formulate and implement internal controls and other procedures that will deter criminals from using its facilities for money laundering and terrorist financing and to ensure that its obligations are always met.

Each financial institution is required to designate its AML/CFT Chief Compliance Officer with the *relevant competence, authority and independence* to implement the institution's AML/CFT compliance programme.

AML/CFT  
Compliance  
Officer  
Designation  
and Duties.

The duties of the AML/CFT Compliance Officers, among others, include

- (i) Developing an AML/CFT Compliance Programme ;
- (ii) Receiving and vetting suspicious transaction reports from staff ;
- (iii) Filing suspicious transaction reports with the NFIU ;
- (iv) Rendering "nil" reports with the NFIU, where necessary to ensure compliance ;
- (v) Ensuring that the financial institution's compliance programme is implemented ;
- (vi) Co-ordinating the training of staff in AML/CFT awareness, detection methods and reporting requirements ; and
- (vii) Serving both as a liaison officer with the CBN and NFIU and a point-of-contact for all employees on issues relating to money laundering and terrorist financing.

Each financial institution is required to state that it will comply promptly with all the requests made in pursuant with the law and provide information to the CBN, NFIU and other relevant government agencies.

Cooperation  
with  
Competent  
Authorities.

B 1396

Each financial institution's procedures for responding to authorized requests for information on money laundering and terrorist financing are required to meet the following:

(i) *searching immediately the institution's records* to determine whether it maintains or has maintained any account for or has engaged in any transaction with each individual, entity, or organization named in the request;

(ii) *reporting promptly to the requesting authority* the outcome of the search; and

(iii) *protecting the security and confidentiality of such requests.*

Scope of  
Offensive  
Proceeds

1.1.1. Financial institutions are required to identify and report to the CBN & NFIL the *proceeds of crime derived from* the following:

- Participation in an organized criminal group and racketeering ;
- Terrorism, including terrorist financing ;
- Trafficking in human beings and migrant smuggling ;
- Sexual exploitation, including sexual exploitation of children ;
- Illicit trafficking in narcotic drugs and psychotropic substances ;
- Illicit arms trafficking ;
- Illicit trafficking in stolen and other goods ;
- Corruption and bribery ;
- Fraud ;
- Counterfeiting currency ;
- Counterfeiting and piracy of products ;
- Environmental crime ;
- Murder, grievous bodily injury ;
- Kidnapping, illegal restraint and hostage-taking ;
- Robbery or theft ;
- Smuggling ;
- Extortion ;
- Forgery ;
- Piracy ; and
- Insider trading and market manipulation.

Measures to  
be taken  
against ML/  
TF:

1.2. Financial institution secrecy and confidentiality laws shall not in any way, be used to inhibit the implementation of the requirements in this Regulation in view of *sections 38 of EFCC Act, 2004; 12 of MLP Act, 2004 and 33 of the CBN Act, 2007*. The Acts cited here have given the relevant

authorities the power required to access information to properly perform their functions in combating money laundering and financing of terrorism; the sharing of information between competent authorities, either domestically or internationally; and the sharing of information between financial institutions, where this is required or necessary.

1.3. Financial institutions are not permitted to keep anonymous accounts or accounts in fictitious names.

Customer  
Due  
Diligence  
(CDD).

1.3.1. Financial institutions are required to undertake customer due diligence (CDD) measures when :

When CDD  
Is Required.

1.3.1.1. business relations are established ;

1.3.1.2. carrying out occasional transactions above the applicable *designated threshold of \$1,000 USD or its equivalent* or as may be determined by the CBN from time to time, including where the transaction is carried out in a single operation or several operations that appear to be linked.

1.3.1.3. carrying out occasional transactions that are wire transfers, including those applicable to cross-border and domestic transfers between financial institutions and when credit or debit cards are used as a payment system to effect money transfer. It does not, however, include the following types of payment :

- any transfer flowing from a transaction carried out using a credit or debit card so long as the credit or debit card number accompanying such transfers does flow from the transactions such as *withdrawals from a bank account through an ATM machine, cash advances from a credit card or payment for goods.*

- financial institution to financial institution transfers and settlements where both the originator-person and the beneficial-person are financial institutions acting on their own behalf.

1.3.1.4. there is a suspicion of money laundering or terrorist financing, regardless of any exemptions or any other thresholds referred to in this Regulation ; or

1.3.1.5 *There are doubts about the veracity or adequacy of previously obtained customer identification data.*

*Financial institutions, however, are not required (after obtaining all the necessary documents and being so satisfied) to repeatedly perform identification and verification exercise every time a customer conducts a transaction.*

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CDD  
Measures.

1.4.1 Financial institutions are required to identify their customers (whether *permanent or occasional; natural or legal persons; or legal arrangements*) and verify the customers' identities using reliable, independently sourced documents, data or information. All financial institutions are required to *carry out the full range of the CDD measures in this Regulation. However, in reasonable circumstances, financial institutions can apply the CDD measures on a risk-sensitive basis.*

1.4.2 Types of customer information to be obtained and identification data to be used to verify the information are provided as *Appendix A* to this Regulation.

In respect of customers that are *legal persons or legal arrangements*, financial institutions are required :

(a) to verify any person purporting to have been authorized to act on behalf of such a customer by obtaining evidence of his/her identity and verifying the identity of such a person ; and

(b) to verify the legal status of the legal person or legal arrangement by obtaining proof of incorporation from the Corporate Affairs Commission (CAC) or similar evidence of establishment or existence and any other relevant information.

1.4.3. Financial institutions are required to identify a *beneficial-owner* and take reasonable measures to verify his/her identity using relevant information or data obtained from a reliable source to satisfy themselves that they know who the beneficial-owner is.

1.4.4. Financial institutions are required *in respect of all customers* to determine whether or not a customer is acting on behalf of another person. Where the customer is acting on behalf of another person, the FI is required to take reasonable steps to obtain sufficient identification-data and to verify the identity of that other person.

1.4.5. Financial institutions are required to take reasonable measures *in respect of customers that are legal persons or legal arrangements* to :

(a) understand the ownership and control structure of such a customer ; and

(b) determine the *natural persons* that ultimately own or control the customer.

The natural persons include those persons who exercise ultimate and effective control over the legal person or arrangement. Examples of types of measures needed to satisfactorily perform this function include :

- *For companies* - The natural persons are those who own the controlling interests and those who comprise the *mind* and *management* of the company ; and

• *For trusts* – The natural persons are the settlor, the trustee and person exercising effective control over the trust and the beneficiaries.

*Where the customer or the owner of the controlling interest is a public company subject to regulatory disclosure requirements (i.e. a public company listed on a recognized stock exchange) it is not necessary to identify and verify the identity of the shareholders of such a public company.*

1.4.6. Financial institutions are required to *obtain information on the purpose and intended nature of the business relationship of their potential customers.*

1.4.7. Financial institutions are required to conduct *ongoing due diligence* on the business relationship as stated by the customers above.

1.4.8. The ongoing due diligence above includes scrutinizing the transactions undertaken by the customer throughout the course of the financial institution/customer relationship to ensure that the transactions being conducted are consistent with the financial institution's knowledge of the customer, its business and risk profiles, and the source of funds (where necessary).

1.4.9. Financial Institutions are required to ensure that documents, data or information collected under the CDD-process are kept up-to-date and relevant by undertaking reviews of existing records, particularly the records in respect of higher-risk business-relationships or customer categories.

1.5.1. Financial institutions are required to *perform enhanced due diligence for higher-risk customer, business relationship or transaction.*

Higher Risk Customers.

Examples of higher-risk customers :

- (a) Non-resident customers ;
- (b) Private banking customers ;
- (c) Legal persons or legal arrangements such as trusts that are personal-assets-holding vehicles ;
- (d) Companies that have nominee-shareholders or shares in bearer form ; and
- (e) Politically exposed persons (PEPs), cross-border banking and business relationships, etc.

1.5.2: *Where there are low risks, financial institutions are required to apply reduced or simplified measures.* There are low risks in *circumstances where the risk of money laundering or terrorist financing is lower, where information on the identity of the customer and the beneficial owner of a customer is publicly available or where adequate checks and controls exist elsewhere in national systems.* In circumstances of low-risk, financial institutions are required to apply the simplified or reduced CDD measures

when identifying and verifying the identity of their customers and the beneficial-owners.

1.6.1. These include:

1.6.1.1. Financial institutions—provided they are subject to the requirements for the combat of money laundering and terrorist financing which are consistent with the provisions of this Regulation and are supervised for compliance with them ;

1.6.1.2. Public companies (listed on a stock exchange or similar situations) that are subject to regulatory disclosure requirements ;

1.6.1.3. Government ministries and parastatals /enterprises ;

1.6.1.4. Life insurance policies where the annual premium and single monthly premium are within the threshold determined by NAICOM ;

1.6.1.5. Insurance policies for pension schemes if there is no surrender-value clause and the policy cannot be used as collateral ;

1.6.1.6. A pension, superannuation or similar scheme that provides retirement benefits to employees, where contributions are made by way of deduction from wages and the scheme rules do not permit the assignment of a member's interest under the scheme ; and

1.6.1.7. Beneficial-owners of pooled-accounts held by Designated Non-Financial Businesses and Professions (DNFBPs) provided that they are subject to the requirements for the combat of money laundering and terrorist financing consistent with the provisions of the Money Laundering (Prohibition) Act, 2004.

1.6.2. Financial institutions that apply simplified or reduced CDD measures to customers resident abroad are required to limit such to customers in countries that have effectively implemented the FATF Recommendations.

1.6.3. *Simplified CDD measures are not acceptable and therefore cannot apply to a customer whenever there is suspicion of money laundering or terrorist financing or specific higher risk scenarios. In such a circumstance, enhanced due diligence is mandatory.*

1.6.4. Financial institutions are to adopt *CDD measures on a risk sensitive-basis*. Examples of higher risk categories are *included in item 1.5.1(a – e) above* and financial institutions are required to determine in each case whether the risks are low or not, having regard to the type of customer, product, transaction or the location of the customer. Where there is doubt, financial institutions are directed to clear with the CBN.

1.7.1. Financial institutions are required to verify the identity of the customer, beneficial-owner and occasional customers *before or during*

*the course of establishing a business relationship or conducting transactions for them.*

1.7.2. Financial institutions are *permitted to complete the verification of the identity of the customer and beneficial owner following the establishment of the business relationship, only when :*

- (a) this can take place as soon as reasonably practicable ;
- (b) it is essential not to interrupt the normal business conduct of the customer ; and
- (c) the money laundering risks can be effectively managed.

1.7.3. *Examples of situations where it may be essential not to interrupt the normal conduct of business include*

*Non face-to-face business.*

*Securities transactions* — In the securities industry, companies and intermediaries may be required to perform transactions very rapidly, according to the market conditions at the time the customer is contacting them and the performance of the transaction may be required before verification of identity is completed.

*Life insurance business* in relation to identification and verification of the beneficiary under the policy. This may take place after the business relationship with the policyholder is established, but in all such cases, identification and verification should occur at or before the time of payout or the time when the beneficiary intends to exercise vested rights under the policy.

1.7.4. Where a customer is permitted to utilize the business relationship prior to verification, financial institutions are required to adopt *risk management procedures* concerning the conditions under which this may occur. These *procedures include a set of measures such as a limitation of the number, types and/or amount of transactions that can be performed and the monitoring of large or complex transactions* being carried out outside the expected norms for that type of relationship.

1.8.1. The financial institution which does not comply with *items 1.4.1 to 1.4.6* above is :

- (a) not permitted to open the account, commence business relations or perform the transaction ; and
- (b) required to render a suspicious transaction report to the NFIU.

1.8.2. The financial institution that has already commenced the business relationship (e.g. items 1.3.1.5, 1.7.2 or 1.9.1, 1.4.1 to 1.4.5 above) is required to terminate the business relationship and render *suspicious transaction reports to the NFIU*.

Failure to  
Complete  
CDD.

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**Existing Customers.**

1.9.1. Financial institutions are required to *apply CDD requirements to existing customers* on the basis of materiality and risk and to continue to conduct due diligence on such existing relationships at appropriate times.

1.9.2. The appropriate time to conduct CDD by financial institutions is when (a) a transaction of significant value takes place, (b) a customer documentation standards change substantially, (c) there is a material change in the way that the account is operated, and (d) the institution becomes aware that it lacks sufficient information about an existing customer.

*The financial institution is required to properly identify the customer in accordance with these criteria. The customer identification records should be made available to the AML/CFT compliance officer, other appropriate staff and competent authorities.*

**Definition of a Politically Exposed Person (PEP).**

1.10.1. *PEPs are individuals who are or have been entrusted with prominent public functions in Nigeria and/or foreign countries and people/entities associated with them.*

*Examples of PEPs include, but are not limited to :*

- Heads of State or government ;
- State Governors ;
- Local government chairmen ;
- Senior politicians ;
- Senior government officials ;
- Judicial or military officials ;
- Senior executives of state owned corporations ;
- Important political party officials ;
- Family members or close associates of PEPs ; and
- Members of Royal Families.

1.10.2. Financial institutions are required, in addition to performing CDD measures, *to put in place appropriate risk management systems* to determine whether a potential customer or existing customer or the beneficial-owner is a politically exposed person.

1.10.3. Financial institutions are also required to obtain senior management approval before they establish business relationships with a PEP and to render monthly returns on all their transactions with PEPs to the CBN and NFIU.

1.10.4. *Where a customer has been accepted or has an ongoing relationship with the financial institution and the customer or beneficial-owner is subsequently found to be or becomes a PEP, the financial institution is required to obtain senior management approval in order to continue the business relationship.*



1.10.5. Financial institutions are required to *take reasonable measures to establish the source of wealth and the source of funds of customers and beneficial-owners identified as PEPs.*

1.10.5. A Financial institution in a business relationship with a PEP is required to conduct *enhanced ongoing monitoring* of that relationship. In the event of *any transaction that is abnormal, FIs are required to flag the account and to report immediately to the NFIU.*

1.11. *Correspondent banking* is the provision of banking services by one bank (the correspondent bank) to another bank (the respondent bank). Large international banks typically act as correspondents for thousands of other banks around the world. Respondent banks may be provided with a wide range of services, including cash management (e.g. interest-bearing accounts in a variety of currencies), international wire transfers of funds, cheque clearing, payable-through-accounts and foreign exchange services.

Cross-Border and Correspondent Banking.

1.11.1. In relation to cross-border and correspondent banking and other similar relationships, *financial institutions are required to, in addition to performing the normal CDD measures, take the following measures :*

- Gather sufficient information about a respondent institution to understand fully the nature of its business; and to determine from publicly available information the reputation of the institution and the quality of supervision, including whether or not it has been subject to a money laundering or terrorist financing investigation or regulatory action.
- Assess the respondent institution's AML/CFT controls and ascertain that they are in compliance with FATF standard.
- Obtain approval from senior management before establishing correspondent relationships.
- Document the respective AML/CFT responsibilities of such institution.

1.11.2. Where a correspondent relationship involves the maintenance of payable-through account, the financial institution should be satisfied that :

- (a) its customer (the respondent bank or financial institution) has performed the normal CDD obligations on its customers that have direct access to the accounts of the correspondent financial institution ; and
- (b) the respondent financial institution is able to provide relevant customer identification data upon request to the correspondent financial institution.

1.12.1. Financial institutions are required to *have policies in place or take such measures as may be needed to prevent the misuse of technological developments such as internationally accepted Credit or Debit Cards and mobile Telephone Banking systems for purpose of money laundering and terrorist financing schemes.*

New Technologies and Non-Face-to-Face Transactions.

1.12.2. Financial institutions are required to have *policies and procedures in place to address any specific risks associated with non-face to face business relationships or transactions*. These policies and procedures shall be applied automatically when establishing customer relationships and conducting ongoing due diligence. Measures for managing the risks should include specific and effective CDD procedures that apply to non-face to face customers.

1.12.3. A financial institution that *relies upon a third party should immediately obtain the necessary information concerning property which has been laundered or which constitutes proceeds from, instrumentalities used in and intended for use in the commission of money laundering and financing of terrorism or other predicate offences*. Such financial institution should satisfy itself that copies of identification data and other relevant documentation relating to the CDD requirements will be made available from the third party upon request without delay.

1.12.4. The Financial institution should satisfy itself that the *third party is a regulated and supervised institution* and has measures in place to comply with requirements of CDD and reliance on intermediaries and other third parties on CDD as contained in this Regulation.

Reliance on Intermediaries and Third Parties on CDD Functions.

1.13.1. *Financial institutions relying on intermediaries or other third parties which have no outsourcing or agency relationships, business relationships, accounts or transactions between financial institutions for their clients are required to perform some of the elements of the CDD process on the introduced business*. The following criteria should also be met:

- Immediately obtain from the third party the necessary information concerning certain elements of the CDD process;
- Take adequate steps to satisfy themselves that copies of identification data and other relevant documentation relating to CDD requirements will be made available from the third party upon request without delay;
- Satisfy themselves that the third party is regulated and supervised in accordance with Core Principles of AML/CFT and has measures in place to comply with the CDD requirements set out in this Regulation; and
- Make sure that adequate KYC provisions are applied to the third party in order to obtain account information for competent authorities.

*The ultimate responsibility for customer identification and verification remains with the financial institution relying on the third party.*

Maintenance of Records of Transactions.

1.14.1. Financial institutions are required to maintain all necessary records of transactions, both domestic and international, *for at least five years following completion of the transaction (or longer if requested by*

*the CBN and NFIU in specific cases*). This requirement applies regardless of whether the account or business relationship is ongoing or has been terminated.

1.14.2. Examples of the *necessary components of transaction records include customer's and beneficiary's names, addresses* (or other identifying information normally recorded by the intermediary), *the nature and date of the transaction, the type and amount of currency involved and the type and identifying number of any account involved in the transaction.*

1.14.3. Financial institutions are required to maintain records of the identification data, account files and business correspondence *for at least five years following the termination of an account or business relationship* (or longer if requested by the CBN and NFIU in specific cases).

1.14.4. Financial institutions are required to ensure that all customer-transaction records and information are available on a timely basis to the CBN and NFIU.

1.15.1. Financial institutions are required to pay special attention to all complex, unusually large transactions or unusual patterns of transactions that have no apparent or visible economic or lawful purpose. Examples of such transactions or patterns of transactions include significant transactions relative to a relationship, transactions that exceed certain limits, very high account turnover inconsistent with the size of the balance or transactions which fall outside the regular pattern of the account's activity.

Attention  
on Complex  
and  
Unusual  
Large  
Transactions  
(STRs).

1.15.2. Financial institutions are required to examine as far as possible the background and purpose of such transactions and to set forth their findings in writing. They are required to report such findings to the NFIU ; and make them available for CBN, NFIU, other competent authorities and auditors for at least five years.

#### 1.16.1. *Definition of a Suspicious Transaction*

There are numerous types of suspicious transactions and these reflect the various ways in which money launderers operate. For the purpose of this Regulation, a suspicious transaction may be defined as one which is unusual because of its size, volume, type or pattern or otherwise suggestive of known money laundering methods. It includes such a transaction that is inconsistent with a customer's known, legitimate business or personal activities or normal business for that type of account or that lacks obvious economic rationale.

Suspicious  
Transactions,  
Compliance  
Monitoring  
and  
Response to  
Suspicious  
Transactions.

#### 1.16.2. *Institutional Policy*

1.16.2.1. Every financial institution is required to have a written policy framework that would guide and enable its staff to monitor,

recognize and respond appropriately to suspicious transactions. A list of *Money Laundering "Red Flags"* is provided in *Appendix C* to this Regulation.

1.16.2.2. Every financial institution is required to *designate an officer appropriately as the AML/CFT Compliance Officer to supervise the monitoring and reporting of suspicious transactions, among other duties.*

1.16.2.3. Every financial institution should be alert to the *various patterns of conduct that have been known to be suggestive of money laundering and maintain a checklist of such transactions which should be disseminated to the relevant staff.*

1.16.2.4. When any staff of a financial institution detects any "red flag" or suspicious money laundering activity, the institution is *required to promptly institute a "Review Panel" under the supervision of the AML/CFT Compliance Officer. Every action taken must be recorded.* The institution and its staff are required to maintain confidentiality in respect of such investigation and any suspicious transaction report that may be filed with the competent authority. This action is, however, in compliance with the provisions of the money laundering law that criminalize "tipping off" (i.e. doing or saying anything that might tip off someone else that he is under suspicion of money laundering).

1.16.2.5. A financial institution that suspects or has reason to suspect that funds are the proceeds of a criminal activity or are related to terrorist financing, is required to report promptly its suspicions to the NFIU. All suspicious transactions, including attempted transactions are to be reported regardless of the amount involved. This requirement to report suspicious transactions should apply regardless of whether they are thought, among other things, to involve tax matters.

1.16.2.6. Financial institutions, their directors, officers and employees (permanent and temporary) *are prohibited from disclosing the fact that a report is required to be filed with the competent authorities.*

Internal  
Controls,  
Compliance  
and Audit.

1.17.1. Financial institutions are required to *establish and maintain internal procedures, policies and controls to prevent money laundering and financing of terrorism and to communicate these to their employees.* These procedures, policies and controls should cover the CDD, record retention, the detection of unusual and suspicious transactions, the reporting obligation, among other things.

1.17.2. The AML/CFT compliance officer and appropriate staff are to have timely access to customer identification data, CDD information, transaction records and other relevant information.

1.17.3. Financial institutions are therefore *required to develop programs against money laundering and terrorist financing* that include

(a) The development of internal policies, procedures and controls, including appropriate compliance management arrangement and *adequate screening procedures to ensure high standards when hiring employees* ;

(b) An ongoing employee training programs to ensure that employees are kept informed of new developments, including information on current MI and FT techniques, methods and trends; and that there is a clear explanation of all aspects of AML/CFT laws and obligations, and in particular, requirements concerning CDD and suspicious transaction reporting; and

(c) *Adequately resourced and independent audit function to test compliance with the procedures, policies and controls.*

*Financial Institutions are required to put in place a structure that ensures the operational independence of the Chief Compliance Officer (CCO) and Branch Compliance Officers.*

#### 1.18. OTHER MEASURES

*These measures are meant to deter money laundering and terrorist financing. They include measures on sanctions, shell banks, other forms of reporting, special attention for high risk countries and foreign branches and subsidiaries of Nigerian financial institutions.*

1.18.1.1. The sanctions provided here are not only proportionate and dissuasive but are such that will affect legal persons/financial institutions and their directors/senior management staff also, depending on the provisions of the Regulation breached. Every financial institution which fails to comply or contravenes the provisions contained in this Regulation shall be subject to sanction by the CBN. Any individual, being an official of a financial institution, who fails to take reasonable steps to ensure compliance with the provisions of this Regulation shall be sanctioned accordingly. For purpose of emphasis, *incidence of false declaration or false disclosure by a financial institution or its officers shall be subject to administrative review and sanction as stipulated in this Regulation.*

Sanctions.

1.18.1.2. Any financial institution or its officer that contravenes the provisions of this Regulation shall be subject to applicable sanctions by the CBN as follows:

#### 1.18.1.3. *Against the Institution*

(a) Imposition of a penalty not exceeding N2,000,000 from the first to the fifth instances on each offence ; and

(b) On the sixth instance, the *CBN shall set up an investigation panel to :*

(i) examine the institution's operations and identify the role of the Board, Management and officers in respect of the mispractice ;

possible, be examined and written findings made available to assist competent authorities.

*Financial institutions are also required to report suspicious transactions relating to terrorism financing to the NFIU.*

1.18.4.3 Financial institutions that do business with foreign institutions which do not continue to apply or insufficiently apply the provisions of FATF Recommendations are required to take measures such as the following:

- Stringent requirements for identifying clients and enhancement of advisories, including jurisdiction-specific financial advisories to financial institutions for identification of the beneficial owners before business relationships are established with individuals or companies from that jurisdiction;
- Enhanced relevant reporting mechanisms or systematic reporting of financial transactions on the basis that financial transactions with such countries are more likely to be suspicious;
- In considering requests for approving the establishment of subsidiaries or branches or representative offices of financial institutions, in countries applying the countermeasure, take into account the fact that the relevant financial institution is from a country that does not have adequate AML/CFT systems;
- Warning non-financial sector businesses that transactions with natural or legal persons within that country might run the risk of money laundering, limiting business relationships or financial transactions with the identified country or persons in that country.

1.18.5.1 Financial institutions are required to ensure that their foreign branches and subsidiaries observe AML/CFT measures consistent with the provisions of this Regulation and to apply them to the extent that the local/host country's laws and regulations permit.

Foreign  
Branches  
and  
Subsidiaries.

1.18.5.2 Financial institutions are required to ensure that the above principle is observed with respect to their branches and subsidiaries in countries which do not or insufficiently apply such requirements as contained in this Regulation. Where these minimum AML/CFT requirements and those of the host country differ, branches and subsidiaries of Nigerian financial institutions in the host country are required to apply the higher standard and such must be applied to the extent that the host country's laws, regulations or other measures permit.

1.18.5.3 *Financial institutions are required to inform the CBN in writing when their foreign branches or subsidiaries are unable to*

*observe the appropriate AML/CFT measures because they are prohibited by the host country's laws, regulations or other measures.*

1.18.5.4. Because financial institutions are subject to these AML/CFT principles, they are therefore required to apply consistently the CDD measures at their group levels, taking into account the activity of the customer with the various branches and subsidiaries.

#### 1.18.6.1. *Institutional Policy*

1.18.6.1.1. Financial institutions are required to design comprehensive employee education and training programs not only to make employees fully aware of their obligations but also to equip them with relevant skills required for the effective discharge of their AML/CFT tasks. Indeed, the establishment of such an employee training program is not only considered as best practice but also a statutory requirement.

1.18.6.1.2. The timing, coverage and content of the employee training program should be tailored to meet the perceived needs of the financial institution. Nevertheless, a comprehensive training program is required to encompass staff/areas such as Compliance officers; new staff (as part of the orientation program for those posted to the front office); banking operations/branch office staff (particularly cashiers, account opening, mandate, and marketing staff); internal control/audit staff and managers. *Financial institutions are required to render quarterly returns on their level of compliance to the CBN and NFIU.*

1.18.6.1.3. The employee training program is required to be developed under the guidance of the AML/CFT Compliance Officer in collaboration with the top Management. The basic elements of the employee training program are expected to include :

- AML regulations and offences
- The nature of money laundering
- Money laundering 'red flags' and suspicious transactions, including trade-based money laundering typologies
- Reporting requirements
- Customer due diligence
- Risk-based approach to AML/CFT
- Record keeping and retention policy.

*Financial Institutions are required to submit their Annual AML/CFT Employee training program for the next year to the CBN and NFIU not later than the 31st of December every financial year.*

1.18.7.1 Financial institutions are required to monitor their employees' accounts for potential signs of money laundering. They are also required to subject employees' accounts to the same AML/CFT procedures as applicable to other customers' accounts. *This is required to be performed under the supervision of the AML/CFT Chief Compliance Officer.* The latter's own account is to be reviewed by the Chief Internal Auditor or a person of adequate/similar seniority. *Compliance reports including findings are to be rendered to the CBN and NFIU at the end of June and December every year.*

Monitoring  
of Employee  
Conduct.

1.18.7.2. The AML/CFT performance review of staff is required to be part of employees' annual performance appraisals.

1.18.8.1. Financial institutions are required to *direct their employees in writing to always co-operate fully with the Regulators and law enforcement agents and to promptly report suspicious transactions to the NFIU.* They are also required to make it possible for employees to report any violations of the institution's AML/CFT compliance program to the AML/CFT Compliance Officer. Where the violations involve the Chief Compliance Officer, employees are required to report such to a designated higher authority such as the Chief Internal Auditor.

Protection  
of Staff who  
Report  
Violations.

1.18.8.2. Financial institutions are required to inform their employees in writing to make such reports confidential and that they will be protected from victimization for making them.

1.19.1. *Financial institutions are required to review, identify and record other areas of potential money laundering risks not covered by this Regulation and report same quarterly to the CBN and NFIU.*

Additional  
Areas of  
AML/CFT  
Risks.

1.19.2. Financial institutions are therefore required to review their AML/CFT frameworks from time to time with a view to determining their adequacy and identifying other areas of potential risks not covered by the AML/CFT Regulation.

1.20. Having reviewed the AML/CFT framework and identified new areas of potential money laundering vulnerabilities and risks, *financial institutions are required to design additional procedures and mitigants as contingency plan* in their AML/CFT Operational Manuals. These will provide how such potential risks will be appropriately managed if they crystallize. *Details of the contingency plan are to be rendered to the CBN and NFIU as at 31st December every financial year.*

Additional  
Procedures  
and  
Mitigants.

1.21. Every financial institution is required to make a policy commitment and to subject its AML/CFT Compliance Program to independent-testing or require its internal audit function to determine its adequacy, completeness and effectiveness. *Report of compliance is required to be rendered to the*

Testing for  
the  
Adequacy  
of the AML/  
CFT  
Compliance.



*CBN and NFIU as at 31st December every financial year. Any identified weaknesses or inadequacies should be promptly addressed by the financial institution.*

**Formal Board Approval of the AML/CFT Compliance**

1.22. The ultimate responsibility for AML/CFT compliance is placed on the Board/Top Management of every financial institution in Nigeria. It is, therefore, required that the Board ensures that a *comprehensive operational AML/CFT Regulation is formulated by Management and presented to the Board for consideration and formal approval*. Copies of the approved Regulation above are to be forwarded to the CBN and NFIU within six months of the release of this Regulation. Quarterly reports on the AML/CFT-compliance status of the financial institution are to be presented to the Board for its information and necessary action.

**Culture of Compliance**

1.23. Every financial institution is required to have a *comprehensive AML/CFT-compliance program* to guide its compliance efforts and to ensure the diligent implementation of its Programme. Indeed, entrenching a culture of compliance would not only minimize the risks of being used to launder the proceeds of crime but also provide protection against fraud, reputation and financial risks.

**Special Recommendations**

1.24.1. Terrorist financing offences extend to any person who willfully provides or collects funds by any means, directly or indirectly, with the unlawful intention that the funds would be used or in the knowledge that they are to be used in full or in part to carry out a terrorist act by a terrorist organization or an individual terrorist.

1.24.2. Terrorist financing offences are extended to *any funds* whether from a legitimate or illegitimate source. *Terrorist financing offences, therefore, do not necessarily require that the funds are actually used to carry out or attempt a terrorist-act or be linked to a specific terrorist-act. Attempt to finance terrorist/terrorism and to engage in any of the types of conduct as set out above is also an offence.*

1.24.3. Terrorist financing offences are predicate offences for money laundering. Terrorist financing offences therefore apply, regardless of whether the person alleged to have committed the offence is in the same country or a different country from the one in which the terrorist/terrorist organization is located or the terrorist act occurred or will occur.

**Money or Value Transfer (MVT) Services**

1.25.1. All natural and legal persons that perform *Money or Value Transfer Service (MVTs operators)* are required to be licensed by the CBN. The operators are therefore subject to the provisions of this Regulation.

1.25.2. *MVT service operators are required to maintain a current list of its agents and quarterly returns of such be rendered to the CBN. They are required to gather and maintain sufficient information about their agents and correspondent operators or any other operators or institutions they may do business with.*

1.25.3. MVT operators are required to assess their agents' and correspondent operators' AML/CFT controls and ascertain that they are adequate and effective. They are required to obtain approval from the CBN before establishing new correspondent relationships. They are also required to document and maintain a checklist of the respective AML/CFT responsibilities of each of its agents and correspondent operators.

1.26.1. *For all wire transfers of USD 1,000 or more*, the ordering financial institutions are required to obtain and maintain the following information relating to the originator of the wire transfer :

Wire  
Transfers.

- The name of the originator ;
- The originator's account number (or a unique reference number if no account number exists) ; and
- The originator's address (the address can be substituted with a national identity number).

1.26.2. *For all wire transfers of USD 1,000 or more*, the ordering financial institution is required to verify the identity of the originator in accordance with the CDD requirements contained in this Regulation.

1.26.3. *For cross-border wire transfers of USD 1,000 or more*, the ordering financial institution is required to include the full originator information above in the message or the payment form accompanying the wire transfer.

1.26.4. *However, if several individual cross-border wire transfers of USD 1,000 or more from a single originator are bundled in a batch-file for transmission to beneficiaries in another country*, the ordering financial institution should only include the originator's account number or unique identifier on each individual cross-border wire transfer, provided that the batch-file (in which the individual transfers are batched) contains full originator information that is fully traceable within the recipient country.

1.26.5. *For domestic wire transfers*, the ordering financial institution is required to either :

- (a) include the full originator information in the message or the payment form accompanying the wire transfer ; or
- (b) include only the originator's account number or a unique identifier, within the message or payment form.

1.26.6. The second option should be permitted by financial institution only if full originator information can be made available to the beneficiary financial institution and to the appropriate authorities within three business days of receiving the request.

1.26.7. Each intermediary and beneficiary financial institution in the payment chain is required to ensure that all originator information that accompanies a wire transfer is transmitted with the transfer.

1.26.8. *Where technical limitations prevent the full originator information accompanying a cross-border wire transfer from being transmitted with a related domestic wire transfer (during the necessary time to adapt payment systems), a record must be kept for five years by the receiving intermediary financial institution of all the information received from the ordering financial institution.*

1.26.9. Beneficiary financial institutions are required to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by complete originator information. *The lack of complete originator information is considered as a factor in assessing whether a wire transfer or related transactions are suspicious. The financial institutions are therefore required to report to the NFIU.*

1.26.10. *The beneficiary financial institution is required to restrict or even terminate its business relationship with the financial institutions that fail to meet the above standards.*

1.26.11. Cross-border and domestic transfers between financial institutions are, however, not intended to cover the following types of payments :

- (a) Any transfer that flows from a transaction carried out using a credit or debit card so long as the credit or debit card number accompanies all transfers flowing from the transaction, such as withdrawals from a bank account through an ATM machine, cash advances from a credit card or payments for goods and services. However, *when credit or debit cards are used as a payment system to effect a money transfer the necessary information should be included in the message ; and*
- (b) Financial institution-to-financial institution transfers and settlements where both the originator person and the beneficiary person are financial institutions acting on their own behalf.

**PART B—GUIDANCE ON KNOW YOUR CUSTOMER (KYC)**

**2.0** Financial institutions should not establish a business relationship until all relevant parties to the relationship have been identified and the nature of the business they intend to conduct ascertained. Once an on-going business relationship is established, any inconsistent activity can then be examined to determine whether or not there is an element of money laundering or its suspicion.

2.1.1. The first requirement of knowing your customer for money laundering purposes is for the financial institution to be satisfied that a prospective customer is who he/she claims to be:

Duty to Obtain Identification Evidence.

2.1.2. Financial institutions should not carry out or agree to carry out financial business or provide advice to a customer or potential customer unless they are certain as to who that person actually is. If the customer is acting on behalf of another (the funds are supplied by someone else or the investment is to be held in the name of someone else) *then the financial institution has the obligation to verify the identity of both the customer and the agent/trustee unless the customer is itself a Nigerian regulated financial institution.*

2.1.3. Financial institutions have the duty to obtain evidence in respect of their customers. There are certain exceptions to this duty as set out in *Section 2.9 of this Regulation*. Since exemptions are difficult to apply, financial institutions are required to *identify all relevant parties to the relationship from the outset*. The general principles and means of obtaining satisfactory identification evidence are also set out below:

2.2.1. *Financial institutions are required to obtain sufficient information on the nature of the business that their customer intends to undertake*, including the expected or predictable pattern of transactions.

Nature and Level of the Business.

The information collected at the outset for this purpose should include:

- purpose and reason for opening the account or establishing the relationship;
- nature of the activity that is to be undertaken;
- expected origin of the funds to be used during the relationship; and
- details of occupation/employment/business activities and sources of wealth or income.

2.2.2. *Financial institutions* are required to take reasonable steps to keep the information up to date as the opportunities arise, such as when an existing customer opens a new account. Information obtained during any meeting, discussion or other communication with the customer is required to be recorded and kept in the customer's file to ensure, as far as practicable, that current customer information is readily accessible to the Money Laundering Compliance Officers (MLCO) or relevant regulatory bodies.

2.3.1. Financial institutions are required to take a risk-based approach to the 'Know Your Customer' requirements. Financial institutions are also required to decide the number of times to verify the customers' records during the relationship, the identification evidence required and when additional checks are necessary. These decisions are equally required to be recorded. For personal account relationships, all joint-account holders

Apply Commercial Judgment.

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need to be verified. In respect of private company or partnership, focus should be on the principal owners/controllers and their identities must also be verified.

2.3.2 *The identification evidence collected at the outset should be viewed against the inherent risks in the business or service.*

#### 2.4. ESTABLISHING IDENTITY

Identifica-  
tion  
Evidence.

2.4.1.2. The customer identification process should not start and end at the point of establishing the relationship but continue as far as the business relationship subsists. The process of confirming and updating identity and address, and the extent of obtaining additional KYC information collected will however differ from one type of financial institution to another.

2.4.1.3. The general principles for establishing the identity of both legal and natural persons and the guidance on obtaining satisfactory identification evidence set out in this Regulation are by no means exhaustive.

What is  
Identity?

2.4.2.1. Identity generally means a set of attributes such as names used, date of birth and the residential address at which the customer can be located. These are features which can uniquely identify a natural or legal person.

2.4.2.2. In the case of a natural person, *the date of birth is required to be obtained as an important identifier in support of the name.* It is, however, not mandatory to verify the date of birth provided by the customer.

2.4.2.3. Where an international passport/national identity card is taken as evidence of identity, the number, date and place/country of issue (as well as expiring date in the case of international passport) are required to be recorded.

When Must  
Identity be  
Verified?

2.4.3.1. Identity is required to be verified whenever a business relationship is to be established, on account opening or during one-off transaction or when a series of linked transactions takes place. *“Transaction” in this Regulation is defined to include the giving of advice.* “Advice” here does not apply when information is provided about the availability of products or services when a first interview/discussion prior to establishing a relationship takes place.

2.4.3.2. Once identification procedures have been satisfactorily completed and the business relationship established, as long as contact or activity is maintained and records concerning that customer are complete and kept, no further evidence of identity is needed when another transaction or activity is subsequently undertaken.

2.4.4.1. When an investor finally realizes his investment (wholly or partially), if the amount payable is US\$ 1,000 or above or its equivalent thereof; or such other monetary amounts as may, from time to time, be stipulated by any applicable money laundering legislation or regulation, the identity of the investor must be verified and recorded if it had not been done previously.

2.4.4.2. In the case of redemption or surrender of an investment (wholly or partially), a financial institution is required to take reasonable measures to establish the identity of the investor where payment is made to :

- the legal owner of the investment by means of a cheque crossed "account payee" ; or
- a bank account held (solely or jointly) in the name of the legal owner of the investment by any electronic means effective for transfer funds.

2.4.5.1. (1) *Clients* - sufficient evidence of the identity must be obtained to ascertain that the client is the very person he/she claims to be.

Whose  
Identity  
Must Be  
Verified?

2.4.5.2. (2) *the person acting on behalf of another* - The obligation is to obtain sufficient evidence of identities of the two persons involved. This rule is however, subject to some exceptions. In consortium lending, the lead-manager/agent is required to supply a confirmation letter as evidence that he has obtained the required identity.

2.4.5.3. There is no obligation to look beyond the client where :

- the latter is acting on its own account (rather than for a specific client or group of clients) ;
- the client is a bank, broker, fund manager or other regulated financial institutions; and

All the businesses are to be undertaken in the name of a regulated financial institution.

2.4.5.4. In other circumstances, unless the client is a regulated financial institution acting as agent on behalf of one or more underlying clients within Nigeria, and has given written assurance that it has obtained the recorded-evidence of identity to the required standards, identification evidence should be verified for :

*the named account holder/person* in whose name an investment is registered ;

*any principal beneficial owner of funds* being invested who is not the account holder or named investor ;

*the principal controller(s) of an account* or business relationship (i.e. those who regularly provide instructions) ; and

Any intermediate parties (e.g. where an account is managed or owned by an intermediary).

2.4.5.6. Financial institutions are required to take appropriate steps to identify directors and all the signatories to an account.

2.4.5.7. Joint applicants/account holders - identification evidence should be obtained for all the account holders.

2.4.5.8. For higher risk business undertaken for private companies (i.e. those not listed on the stock exchange) sufficient evidence of identity and address should be verified in respect of:

- the principal underlying beneficial owner(s) of the company with 5% interest and share; and

Those with principal control over the company's assets (e.g. principal controllers/directors).

2.4.5.9. Financial institutions are required to be alert to circumstances that might indicate any significant changes in the nature of the business or its ownership and make enquiries accordingly and to observe the additional provisions for High Risk Categories of Customers under AML/CFT Directive in this Regulation.

2.4.5.10. Trusts - Financial institutions are required to obtain and verify the identity of those providing funds for the Trust. They include the settler and those who are authorized to invest, transfer funds or make decisions on behalf of the Trust such as the principal trustees and controllers who have power to remove the Trustees.

Savings Schemes and Investments in Third Parties' Names.

2.4.6. When an investor sets up a savings account or a regular savings scheme whereby the funds are supplied by one person for investment in the name of another (such as a spouse or a child), the person who funds the subscription or makes deposits into the savings scheme should be regarded as the applicant for business for whom identification evidence must be obtained in addition to the legal owner.

Personal Pension Schemes.

2.4.7.1. Identification evidence must be obtained at the outset for all investors, except personal pensions connected to a policy of insurance taken out by virtue of a contract of employment or pension scheme.

2.4.7.2. Personal pension advisers are charged with the responsibility of obtaining the identification evidence on behalf of the pension fund provider. Confirmation that identification evidence has been taken should be given on the transfer of a pension to another provider.

Timing of Identification Requirements

2.4.8.1. An acceptable time-span for obtaining satisfactory evidence of identity will be determined by the nature of the business, the geographical location of the parties and whether it is possible to obtain

the evidence before commitments are entered into or money changes hands. *However, any occasion when business is conducted before satisfactory evidence of identity has been obtained must be exceptional and can only be those circumstances justified with regard to the risk.*

2.4.8.2. To this end, financial institutions are required to :

(i) obtain identification evidence as soon as reasonably practicable after it has contact with a client with a view to agreeing with the client to carry out an initial transaction; or reaching an understanding (whether binding or not) with the client that it may carry out future transactions; and

(ii) Where the client does not supply the required information as stipulated in (i) above, the financial institution is required to *discontinue any activity it is conducting for the client* ; and bring to an end any understanding reached with the client.

2.4.8.3. *Financial institutions are required to also observe the provision in the Timing of Verification under the AML/CFT Directive of this Regulation.*

2.4.8.4. A financial institution may however start processing the business or application immediately, provided that it :

*promptly takes appropriate steps to obtain identification evidence ; and*

*Does not transfer or pay any money out to a third party until the identification requirements have been satisfied.*

2.4.8.5. The failure or refusal by an applicant to provide satisfactory identification evidence within a reasonable time-frame without adequate explanation may lead to a suspicion that the depositor or investor is engaged in money laundering. *The financial institution is required to therefore make a Suspicious Activity Report to the NFIU based on the information in its possession before the funds involved are returned to the potential client or where they came from.*

2.4.8.6. Financial institutions are required to *have in place written and consistent policies of closing an account or unwinding a transaction where satisfactory evidence of identity cannot be obtained.*

2.4.8.7. Financial institutions are also required to respond promptly to inquiries made by competent authorities and financial institutions relating to the identity of their customers.

2.4.9. Where an investor exercises cancellation rights or cooling-off rights, the sum invested must be repaid subject to some deductions, where applicable. Since cancellation/cooling-off rights could offer a readily available route for laundering money, financial institutions should be alert

Cancellation  
and  
Cooling-off  
Rights.



to any abnormal exercise of these rights by an investor or in respect of business introduced through an intermediary. *In the event where abnormal exercise of these rights becomes apparent, the matter should be treated as suspicious and reported to the NFIC.*

## 2.5. IDENTIFICATION PROCEDURES

### General Principles

2.5.1.1. A financial institution is required to ensure that it is dealing with a real person or organization (natural, corporate or legal) by obtaining sufficient identification evidence. *When reliance is being placed on a third party to identify or confirm the identity of an applicant, the overall responsibility for obtaining satisfactory identification evidence rests with the account holding financial institution.*

2.5.1.2. The requirement in all cases is to obtain satisfactory evidence that a person of that name lives at the address given and that the applicant is that person or that the company has identifiable owners and that its representatives can be located at the address provided.

2.5.1.3. Because no single form of identification can be fully guaranteed as genuine or representing correct identity, the identification process should be cumulative.

2.5.1.4. The procedures adopted to verify the identity of private individuals and whether or not identification was done face to face or remotely are required to be stated in the customer's file. The reasonable steps taken to avoid single, multiple fictitious applications or substitution (impersonation) fraud are required to be stated also by the financial institution.

2.5.1.5. An introduction from a respected customer, a person personally known to a Director or Manager or a member of staff often provides comfort *but must not replace the need for identification evidence requirements to be complied with as set out in this Regulation.* Details of the person who initiated and authorized the introduction should be kept in the customer's mandate file along with other records. *It is therefore mandatory that Directors/Senior Managers insist on following the prescribed identification procedures for every applicant.*

### New Business for Existing Customers

2.5.2.1. When an existing customer closes one account and opens another or enters into a new agreement to purchase products or services, there is no need to verify the identity or address for such a customer unless the name or the address provided does not tally with the information in the financial institution's records. However, procedures are required to be put in place to guard against impersonation or fraud. The opportunity of opening the new account should also be taken to ask the customer to confirm the relevant details and to provide any missing KYC information. This is particularly important :

if there was an existing business relationship with the customer and identification evidence had not previously been obtained; or

if there had been no recent contact or correspondence with the customer within the past three months; or

When a previously dormant account is re-activated.

2.5.3.2. In the circumstances above, details of the previous account(s) and any identification evidence previously obtained or any introductory records should be linked to the new account records and retained for the prescribed period in accordance with the provision of this Regulation.

2.5.3.1. In order to guard against the dangers of postal interception and fraud, prospective customers should not be asked to send by post originals of their valuable personal identity documents such as international passport, identity card, driver's licence, etc.

Certification  
of  
Identification  
Documents.

2.5.3.2. Where there is no face-to-face contact with the customer and documentary evidence is required, copies certified by a lawyer, notary public or court of competent jurisdiction, banker, accountant, senior public servant or other official in the relevant sector should be obtained. The person undertaking the certification must be trusted and capable of being monitored if necessary.

2.5.3.2. In the case of foreign nationals, a copy of international passport, national identity card or documentary evidence of identity which is required to be certified by:

the embassy, consulate or high-commission of the country of issue; or

a senior official within the account opening institution; or

a lawyer, attorney or notary public.

2.5.3.4. Certified copies of identification evidence are to be stamped, dated and signed "*original sighted by me*" by a senior officer of the financial institution. Financial institutions are required to always ensure that a good production of the photographic evidence of identity is obtained. *Where this is not possible, a copy of evidence verified as providing a good likeness of the applicant could only be acceptable in the interim.*

2.5.4.1. *Records of the supporting evidence and methods used to verify identity are required to be retained for a minimum period of five years after the account is closed or the business relationship ended.*

Recording  
Identification  
Evidence.

2.5.4.2. Where the supporting evidence could not be copied at the time it was presented, the reference numbers and other relevant details

of the identification evidence are required to be recorded to enable the documents to be obtained later. Confirmation is required to be provided that the original documents were seen by certifying either on the photocopies or on the record that the details were taken down as evidence.

2.5.4.3. Where checks are made electronically, a record of the actual information obtained or where it can be re-obtained must be retained as part of the identification evidence. Such records will make the reproduction of the actual information that would have been obtained before, less cumbersome.

Concession  
in respect of  
Payment  
made by  
Post.

2.5.5.1. Concession may be granted for product or services (*where the money laundering risk is considered to be low*) in respect of long-term life insurance business or purchase of personal investment products. If payment is to be made from an account held in the customer's name (or jointly with one or more other persons) at a regulated financial institution, no further evidence of identity is necessary.

2.5.5.2. Waiver of additional verification requirements for postal or electronic transactions *does not apply to the following* :

- products or accounts where funds can be transferred to other types of products or accounts which provide cheque or money transfer facilities ;
- situations where funds can be repaid or transferred to a person other than the original customer ;
- investments where the characteristics of the product or account may change subsequently to enable payments to be made to third parties.

2.5.5.3. *Postal concession is not an exemption from the requirement to obtain satisfactory evidence of a customer's identity.* Payment debited from an account in the customer's name shall be capable of constituting the required identification evidence in its own right.

2.5.5.4. *In order* to avoid criminal money from being laundered by a customer who uses a third-party cheque, draft or electronic payment drawn on a bank, etc, financial institutions may rely upon the required documentary evidence of the third party, without further verification of the identity, where there is no apparent inconsistency between the name in which the application is made and the name on the payment instrument. Payments from joint accounts are considered acceptable for this purpose. *The overriding requirement is that the name of the account-holder from where the funds have been provided must be clearly indicated on the record reflecting the payment/ receipt.*

2.5.5.5. In the case of a mortgage institution's cheque or banker's draft, it will only be possible to rely on this concession if the holder of

the account from which the money is drawn is confirmed to have met the KYC requirements by the mortgage institution or bank. Likewise, payments by direct debit or debit card cannot be relied upon unless the authentication procedure identifies the name of the account holder from which the payment is drawn and confirms the customer's address.

2.5.5.6. In respect of direct debits, it cannot be assumed that the account-holding bank/institution will carry out any form of validation of the account name and number or that the mandate will be rejected if they do not match. Consequently, where payment for the product is to be made by direct debit or debit card/notes, and the applicant's account details have not previously been verified through sighting of a bank statement or cheque drawn on the account, *repayment proceeds should only be returned to the account from which the debits were drawn.*

2.5.5.7. Records are required to be maintained indicating how a transaction arose, including details of the financial institution's branch and account number from which the cheque or payment is drawn.

2.5.5.8. The concession can apply both where an application is made directly to the financial institution and where a payment is passed through a regulated intermediary.

2.5.5.9. *A financial institution that has relied on the postal concession to avoid additional verification requirements (which must be so indicated on the customer's file) cannot introduce that customer to another financial institution for the purpose of offering bank accounts or other products that provide cheque or money transmission facilities.*

2.5.5.10. If such a customer wishes to migrate to an account that provides cheque or third party transfer facilities, then additional identification checks must be undertaken at that time. Where these circumstances occur on a regular basis, financial institutions are required to identify all the parties to the relationship at the outset.

2.5.6. TDA can be broadly classified as a one-off transaction. However, financial institutions should note that concession is not available for TDAs opened with cash where there is no audit trail of the source of funds or where payments to or from third parties are allowed into the account. The identity verification requirements will therefore differ depending on the nature and terms of the TDA.

Term  
Deposit  
Account  
(TDA).

2.5.7. In circumstances where the balance in an investment funds account is transferred from one Funds Manager to another and the value at that time is above \$1,000 or its equivalent and identification evidence has neither been taken nor confirmation obtained from the original Fund Manager, then such evidence should be obtained at the time of the transfer.

Investment  
Funds.

## 2.6. ESTABLISHING IDENTITY

Establishing identity under this Regulation is divided into three broad categories :

- Private individual customers ;
- Quasi corporate customers ; and
- Pure corporate customers.

### 2.6.1. PRIVATE INDIVIDUALS

#### General Information.

2.6.1.1.1. The following information is to be established and independently validated for all private individuals whose identities need to be verified :

- the true full name(s) used ; and
- the permanent home address, including landmarks and postcode, where available.

2.6.1.1.2 The information obtained should provide satisfaction that a person of that name exists at the address given and that the applicant is that person. Where an applicant has recently moved from a house, the previous address should be validated.

2.6.1.1.3. *It is important to obtain the date of birth as it is required by the law enforcement agencies. However, the information need not be verified. It is also important for the residence/nationality of a customer to be ascertained to assist risk assessment procedures.*

2.6.1.1.4. A risk-based approach should be adopted when obtaining satisfactory evidence of identity. The extent and number of checks can vary depending on the perceived risk of the service or business sought and whether the application is made in person or through a remote medium such as telephone, post or the internet. The source of funds of how the payment was made, from where and by whom must always be recorded to provide an audit trail. *However, for high risk products, accounts or customers, additional steps should be taken to ascertain the source of wealth/funds.*

2.6.1.1.5. For low-risk accounts or simple investment products such as deposit or savings accounts without cheque-books or automated money transmission facilities, there is an overriding requirement for the financial institution to satisfy itself as to the identity and address of the customer.

#### Private Individuals Resident in Nigeria.

2.6.1.2. The confirmation of name and address is to be established by reference to a number of sources. The checks should be undertaken by cross-validation that the applicant exists at the stated address either through

the sighting of actual documentary evidence or by undertaking electronic checks of suitable databases, or by a combination of the two. *The overriding requirement to ensure that the identification evidence is satisfactory rests with the financial institution opening the account or providing the product/service.*

2.6.1.3.1. In order to guard against forged or counterfeit documents, *care should be taken to ensure that documents offered are originals. Copies that are dated and signed 'original seen' by a senior public servant or equivalent in a reputable private organization could be accepted in the interim, pending presentation of the original documents.* Hereunder are examples of suitable documentary evidence for Nigerian resident private individuals :

Documenting  
Evidence of  
Identity.

*(i) Personal Identity Documents*

*Primary*

- Current International Passport
- National Identity card
- Current Drivers' Licence issued by the Federal Road Safety Commission (FRSC)

*Secondary*

- Residence Permit issued by the Nigerian Immigration Services (NIS)
- Inland Revenue Tax Clearance Certificate
- Birth Certificate/Sworn Declaration of Age

*(ii) Documentary Evidence of Address*

- Record of home visit in respect of non-Nigerians
- Confirmation from the electoral register that a person of that name lives at that address
- Recent utility bill (e.g. PHCL, NITEL, etc.)
- State/Local Government Rates
- Bank statement or passbook containing current address
- Solicitor's letter confirming recent house purchase or search report from the Land Registry
- Tenancy Agreement
- Search reports on prospective customer's place of employment and residence signed by a senior officer of the financial institution.

2.6.1.3.2. *Checking of a local or national telephone directory can be used as additional corroborative evidence but this should not be used as a primary check.*

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Physical  
Checks on  
Private  
Individuals  
Resident in  
Nigeria.

2.6.1.4.1. *It is mandatory for financial institutions to establish the true identities and addresses of their customers and for effective checks to be carried out to protect the institutions against substitution of identities by applicants.*

2.6.1.4.2. Additional confirmation of the customer's identity and the fact that the application was made by the person identified should be obtained through one or more of the following procedures:

- a direct mailing of account opening documentation to a named individual at an independently verified address;
- an initial deposit cheque drawn on a personal account in the applicant's name in another financial institution in Nigeria;
- telephone contact with the applicant prior to opening the account on an independently verified home or business number or a "welcome call" to the customer before transactions are permitted, utilizing a minimum of two pieces of personal identity information that had been previously provided during the setting up of the account;
- internet sign-on following verification procedures where the customer uses security codes, tokens, and/or other passwords which had been set up during account opening and provided by mail (or secure delivery) to the named individual at an independently verified address;
- card or account activation procedures.

2.6.1.4.3. *Financial institutions are required to ensure that additional information concerning the nature and level of the business to be conducted and the origin of the funds to be used within the relationship are also obtained from the customer.*

Electronic  
Checks.

2.6.1.5.1. As an alternative or supplementary to documentary evidence of identity and address, the applicant's identity, address and other available information may be checked electronically by accessing other data-bases or sources. Each source may be used separately as an alternative to one or more documentary checks.

2.6.1.5.2. *Financial institutions are required to use a combination of electronic and documentary checks to confirm different sources of the same information provided by the customers.* Physical and electronic checks of the same statement of account are the different sources.

2.6.1.5.3. In respect of electronic checks, confidence as to the reliability of information supplied will be established by the cumulative nature of checking across a range of sources, preferably covering a period of time or through qualitative checks that assess the validity of the information supplied. The number or quality of checks to be undertaken

will vary depending on the diversity as well as the breadth and depth of information available from each source. Verification that the applicant is the data-subject also needs to be conducted within the checking process.

2.6.1.5.4 Some examples of suitable electronic sources of information are set out below :

An electronic search of the Electoral Register (is not to be used as a sole identity and address check) :

Access to internal or external account database ; and

An electronic search of public records where available.

2.6.1.5.5: Application of the above process and procedures will assist financial institutions to guard against impersonation, invented-identities and the use of false address. *However, if the applicant is a non-face to face person, one or more additional measures must be undertaken for re-assurance.*

2.6.1.5.6. ***“Financial Exclusion” For the socially and/or financially disadvantaged Applicants Resident in Nigeria.***

2.6.1.5.7. Access to basic banking facilities and other financial services is a necessary requirement for most adults. It is important therefore that the socially-and/or-financially disadvantaged should not be precluded from opening accounts or obtaining other financial services merely because they do not possess evidence to identify themselves. *In circumstances where they cannot reasonably do so, the internal procedures of the financial institutions must make allowance for such persons by way of providing appropriate advice to staff on how the identities of such group of persons can be confirmed and what checks should be made under these exceptional circumstances.*

2.6.1.5.8. Where a financial institution has reasonable grounds to conclude that an individual client is not able to produce the detailed evidence of his identity and cannot reasonably be expected to do so, *the institution may accept as identification evidence a letter or statement from a person in a position of responsibility such as solicitors, doctors, ministers of religion and teachers who know the client, confirming that the client is who he says he is, and to confirm his permanent address.*

2.6.1.5.9. *When a financial institution has decided to treat a client as “financially excluded”, it is required to record the reasons for doing so along with the account opening documents. Returns should then be rendered to the CBN and NFIU quarterly on this category of customers.*



2.6.1.5.10. The financial institution should satisfy itself that such customer is the person he/she claims to be. *Therefore, where a letter/statement is accepted from a person in position of responsibility, it should include a telephone number where the person can be contacted for verification. The financial institution should verify from an independent source the information provided by that person.*

2.6.1.5.11. *In order to guard against "financial exclusion" and to minimize the use of the exception procedure, financial institutions must include in their internal procedures the "alternative documentary evidence of personal identity and address" that can be accepted.*

2.6.1.5.12. Financial institutions are required to *put in place additional monitoring for accounts opened under the financial exclusion exception procedures to ensure that such accounts are not misused.*

Private  
Individuals  
not resident  
in Nigeria.

2.6.1.6.1. For those prospective customers who are not resident in Nigeria but who make face-to-face contact, international passports or national identity cards should generally be available as evidence of the name of the customer. Reference numbers, date and country of issue should be obtained and the information recorded in the customer's file as part of the identification evidence.

2.6.1.6.2. Financial institutions are required to obtain separate evidence of the applicant's permanent residential address from the best available evidence, preferably from an official source. *A "P. O. Box number" alone is not accepted as evidence of address.* The applicant's residential address should be such that it can be physically located by way of a recorded description or other means.

2.6.1.6.3. Relevant evidence should be obtained by the financial institution directly from the customer or through a reputable credit or financial institution in the applicant's home country or country of residence. However, particular care must be taken when relying on identification evidence provided from other countries. Financial institutions are required to ensure that the customer's true identity and current permanent address are actually confirmed. *In such cases, copies of relevant identity documents should be sought and retained.*

2.6.1.6.4. Where a foreign national has recently arrived in Nigeria, reference might be made to his/her employer, university, evidence of traveling documents, etc. to verify the applicant's identity and residential address.

Private  
Individuals  
not  
Resident in  
Nigeria:  
Supply of  
Information.

2.6.1.7.1. For a private individual not resident in Nigeria who wishes to supply documentary information by post, telephone or electronic means, *a risk-based approach must be taken.* The financial institution is required to *obtain one separate item of evidence in respect of the name of the customer and one separate item for the address.*

2.6.1.7.2. Documentary *evidence of name and address* can be obtained :

- by way of original documentary evidence supplied by the customer ; or
- by way of a certified copy of the customer's passport or national identity card and a separate certified document verifying address e.g. a driving licence, utility bill, etc ; or
- through a branch, subsidiary, head office of a correspondent bank.

2.6.1.7.3. *Where the applicant does not already have a business relationship with the financial institution that is supplying the information or the financial institution is not within Nigeria, certified copies of relevant underlying documentary evidence must be sought, obtained and retained by the institutions.*

2.6.1.7.4. Where necessary, an additional effort must be obtained by confirming the customer's true name, address and date of birth from a reputable credit institution in the customer's home country.

*Financial institutions are requested to use these requirements in conjunction with Appendix A to this Regulation.*

2.6.1.8.1. Because of possible false identities and impersonations that can arise with non face-to-face customers, it is important to ensure that the applicant is who he/she claims to be. Accordingly, *one additional measure or check should be undertaken to supplement the documentary or electronic evidence.* These additional measures will apply whether the applicant is resident in Nigeria or elsewhere and must be particularly robust where the applicant is requesting a bank account or other product/service that offers money transmission or third party payments.

Non Face-to-Face Identification.

2.6.1.8.2. *Procedures to identify and authenticate the customer have to ensure that there is sufficient evidence either documentary or electronic to confirm his address and personal identity and to undertake at least one additional check to guard against impersonation or fraud.*

2.6.1.8.3. *The extent of the identification evidence required will depend on the nature and characteristics of the product or service and the assessed risk.* However, care must be taken to ensure that the same level of information is obtained for internet customers and other postal/telephone customers.

2.6.1.8.4. If reliance is being placed on intermediaries to undertake the processing of applications on the customer's behalf, checks should be undertaken to ensure that the intermediaries are regulated for money laundering prevention and that the relevant identification procedures

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are applied. *In all cases, evidence as to how identity has been verified should be obtained and retained with the account opening records.*

2.6.1.8.5. Financial institutions are directed to conduct regular monitoring of internet-based business clients. If a significant proportion of the business is operated electronically, *computerized monitoring systems/solutions that are designed to recognize unusual transactions and related patterns of transactions should be put in place to recognize suspicious transactions. AML/CFT compliance officers are required to review these systems/solutions, record exemptions and report same quarterly to the NFIU.*

**Refugees  
and Asylum  
Seekers.**

2.6.1.9.1. A refugee and asylum seeker may require a basic bank account without being able to provide evidence of identity. In such circumstances, authentic references from Ministry of Internal Affairs or an appropriate government agency should be used in conjunction with other readily available evidence.

2.6.1.9.2. Additional monitoring procedures should however be undertaken to ensure that the use of the account is consistent with the customer's circumstances.

**Students  
and Minors.**

2.6.1.10.1. When opening accounts for students or other young people, the normal identification procedures set out in this Regulation should be followed as far as possible. Where such procedures would not be relevant or do not provide satisfactory identification evidence, verification could be obtained:

- via the home address of the parent(s); or
- by obtaining confirmation of the applicant's address from his/her institution of learning; or
- by seeking evidence of a tenancy agreement or student accommodation contract

2.6.1.10.2. Often, an account for a minor will be opened by a family member or guardian. In cases where the adult opening the account does not already have an account with the financial institution, *the identification evidence for that adult, or of any other person who will operate the account should be obtained in addition to obtaining the birth certificate or passport of the child.* It should be noted that this type of account could be open to abuse and therefore strict monitoring should be undertaken.

2.6.1.10.3. For accounts opened through a school-related scheme, the school should be asked to provide the date of birth and permanent address of the pupil and to complete the standard account opening documentation on behalf of the pupil.

## 2.6.2. QUASI CORPORATE CUSTOMERS

2.6.2.1.1. Trusts, nominee companies and fiduciaries are popular vehicles for criminals wishing to avoid the identification procedures and mask the origin of the criminal money they wish to launder. The particular characteristics of Trust that attract the genuine customer, the anonymity and complexity of structures that they can provide are also highly attractive to money launderers.

Trust,  
Nominees  
and  
Fiduciaries.

2.6.2.1.2. Some trusts, nominees and fiduciary accounts present a higher money laundering risk than others. *Identification and "Know Your Business" procedures need to be set and managed according to the perceived risk.*

2.6.2.1.3. The principal objective of money laundering prevention via trusts, nominees and fiduciaries is to verify the identity of the provider of funds such as the settlor, and those who have control over the funds (the trustees and any controllers who have the power to remove the trustees). *For discretionary or offshore Trust, the nature and purpose of the Trust and the original source of funding must be ascertained.*

2.6.2.1.4. Whilst reliance can often be placed on other financial institutions that are regulated for money laundering prevention to undertake the checks or confirm identity, the responsibility to ensure that this is undertaken rests with the financial institution. The underlying evidence of identity must be made available to law enforcement agencies in the event of an investigation.

2.6.2.1.5. *Identification requirements must be obtained and not waived for any trustee who does not have authority to operate an account and cannot give relevant instructions concerning the use or transfer of funds.*

2.6.2.2.1. Offshore Trusts present a higher money laundering risk and therefore additional measures are needed *for Special Purpose Vehicles (SPVs) or International Business Companies connected to Trusts, particularly when Trusts are set up in offshore locations with strict bank secrecy or confidentiality rules. Those created in jurisdictions without equivalent money laundering procedures in place should warrant additional enquiries.*

Offshore  
Trusts.

2.6.2.2.2. Unless the applicant for business is itself a regulated financial institution, measures should be taken to identify the Trust company or the corporate service provider in line with the requirements for professional intermediaries or companies generally.

2.6.2.2.3. Certified copies of the documentary evidence of identity for the underlying principals such as settlors, controllers, etc. on whose

behalf the applicant for business is acting, should also be obtained.

2.6.2.2.4. For overseas Trusts, nominee and fiduciary accounts, where the applicant is itself a financial institution that is regulated for money laundering purposes :

reliance can be placed on an introduction or intermediary certificate letter stating that evidence of identity exists for all underlying principals and confirming that there are no anonymous principals ;

the trustees/nominees should be asked to state from the outset the capacity in which they are operating or making the application ;

documentary evidence of the appointment of the current Trustees should also be obtained.

2.6.2.2.5. Where the underlying evidence is not retained within Nigeria, enquiries should be made to determine, as far as practicable, that there are no overriding bank secrecy or confidentiality constraints that will restrict access to the documentary evidence of identity, should it be needed in Nigeria.

2.6.2.2.6. *Any application to open an account or undertake a transaction on behalf of another without the applicant identifying their Trust or Nominee capacity should be regarded as suspicious and should lead to further enquiries and rendition of reports to the NFIU.*

2.6.2.2.7. Where a bank in Nigeria is itself the applicant for an offshore Trust on behalf of a customer, if the corporate Trustees are not regulated, then the Nigerian bank should undertake the due diligence on the Trust itself.

2.6.2.2.8. If the funds have been drawn upon an account that is not under the control of the Trustees, the identity of two of the authorized signatories and their authority to operate the account should also be verified. When the identity of beneficiaries has not previously been verified, verification should be undertaken when payments are made to them.

**Conventional  
Family and  
Absolute  
Nigerian  
Trusts.**

2.6.2.3.1. In the case of conventional Nigerian Trusts, identification evidence should be obtained for :

those who have control over the funds (the principal trustees who may include the settlor) ; and

the providers of the funds (the settlors, except where they are deceased) ; and

Where the settlor is deceased, written confirmation should be obtained for the source of funds (grant of probate or copy of the Will or other document creating the Trust).

2.6.2.3.2. Where a corporate Trustee such as a bank acts jointly with a co-Trustee, any non-regulated co-Trustees should be verified even if the corporate Trustee is covered by an exemption. The relevant guidance contained in this Regulation for verifying the identity of persons, institutions or companies should be followed.

2.6.2.3.3. Although a financial institution may not review any existing Trust, confirmation of the settlor and the appointment of any additional Trustees should be obtained.

2.6.2.3.4. Copies of any underlying documentary evidence should be certified as true copies. In addition, a check should be carried out to ensure that any bank account on which the Trustees have drawn funds is in their names. Taking a risk based approach, consideration should be given as to whether the identity of any additional authorized signatories to the bank account should also be verified.

2.6.2.3.5. It is a normal practice for payment of any trust property to be made to all the Trustees. As a matter of practice, some life assurance companies make payments directly to beneficiaries on receiving a request from the Trustees. In such circumstances, *the payment should be made to the named beneficiary by way of a crossed cheque marked "account payee only" or a bank transfer direct to an account in the name of the beneficiary.*

2.6.2.4.1. Where money is received on behalf of a Trust, reasonable steps should be taken to ensure that :

- the source of the funds is properly identified ; and
- the nature of the transaction or instruction is understood.

2.6.2.4.2. It is also important to ensure that payments are properly authorized in writing by the Trustees.

#### 2.6.2.4.3. *Identification of New Trustees*

Where a Trustee who has been verified is replaced, the identity of the new Trustee should be verified before he/she is allowed to exercise control over the funds.

#### 2.6.2.4.4. *Life Policies Placed in Trust*

Where a life policy is placed in Trust, the applicant for the policy is also a Trustee and where the Trustees have no beneficial interest in the funds, it should only be necessary to *verify the identity of the person*

Receipt and  
Payment of  
Funds.

*applying for the policy.* The remainder of the Trustees would however need to be identified in a situation where policy proceeds were being paid to a third party not identified in the trust deed.

**Power of Attorney and Third Party Mandates.**

2.6.2.5.1. The authority to deal with assets under a Power of Attorney and Third Party Mandates constitutes a business relationship. Consequently, at the start of the relationship, *identification evidence should be obtained from the holders of powers of attorney and third party mandates in addition to the customer* or subsequently on a later appointment of a new attorney, if advised, particularly within one year of the start of the business relationship. New attorney for corporate or Trust business should always be verified. *The most important requirement is for financial institution to ascertain the reason for the granting of the power of attorney.*

2.6.2.5.2. Records of all transactions undertaken in accordance with a Power of Attorney should be maintained as part of the client's record.

**Executorship Accounts.**

2.6.2.6.1. Where a bank account is opened for the purpose of winding up the estate of a deceased person, the identity of *the executor / administrator of the estate is required to be verified.*

2.6.2.6.2. However, identification evidence would not normally be required for the executors/administrators when payment is being made from an established bank or mortgage institution's account in the deceased's name, solely for the purpose of winding up the estate in accordance with the Grant of Probate or Letter of Administration. Similarly, where a life policy pays out on death, there is normally no need to obtain identification evidence for the legal representatives.

2.6.2.6.3. Payments to the underlying named beneficiaries on the instructions of the executor or administrator may also be made without additional verification requirements. However, if a beneficiary wishes to transact business in his/her own name, then identification evidence will be required.

2.6.2.6.4. *In the event that suspicions are aroused concerning the nature or origin of assets comprising an estate that is being wound up, then reports of the suspicions are required to be rendered to the NFIC.*

**"Client Accounts" Opened By Professional Intermediaries.**

2.6.2.7.1. Stockbrokers, fund managers, solicitors, accountants, estate agents and other intermediaries frequently hold funds on behalf of their clients in "client accounts" opened with financial institutions. Such accounts may be general omnibus accounts holding the funds of many clients or they may be opened specifically for a single client. *In each case, it is the professional intermediary who is the financial institution's customer.* These situations should be distinguished from

those where an intermediary introduces a client who himself becomes a customer of the financial institution.

2.6.2.7.2. Where the professional intermediary is itself covered and is indeed monitored by the money laundering regulations and AML/CFT supervisors respectively or their equivalent, identification can be waived on production of evidence.

2.6.2.7.3. However, where the professional intermediary is not regulated under the Money Laundering Regulations or their equivalent, *the financial institution should not only verify the identity of the professional intermediary but should verify also the identity of the person on whose behalf the professional intermediary is acting.*

2.6.2.7.4. Where it is impossible for a financial institution to establish the identity of the person(s) for whom a solicitor or accountant is acting, it will need to take a commercial decision based on its knowledge of the intermediary, as to the nature and extent of business that they are prepared to conduct if the professional firm is not itself covered by this Regulation. *Financial institutions, should be prepared to make reasonable enquiries about transactions passing through client-accounts that give cause for concern and should report any transaction where suspicions cannot be satisfied to the NFIU.*

2.6.2.8.1. Where the applicant is an un-incorporated business or a partnership whose principal partners/controllers do not already have a business relationship with the financial institution, identification evidence should be obtained for the principal beneficial owners/controllers. This would also entail identifying one or more signatories in whom significant control has been vested by the principal beneficial owners/controllers.

Unincorporated  
Business/  
Partnership.

2.6.2.8.2. Evidence of the trading address of the business or partnership should be obtained. Where a current account is being opened, a visit to the place of business might also be made to confirm the true nature of the business activities. For established businesses, a copy of the latest report and audited accounts should be obtained.

2.6.2.8.3. The nature of the business or partnership should be ascertained (but not necessarily verified from a partnership deed) to ensure that it has a legitimate purpose. In cases where a formal partnership arrangement exists, a mandate from the partnership authorizing the opening of an account or undertaking the transaction and conferring authority on those who will undertake transactions should be obtained.

2.6.2.9. A limited liability partnership should be treated as corporate customers for verification of identity and Know your customer purposes.

Limited  
Liability  
Partnership.



## General Principles

## 2.6.3. PURE CORPORATE CUSTOMERS

2.6.3.1.1. Complex organizations and their structures, other corporate and legal entities are the most likely vehicles for money laundering. Those that are privately owned are being fronted by legitimate trading companies. Care should be taken to verify the legal existence of the applicant-company from official documents or sources and to ensure that persons purporting to act on its behalf are fully authorized. Enquiries should be made to confirm that the legal person is not merely a "brass-plate company" where the controlling principals cannot be identified.

2.6.3.1.2. The identity of a corporate company comprises :

- registration number ;
- registered corporate name and any trading names used ;
- registered address and any separate principal trading addresses ;
- directors ;
- owners and shareholders ; and
- the nature of the company's business.

2.6.3.1.3 The extent of identification measures required to validate this information or the documentary evidence to be obtained depends on the nature of the business or service that the company requires from the financial institution. *A risk-based approach should be taken.* In all cases, information as to the nature of the normal business activities that the company expects to undertake with the financial institution should be obtained. Before a business relationship is established, measures should be taken by way of company search in the Corporate Affairs Commission (CAC) and other commercial enquiries undertaken to check that the applicant company's legal existence has not been or is not in the process of being dissolved, struck off, wound up or terminated.

## Non Face-to-Face Business

2.6.3.2.1. As with the requirements for private individuals, because of the additional risks with non face-to-face business, additional procedures must be undertaken to ensure that the applicant's business, company or society exists at the address provided and it is for a legitimate purpose.

2.6.3.2.2. Where the characteristics of the product or service permit, care should be taken to ensure that relevant evidence is obtained to confirm that any individual representing the company has the necessary authority to do so.

2.6.3.2.3. *Where the principal owners, controllers or signatories need to be identified within the relationship, the relevant requirements for the identification of personal customers should be followed.*

## Low Risk Corporate Business

## 2.6.3.3.1. Public Registered Companies

2.6.3.3.1.1 Corporate customers that are listed on the stock exchange are considered to be publicly owned and generally accountable. Consequently, there is no need to verify the identity of the individual shareholders.

2.6.3.3.1.2 Similarly, it is not necessary to identify the directors of a quoted company. However, financial institutions are required to make appropriate arrangements *to ensure that the individual officer or employee (past or present) is not using the name of the company or its relationship with the financial institution for a criminal purpose.* The Board Resolution or other authority for any representative to act on behalf of the company in its dealings with the financial institution should be obtained to confirm that the individual has the authority to act. *Phone calls can be made to the Chief Executive Officer of such a company to intimate him of the application to open the account before the financial institution.*

2.6.3.3.1.3. No further steps should be taken to verify identity over and above the usual commercial checks where the applicant company is :

- listed on the stock exchange ; or
- there is independent evidence to show that it is a wholly owned subsidiary or a subsidiary under the control of such a company.

2.6.3.3.1.4. *Due diligence will normally be conducted where the account or service required falls within the category of higher risk business.*

#### 2.6.3.3.2. *Private Companies*

2.6.3.3.2.1. Where the applicant is an unquoted company and none of the principal directors or shareholders already have an account with the financial institution, the following documents should be obtained from an official or recognized independent source to verify the business itself:

(i) a copy of the certificate of incorporation/registration, evidence of the company's registered address *and* the list of shareholders and directors ;

(ii) a search at the Corporate Affairs Commission (CAC) or an enquiry via a business information service to obtain the information in (i) above ;  
**and**

(iii) an undertaking from a firm of lawyers or accountants confirming the documents submitted to the CAC.

2.6.3.3.2.2. Attention should be paid to the place of origin of the documents and the background against which they were produced. If comparable documents cannot be obtained, then verification of principal beneficial owners/controllers should be undertaken.

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**Higher Risk  
Business.**

**2.6.3.4.1. Bank Accounts for Registered Public Companies**

Where a higher-risk business applicant is seeking to enter into a full banking relationship or any other business relationship where third party funding and transactions are permitted, *the following evidence must be obtained* either in documentary or electronic form:

*For established companies* (those incorporated for 18 months or more) a set of the latest report and audited accounts is required to be produced.

*A search report* at the CAC or an enquiry via a business information service or an undertaking from a firm of lawyers or accountants confirming the documents submitted to the CAC;

*A certified copy of the resolution of the Board of Directors* to open an account and confer authority on those who will operate it; and

*The Memorandum and Articles of Association* of the company.

**2.6.3.4.2. Higher Risk Business Relating to Private Companies.**

For private companies undertaking higher risk business (in addition to verifying the legal existence of the business) *the principal requirement is to look behind the corporate entity to identify those who have ultimate control over the business and the company's assets.* What constitutes significant shareholding or control for this purpose will depend on the nature of the company. *Identification evidence is required to be obtained for those shareholders with interests of 5% or more.*

**2.6.3.4.3. The principal control rests with those who are mandated to manage the funds, accounts or investments without requiring authorization and who would be in a position to override internal procedures and control mechanisms.**

2.6.3.4.4 Identification evidence should be obtained for the principal-beneficial owner(s) of the company and any other person with principal control over the company's assets. Where the principal owner is another corporate entity or Trust, the objective is to undertake measures that look behind that company or vehicle and verify the identity of the beneficial-owner(s) or settlors. *When financial institutions become aware that the principal-beneficial owners/controllers have changed, they are required to ensure that the identities of the new ones are verified.*

**2.6.3.4.5. Financial institutions are required to also identify directors who are not principal controllers and signatories to an account for risk based approach purpose.**

**2.6.3.4.6** In respect of a full banking relationship (irrespective of whether or not the turnover is significant) *a visit to the place of business must be*

*undertaken to confirm the existence of business premises and the nature of the business activities conducted.*

2.6.3.4.7. *If suspicions are aroused by a change in the nature of the business transacted or the profile of payments through a bank or investment account, further checks should be made to ascertain the reason for the changes.*

2.6.3.4.8. For full banking relationships, *periodic enquiries are required to be made* to establish whether there have been any changes to controllers, shareholders or to the original nature of the business or activity.

2.6.3.4.9. *Particular care should be taken to ensure that full identification and "Know Your Customer" requirements are met if the company is an International Business Company (IBC) registered in an offshore jurisdiction and operating out of a different jurisdiction.*

2.6.3.5.1 For foreign financial institutions, the confirmation of existence and regulated status should be checked by one of the following means :

- checking with the home country's Central Bank or relevant supervisory body ; or
- checking with another office, subsidiary, branch, or correspondent bank in the same country ; or
- checking with Nigerian regulated correspondent bank of the overseas institution ; or
- obtaining evidence of its licence or authorization to conduct financial and banking business from the institution itself .

Foreign  
Financial  
Institutions.

2.6.3.5.2. Additional information on banks all over the world can be obtained from various international publications and directories or any of the international business information services.

*References made to these publications are not meant to replace the confirmation evidence required above.*

2.6.3.6. Although bureaux de change are subject to the regulations, they must be verified in accordance with the procedures for Other Financial Institutions. *Satisfactory evidence of identity must include receipt of a certified copy of the applicant's operating licence.*

Bureaux De  
Change.

#### 2.6.3.7 OTHER INSTITUTIONS

2.6.3.7.1 (a) In the case of applications made on behalf of clubs or societies, a financial institution is required to take reasonable steps to satisfy itself as to the legitimate purpose of the organization by sighting its constitution. The identity of at least two of the principal contact persons or signatories should be verified initially in line with *the requirements for*

Clubs and  
Societies.

*private individuals*. The signing authorities should be structured to ensure that at least *two of the signatories that authorize any transaction have been verified*. When signatories change, financial institutions are required to ensure that the identity of at least two of the current signatories are verified.

(b) Where the purpose of the club or society is to purchase the shares of regulated investment company or where all the members would be regarded as individual clients, all the members in such cases are required to be identified in line with the requirements for personal customers. Financial institutions are required to look at each situation on a case-by-case basis.

#### 2.6.3.7.2. Occupational Pension Schemes

2.6.3.7.2.1 In all transactions undertaken on behalf of an Occupational Pension Scheme where the transaction is not in relation to a long term policy of insurance, the identities of both the Principal Employer and the Trust are required to be verified.

2.6.3.7.2.2 In addition to the identity of the Principal Employer, the source of funding should be verified and recorded to ensure that a complete audit trail exists if the employer is dissolved or wound up.

2.6.3.7.2.3 For the Trustees of Occupational Pension Schemes, satisfactory identification evidence can be based on the inspection of formal documents concerning the Trust which confirm the names of the current Trustees and their addresses for correspondence. In addition to the documents, confirming the trust identification can be based on extracts from Public Registers or references from Professional Advisers or Investment Managers.

2.6.3.7.2.4 Any payment of benefits by or on behalf of the Trustees of an Occupational Pension Scheme will not require verification of identity of the recipient.

2.6.3.7.2.5 Where individual members of an Occupation Pension Scheme are to be given personal investment advice, their identities must be verified. However, where the Trustees and Principal Employer have been satisfactorily identified (and the information is still current) it may be appropriate for the Employer to provide confirmation of the identity of individual employees.

#### 2.6.3.7.3. Charities in Nigeria

(a) Adherence to the identification procedures required for money laundering prevention purpose would remove the opportunities for opening unauthorized accounts with false identities on behalf of charities. *Confirmation of the authority to act in the name of the charity is clearly mandatory.*

*(b) The practice of opening unauthorized accounts of this type under sole control is strongly discouraged. For emphasis, accounts for Charities in Nigeria are required to be operated by a minimum of two signatories, duly verified and documentation evidence obtained.*

**2.6.3.7.4. Registered Charities**

*(a) When dealing with an application from a registered charity, the financial institution is required to obtain and confirm the name and address of the charity concerned.*

*(b) To guard against the laundering of fraudulently obtained funds (where the person making the application or undertaking the transaction is not the official correspondent or the recorded alternate) a financial institution is required to send a letter to the official correspondent, informing him of the Charity's application before it. The official correspondent should be requested to respond as a matter of urgency especially where there is any reason to suggest that the application has been made without authority.*

*(c) Where a charity is opening a current account, the identity of all signatories should be verified initially and when the signatories change, care should be taken to ensure that the identity of any new signatory is verified.*

*(d) Applications on behalf of un-registered charities should be dealt with in accordance with procedures for clubs and societies set out in item 2.6.3.7.1 of this Regulation.*

**2.6.3.7.5. Religious Organizations (ROs)**

A religious organization is expected by law to be registered by the Corporate Affairs Commission (CAC) and will therefore have a registered number. Its identity can be verified by reference to the CAC, appropriate headquarters or regional area of the denomination. *As a registered organization, the identity of at least two signatories to its account must be verified.*

2.6.3.8. Where the applicant for business is any of the above, the financial institution is required to verify the legal standing of the applicant, including its principal ownership and the address. A certified copy of the Resolution or other documents authorizing the opening of the account or to undertake the transaction should be obtained in addition to evidence that the official representing the body has the relevant authority to act. *Telephone contacts must also be made with the Chief Executive Officer of the organization/parastatals concerned, intimating him of the application to open the account in the financial institution.*

*Appropriate authorization from Federal/State Accountant General is a pre-requisite for any of the three tiers of government/parastatals to open accounts with financial institutions in Nigeria.*

Three -  
Tiers of  
Government/  
Parastatals.

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Foreign  
Consulates.

2.6.3.9. The authenticity of applicants that request to open accounts or undertake transactions in the name of Nigerian-resident foreign consulates and any documents of authorization presented in support of the application should be checked with the Ministry of Foreign Affairs or the relevant authorities in the Consulate's home country.

## 2.7. INTERMEDIARIES OR OTHER THIRD PARTIES TO VERIFY IDENTITY OR TO INTRODUCE BUSINESS

Who to rely  
upon and  
the  
circumstances.

2.7.1. Whilst the responsibility to obtain satisfactory identification evidence rests with the financial institution that is entering into the relationship with a client, it is reasonable, in a number of circumstances, for reliance to be placed on another financial institution to :

- undertake the identification procedure when introducing a customer and to obtain any additional KYC information from the client ; or
- confirm the identification details if the customer is not resident in Nigeria ; or
- confirm that the verification of identity has been carried out (if an agent is acting for underlying principals).

Introductions  
from  
Authorized  
Financial  
Intermediaries.

2.7.2. Where an intermediary introduces a customer and then withdraws from the ensuing relationship altogether, then the underlying customer has become the applicant for the business. He *must, therefore, be identified in line with the requirements for personal, corporate or business customers as appropriate.* An introduction letter should therefore be issued by the introducing financial institution or person in respect of each applicant for business. To ensure that product-providers meet their obligations, that satisfactory identification evidence has been obtained and will be retained for the necessary statutory period, each introduction letter must either be accompanied by certified copies of the identification evidence that has been obtained in line with the usual practice of certification of identification documents or by sufficient details/reference numbers, etc that will permit the actual evidence obtained to be re-obtained at a later stage.

Written  
Applications.

2.7.3.1 For a written application (unless other arrangements have been agreed that the service provider will verify the identity itself) a financial intermediary must provide along with each application, the customer's introduction letter together with certified copies of the evidence of identity which should be placed in the customer's file.

2.7.3.2 If these procedures are followed, the product provider, stockbroker or investment banker will be considered to have fulfilled its own identification obligations. However, if the letter is not forthcoming from the intermediary, or the letter indicates that the intermediary has not verified the identity of the applicant, the service provider is required to

satisfy its obligation by applying its own direct identification procedures

2.7.4. Unit Trust Managers and other product providers receiving non-written applications from financial intermediaries (where a deal is placed over the telephone or by other electronic means) have an obligation to verify the identity of customers and ensure that the intermediary provides specific confirmation that identity has been verified. *A record must be made of the answers given by the intermediary and retained for a minimum period of five years. These answers constitute sufficient evidence of identity in the hands of the service provider.*

Non-  
Written  
Applications

2.7.5. Where introduced business is received from a regulated financial intermediary who is outside Nigeria, the reliance that can be placed on that intermediary to undertake the verification of identity-check must be assessed by the MLCO or some other competent persons within the financial institution on a case by case basis based on the knowledge of the intermediary.

Introductions  
From  
Foreign  
Intermediaries

2.7.6.1 Where a customer is introduced by one part of a financial sector group to another, it is not necessary for identity to be re-verified or for the records to be duplicated provided that:

Corporate  
Group  
Introductions

the identity of the customer has been verified by the introducing parent company, branch, subsidiary or associate in line with the money laundering requirements of equivalent standards and taking account of any specific requirements such as separate address verification;

no exemptions or concessions have been applied in the original verification procedures that would not be available to the new relationship;

a group introduction letter is obtained and placed with the customer's account opening records; and

in respect of group introducers from outside Nigeria, arrangements should be put in place to ensure that identity is verified in accordance with requirements and that the underlying records of identity in respect of introduced customers are retained for the necessary period.

2.7.6.2 Where financial institutions have day-to-day access to *all the Group's "Know Your Customer" information and records*, there is no need to identify an introduced customer or obtain a group introduction letter *if the identity of that customer has been verified previously*. However, if the identity of the customer has not previously been verified, then any missing identification evidence will need to be obtained and a risk-based approach taken on the extent of KYC information that is available on whether or not additional information should be obtained.

2.7.6.3 Financial institutions are required to ensure that there is no secrecy or data protection legislation that would restrict free access to the



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records on request or by law enforcement agencies under court order or relevant mutual assistance procedures. If it is found that such restrictions apply, copies of the underlying records of identity should, wherever possible, be sought and retained.

2.7.6.4 Where identification records are held outside Nigeria, it is still the responsibility of the financial institution to ensure that the records available do, in fact, meet the requirements in this Regulation.

Business  
Conducted  
by Agents,

2.7.7.1 Where an applicant is dealing in its own name as agent for its own client, a financial institution must, in addition to verifying the agent, establish the identity of the underlying client.

2.7.7.2 A financial institution may regard evidence as sufficient if it has established that the client :

- is bound by and has observed this Regulation or the provisions of the Money Laundering (Prohibition) Act, 2004 ; and
- is acting on behalf of another person and has given a written assurance that he has obtained and recorded evidence of the identity of the person on whose behalf he is acting.

2.7.7.3. Consequently, where another financial institution deals with its own client (regardless of whether or not the underlying client is disclosed to the financial institution) then :

· *where the agent is a financial institution*, there is no requirement to establish the identity of the underlying clients or to obtain any form of written confirmation from the agent concerning the due diligence undertaken on its underlying clients; or

· *where a regulated agent from outside Nigeria deals through a customer omnibus account or for a named customer through a designated account*, the agent should provide a written assurance that the identity of all the underlying clients has been verified in accordance with their local requirements.

*Where such an assurance cannot be obtained, then the business should not be undertaken.*

2.7.7.4. *In circumstances where an agent is either unregulated or is not covered by the relevant money laundering legislation*, then each case should be treated on its own merits. The knowledge of the agent will inform the type of the due diligence standards to apply. Risk-based approach must also be observed by the financial institution.

Syndicated  
Lending,

2.7.8. For syndicated lending arrangements, the verification of identity and any additional KYC requirements rest with the lead-manager or agent required to supply the normal confirmation letters.

2.7.9.1 Transactions conducted through correspondent relationships need to be managed, taking a risk-based approach. "Know Your Correspondent" procedures are required to be established to ascertain whether or not the correspondent bank or the counter-party is itself regulated for money laundering prevention. If regulated, the correspondent is required to verify the identity of its customers in accordance with FATF-standards. Where this is not the case, additional due diligence will be required to ascertain and assess the correspondent's internal policy on money laundering prevention and know your customer procedures.

2.7.9.2. *The volume and nature of transactions flowing through correspondent accounts with financial institutions from high risk jurisdictions or those with inadequacies or material deficiencies should be monitored against expected levels and destinations and any material variances should be checked.*

2.7.9.3. *Financial institutions are required to maintain records of having ensured that sufficient due diligence has been undertaken by the remitting bank on the underlying client and the origin of the funds in respect of the funds passed through their accounts.*

2.7.9.4. *Financial institutions are required to also guard against establishing correspondent relationships with high risk foreign banks (e.g. shell banks) or with correspondent banks that permit their accounts to be used by such banks.*

2.7.9.5. *Staff dealing with correspondent banking accounts are required to be trained to recognize higher risk circumstances and be prepared to challenge the correspondents over irregular activity (whether isolated transactions or trends) and to submit a suspicious activity report to the NFIU.*

2.7.9.6. *Financial institutions are required to terminate their accounts with correspondent banks that fail to provide satisfactory answers to reasonable questions including confirming the identity of customers involved in unusual or suspicious circumstances.*

2.7.10.1. When one financial institution acquires the business and accounts of another financial institution, it is not necessary for the identity of all the existing customers to be re-identified, provided that all the underlying customers' records are acquired with the business. *It is, however, important to carry out due diligence enquiries to confirm that the acquired institution had conformed with the requirements in this Regulation.*

2.7.10.2. Verification of identity should be undertaken as soon as it is practicable for all the transferred customers who were not verified by the transferor in line with the requirements for existing customers that open new accounts, where :

- the money laundering procedures previously undertaken have not been in accordance with the requirements of this Regulation ;
- the procedures cannot be checked ; or
- where the customer-records are not available to the acquiring financial institution.

## 2.8. RECEIVING FINANCIAL INSTITUTIONS AND AGENTS

Vulnerability of Receiving Bankers and Agents.

2.8.1. Receiving financial institutions may be used by money launderers in respect of offers for sale where new issues are over-subscribed and their allocation is scaled down. In addition, the money launderer is not concerned if there is a cost involved in laundering criminal money. New issues that trade at a discount will, therefore, still prove acceptable to the money launderer. Criminal funds can be laundered by way of the true beneficial-owner of the funds providing the payment for an application in another person's name, specifically to avoid the verification process and to break the audit trail with the underlying crime from which the funds are derived.

Who should be identified?

2.8.2.1. Receiving financial institutions should obtain satisfactory identification evidence of new applicants, including such applicants in a rights issue where the value of a single transaction or a series of linked transactions is \$1,000 or its equivalent for individuals and ₦500,000 for corporate body or more.

2.8.2.2 If funds to be invested are being supplied by or on behalf of a third party, it is important that the identification evidence for both the applicant and the provider of the funds are obtained to ensure that the audit trail for the funds is preserved.

Applications Received via Brokers.

2.8.3.1 Where the application is submitted (payment made) by a broker or an intermediary acting as agent, no steps need be taken to verify the identity of the underlying applicants. However, the following standard procedures apply :

- The lodging agent's stamp should be affixed on the application form or allotment letter ; and
- Application/acceptance forms and cover letters submitted by lodging agents should be identified and recorded in the bank's records.

2.8.3.2. The terms and conditions of the issue should state that *any requirements to obtain identification evidence are the responsibility of the broker lodging the application and not the receiving financial institution.*

2.8.3.3. Where the original application has been submitted by a regulated broker, no additional identification evidence will be necessary for subsequent calls in respect of shares issued and partly paid.

2.8.4. If the broker or other introducer is a regulated person or institution (including an overseas branch or subsidiary) from a country with equivalent legislation and financial sector procedures, and the broker or introducer is subject to anti-money laundering rules or regulations, then a written assurance can be taken from the broker that he/she has obtained and recorded evidence of identity of any principal and underlying beneficial owner that is introduced.

Applications  
Received  
from  
Foreign  
Brokers.

2.8.5.1 Where multiple family applications are received supported by one cheque and the aggregate subscription price is US \$1,000 USD or more; and \$1,000 USD or more for an individual person, then identification evidence will not be required for :

Multiple  
Family  
Applications.

- a spouse or any other person whose surname and address are the same as those of the applicant who has signed the cheque ;
- a joint account holder ; or
- an application in the name of a child where the relevant company's Articles of Association prohibit the registration in the names of minors and the shares are to be registered with the name of the family member of full age on whose account the cheque is drawn and who has signed the application form.

2.8.5.2 However, identification evidence of the signatory of the financial instrument will be required for any multiple family application for more than \$1,000 or its equivalent; or more than N250,000 for an individual; or more than N500,000 for a body corporate where such is supported by a cheque signed by someone whose name differs from that of the applicant. Other monetary amounts or more may, from time to time, be stipulated by any applicable money laundering legislation/guidelines.

2.8.5.3 Where an application is supported by a financial institution's branch cheque or brokers' draft, the applicant should state the name and account number from which the funds were drawn:

- on the front of the cheque ; or
- on the back of the cheque together with a branch stamp ; or
- providing other supporting documents.

2.8.6.1 If it appears to a person handling applications that a number of single applications under \$1,000 or its equivalent and N500,000 in different names are linked (e.g. payments from the same financial institution account) apart from the multiple family applications above, identification evidence must be obtained in respect of parties involved in each single transaction.

Linked  
Transactions.

2.8.6.2 Installment payment issues should be treated as linked transactions where it is known that total payments will amount to \$1,000 USD or its equivalent for an individual; or N500,000 for body corporate

or such other monetary amounts as may, from time to time, be stipulated by any applicable money laundering legislation or guidelines. Either at the outset or when a particular point has been reached, identification evidence must be obtained.

2.8.6.3 Applications that are believed to be linked and money laundering is suspected are required to be processed on a separate batch for investigation after allotment and registration have been completed. Returns with the documentary evidence are to be rendered to the NFIU accordingly. *Copies of the supporting cheques, application forms and any repayment-cheques must be retained to provide an audit trail until the receiving financial institution is informed by CBN, NFIU or the investigating officer that the records are of no further interest.*

**Domiciliary Account (DA).**

2.8.7. Where a customer wishes to open a DA or make a wholesale deposit by means of cash or inter-bank transfer, the financial institution is required to obtain identification evidence in accordance with the requirements for private individuals, companies or professional intermediaries operating on behalf of third parties as appropriate. It should satisfy itself that the transferring institution is regulated for money laundering prevention in its country of origin.

**Safe Custody and Safety Deposit Boxes.**

Precautions should be taken in relation to requests to hold boxes, parcels and sealed envelopes in a safe custody. Where such facilities are made available to non-account holders, the *identification procedures set out in this Regulation must be followed, depending on the type of individual involved.*

## 2.9. EXEMPTION FROM IDENTIFICATION PROCEDURES

Where a customer's identity was not properly obtained as contained in this Regulation and Requirements for Account Opening Procedure, financial institutions are required to re-establish the customer's identity in line with the contents of this Regulation, except where it concerns:

**Nigerian Financial Institutions.**

2.9.1. Identification evidence is not required where the applicant for business is a Nigerian *financial institution or person* covered and regulated by the requirements of this Regulation.

**One-off Cash Transaction (Remittances, Wire Transfers, etc.)**

2.9.2. Cash remittances and wire transfers (either inward or outward) or other monetary instruments that are undertaken against payment in cash for customers who do not have an account or other established relationship with the financial institution (i.e. walk in customers) present a high risk for money laundering purposes. It is therefore required that adequate procedures are established to record the transaction and relevant identification evidence taken, where necessary. Where such transactions form a regular part of the financial institution's business, the limits for requiring identification evidence of US \$ 1,000 USD or its equivalent for foreign transfers must, however, be observed.

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Re-  
investment  
of Income.

2.9.3. The proceeds of a one-off transaction due can be paid to a customer or be further re-invested where records of his identification requirements were obtained and kept. In the absence of this his/her identification requirements must be obtained before the proceeds are paid to him or be re-invested on his behalf in accordance with the relevant provision of this Regulation.

#### **2.10. SANCTIONS FOR NON-COMPLIANCE WITH KYC**

Failure to comply with the provisions contained in this Regulation will attract appropriate sanction in accordance with existing laws and as detailed in the AML/CFT section of this Regulation.

APPENDIX A:

INFORMATION TO ESTABLISH IDENTITY

Natural  
Persons

A. For natural persons the following information should be obtained, where applicable:

- Legal name and any other names used (such as maiden name) ;
- Correct permanent address (full address should be obtained and a Post Office box number is not sufficient) ;
- Telephone number, fax number, and e-mail address ;
- Date and place of birth ;
- Nationality ;
- Occupation, public position held and name of employer ;
- An official personal identification number or other unique identifier contained in an unexpired official document such as passport, identification card, residence permit, social security records or drivers licence that bears a photograph of the customer;
- Type of account and nature of the banking relationship ; and
- Signature.

The financial institution should verify this information by at least one of the following methods :

- Confirming the date of birth from an official document (e.g. birth certificate, passport, identity card, social security records) ;
- Confirming the permanent address (e.g. utility bill, tax assessment, bank statement, a letter from a public authority) ;
- Contacting the customer by telephone, by letter or by e-mail to confirm the information supplied after an account has been opened (e.g. a disconnected phone, returned mail, or incorrect e-mail address should warrant further investigation) ;
- Confirming the validity of the official documentation provided through certification by an authorized person (e.g. embassy official, notary public).

The examples quoted above are not the only possibilities. There may be other documents of an equivalent nature which may be produced as satisfactory evidence of customers' identity.

Financial institutions are required to apply equally effective customer

identification procedures for non-face-to-face customers as for those available for interview.

From the information provided, financial institutions should be able to make an initial assessment of a customer's risk profile. Particular attention needs to be focused on those customers identified as having a higher risk profile. Additional inquiries made or information obtained in respect of those customers should include the following :

- Evidence of an individual's permanent address sought through a credit reference agency search, or through independent verification by home visits ;
- Personal reference (i.e. by an existing customer of the same institution) ;
- Prior bank reference and contact with the bank regarding the customer ;
- Source of wealth ;
- Verification of employment, public position held (where appropriate).

The customer acceptance policy should not be so restrictive to amount to a denial of access by the general public to banking services, especially for people who are financially or socially disadvantaged (see details in AML/CFT Regulation).

B. The term institution includes any entity that is not a natural person. In considering the customer identification guidance for the different types of institutions, particular attention should be given to the different levels of risk involved.

**Institutions.**

*(i) Corporate Entities*

For corporate entities (i.e. corporations and partnerships), the following information should be obtained :

- Name of institution;
- Principal place of institution's business operations;
- Mailing address of institution;
- Contact telephone and fax numbers;
- Some form of official identification number, if available (e.g. Tax identification number);
- The original or certified copy of the Certificate of Incorporation and Memorandum and Articles of Association;
- The resolution of the Board of Directors to open an account and identification of those who have authority to operate the account;
- Nature and purpose of business and its legitimacy.



The financial institution should verify this information by at least one of the following methods:

- For established corporate entities – reviewing a copy of the latest report and accounts (audited, if available);

- Conducting an enquiry by a business information service, or an undertaking from a reputable and known firm of lawyers or accountants confirming the documents submitted;

- Undertaking a company search and/or other commercial enquiries to see that the institution has not been, or is not in the process of being dissolved, struck off, wound up or terminated;

- Utilising an independent information verification process, such as accessing public and private databases;

- Obtaining prior bank references;

- Visiting the corporate entity; and

- Contacting the corporate entity by telephone, mail or e-mail.

The financial institution should also take reasonable steps to verify the identity and reputation of any agent that opens an account on behalf of a corporate customer, if that agent is not an officer of the corporate customer.

*(ii) Corporations/partnerships*

For corporations/partnerships, the principal guidance is to look behind the institution to identify those who have control over the business and the company/partnership's assets, including those who have ultimate control.

For corporations, particular attention should be paid to shareholders, signatories, or others who inject a significant proportion of the capital or financial support or otherwise exercise control. Where the owner is another corporate entity or trust, the objective is to undertake reasonable measures to look behind that company or entity and to verify the identity of the principals.

What constitutes control for this purpose will depend on the nature of a company, and may rest in those who are authorised to manage the funds, accounts or investments without requiring further authorisation, and who would be in a position to override internal procedures and control mechanisms.

For partnerships, each partner should be identified and it is also important to identify immediate family members that have ownership control.

Where a company is listed on a recognised stock exchange or is a subsidiary of such a company then the company itself may be considered to be the principal to be identified. However, consideration should be given to whether there is effective control of a listed company by an individual, small

group of individuals or another corporate entity or trust. If this is the case then those controllers should also be considered to be principals and identified accordingly.

C. The following information should be obtained in addition to that required to verify the identity of the principals in respect of Retirement Benefit Programmes, Mutuals/Friendly Societies, Cooperatives and Provident Societies, Charities, Clubs and Associations, Trusts and Foundations and Professional Intermediaries:

**Other Types  
of  
Institution.**

- Name of account ;
- Mailing address ;
- Contact telephone and fax numbers ;
- Some form of official identification number, such as tax identification number ;

Description of the purpose/activities of the account holder as stated in a formal constitution ; and

Copy of documentation confirming the legal existence of the account holder such as register of charities.

The financial institution should verify this information by at least one of the following :

- Obtaining an independent undertaking from a reputable and known firm of lawyers or accountants confirming the documents submitted ;
- Obtaining prior bank references ; and
- Accessing public and private databases or official sources.

#### *(i) Retirement Benefit Programme*

Where an occupational pension programme, employee benefit trust or share option plan is an applicant for an account the trustee and any other person who has control over the relationship such as the administrator, programme manager, and account signatories should be considered as principals and the financial institution should take steps to verify their identities.

#### *(ii) Mutual/Friendly, Cooperative and Provident Societies*

Where these entities are an applicant for an account, the principals to be identified should be considered to be those persons exercising control or significant influence over the organisation's assets. This often includes board members, executives and account signatories.

*(iii) Charities, Clubs and Associations*

In the case of accounts to be opened for charities, clubs, and societies, the financial institution should take reasonable steps to identify and verify at least two signatories along with the institution itself. The principals who should be identified should be considered to be those persons exercising control or significant influence over the organisation's assets. This includes members of the governing body or committee, the President, board members, the treasurer, and all signatories.

In all cases, independent verification should be obtained that the persons involved are true representatives of the institution. Independent confirmation should also be obtained of the purpose of the institution.

*(iv) Trusts and Foundations*

When opening an account for a Trust, the financial institution should take reasonable steps to verify the trustee, the settlor of the trust (including any persons settling assets into the trust) any protector, beneficiary and signatories. Beneficiaries should be identified when they are defined. In the case of a foundation, steps should be taken to verify the founder, the managers/directors and the beneficiaries.

*(v) Professional Intermediaries*

When a professional intermediary opens a client account on behalf of a single client that client must be identified. Professional intermediaries will often open "pooled" accounts on behalf of a number of entities. Where funds held by the intermediary are not co-mingled but where there are "sub-accounts" which can be attributable to each beneficial owner, all beneficial owners of the account held by the intermediary should be identified. Where the funds are co-mingled, the financial institution should look through to the beneficial-owners. However, there may be circumstances that the financial institution may not look beyond the intermediary (e.g. when the intermediary is subject to the same due diligence standards in respect of its client base as the financial institution).

Where such circumstances apply and an account is opened for an open or closed ended investment company (unit trust or limited partnership) also subject to the same due diligence standards in respect of its client base as the financial institution, the following should be considered as principals and the financial institution should take steps to identify them :

- The fund itself ;
- Its directors or any controlling board, where it is a company ;
- Its Trustee, where it is a Unit Trust ;
- Its managing (general) partner, where it is a limited partnership ;

- Account signatories ;
- Any other person who has control over the relationship such as fund administrator or manager.

Where other investment vehicles are involved, the same steps should be taken as in above (where it is appropriate to do so). In addition, all reasonable steps should be taken to verify the identity of the beneficial owners of the funds and of those who have control over the funds.

Intermediaries should be treated as individual customers of the financial institution and the standing of the intermediary should be separately verified by obtaining the appropriate information itemised above.

## APPENDIX B

## DEFINITION OF TERMS

For the proper understanding of this Regulation, certain terms used within are defined as follows :

<i>Terms</i>	<i>Definition</i>
<i>Applicant for Business</i>	The person or company seeking to establish a 'business relationship' or an occasional customer undertaking a 'one-off' transaction whose identity must be verified.
<i>Batch transfer</i>	A batch transfer is a transfer comprising a number of individual wire transfers that are being sent to the same financial institutions, but may/ may not be ultimately intended for different persons.
<i>Beneficial owner</i>	Beneficial owner refers to the natural person(s) who ultimately owns or controls a customer and/ or the person on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.
<i>Beneficiary</i>	Beneficiary owner refers to those natural persons, or groups of natural persons who receive charitable, humanitarian or other types of assistance through the services of the NPO. They include all trusts (other than charitable or statutory permitted non-charitable trusts) must have beneficiaries, who may include the settlor, and a maximum time, known as the perpetuity period, normally of 100 years.
<i>Business Relationship</i>	'Business relationship' is any arrangement between the financial institution and the applicant for business whose purpose is to facilitate the carrying out of transactions between the parties on a 'frequent, habitual or regular' basis and where the monetary value of dealings in the course of the arrangement is not known or capable of being ascertained at the outset.

*Cross-border transfer*

Cross-border transfer means any wire transfer where the originator and beneficiary institutions are located in different jurisdictions. This term also refers to any chain of wire transfers that has at least one cross-border element.

*Designated categories of offences*

Designated categories of offences means :

- participation in an organised criminal group and racketeering ;
- terrorism, including terrorist financing ;
- trafficking in human beings and migrant smuggling ;
- sexual exploitation, including sexual exploitation of children ;
- illicit trafficking in narcotic drugs and psychotropic substances ;
- illicit arms trafficking ;
- illicit trafficking in stolen and other goods ;
- corruption and bribery ;
- fraud ;
- counterfeiting currency ;
- counterfeiting and piracy of products ;
- environmental crime ;
- murder, grievous bodily injury ;
- kidnapping, illegal restraint and hostage-taking ;
- robbery or theft ;
- smuggling ;
- extortion ;
- forgery ;
- piracy ; and
- insider trading and market manipulation.

*Designated non-financial businesses and professions*

Designated non-financial businesses and professions mean :

- (a) Casinos (which also includes internet casinos).
- (b) Real estate agents.
- (c) Dealers in precious metals.
- (d) Dealers in precious stones.
- (e) Lawyers, notaries, other independent legal professionals and accountants – this refers to sole practitioners, partners or employed professionals within professional firms. It is not meant to refer to “internal” professionals

that are employees of other types of businesses, nor to professionals working for government agencies, who may already be subject to measures that would combat money laundering.

(f) Trust and Company Service Providers refers to all persons or businesses that are not covered elsewhere under this Regulation, and which as a business, provide any of the following services to third parties :

- acting as a formation agent of legal persons ;
- acting as (or arranging for another person to act as) a director or secretary of a company, a partner of a partnership, or a similar position in relation to other legal persons ;
- providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement ;
- acting as (or arranging for another person to act as) a trustee of an express trust ;
- acting as (or arranging for another person to act as) a nominee shareholder for another person.

*Domestic transfer*

Domestic transfer means any wire transfer where the originator and beneficiary institutions are both located in Nigeria. This term therefore refers to any chain of wire transfers that takes place entirely within Nigeria's borders, even though the system used to effect the wire transfer may be located in another jurisdiction.

*False declaration*

False declaration refers to a misrepresentation of the value of currency or bearer negotiable instruments being transported, or a misrepresentation of other relevant data which is asked for in the declaration or otherwise requested by the authorities. This includes failing to make a declaration as required.

*False disclosure*

False disclosure refers to a misrepresentation of the value of currency or bearer negotiable instruments being transported, or a misrepresentation of other relevant data which is asked for in the disclosure or otherwise requested by the authorities. This includes failing to make a disclosure as required.

*The FATF Recommendations*

The FATF Recommendations refers to the Forty Recommendations and the Nine Special Recommendations on Terrorist Financing.

*Financial institutions*

Financial institution means any person or entity who conducts as a business one or more of the following activities or operations for or on behalf of a customer :

1. Acceptance of deposits and other repayable funds from the public.
2. Lending.
3. Financial leasing.
4. The transfer of money or value.
5. Issuing and managing means of payment (e.g. credit and debit cards, cheques, traveller's cheques, money orders and bankers' drafts, electronic money).
6. Financial guarantees and commitments.
7. Trading in :
  - (a) money market instruments (cheques, bills, CDs, derivatives etc.) ;
  - (b) foreign exchange ;
  - (c) exchange, interest rate and index instruments ;
  - (d) transferable securities ;
  - (e) commodity futures trading.
8. Participation in securities issues and the provision of financial services related to such issues.
9. Individual and collective portfolio management.
10. Safekeeping and administration of cash or liquid securities on behalf of other persons.
11. Otherwise investing, administering or managing funds or money on behalf of other persons.
12. Underwriting and placement of life insurance and other investment related insurance.



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13. Money and currency changing. The list is not exhaustive but subject to the definition contained in BOFIA 2004.

*Funds Transfer*

The term funds transfer refers to any transaction carried out on behalf of an originator person (both natural and legal) through a financial institution by electronic means with a view to making an amount of money available to a beneficiary person at another financial institution. The originator and the beneficiary may be the same person.

*Legal arrangement*

Legal arrangement refers to express trusts or other similar legal arrangements.

*Legal persons*

Legal persons refer to bodies corporate, foundations, partnerships, or associations, or any similar bodies that can establish a permanent customer relationship with a financial institution or otherwise own property.

*Non-profit Organizations/  
Non-governmental Organizations*

The term non-profit organization/non-governmental organization refers to a legal entity or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of good works.

*Originator*

The originator is the account holder, or where there is no account, the person (natural or legal) that places the order with the financial institution to perform the wire transfer.

*One-off Transaction*

A 'one-off transaction' means any transaction carried out other than in the course of an established business relationship. It is important to determine whether an applicant for business is undertaking a one-off transaction or whether the transaction is or will be a part of a business relationship as this can affect the identification requirements.

*Payable through accounts*

Payable through account refers to correspondent accounts that are used directly by third parties to transact business on their own behalf.

<i>Proceeds</i>	Proceeds refer to any property derived from or obtained, directly or indirectly, through the commission of an offence.
<i>Property</i>	Property means assets of every kind, whether corporeal or incorporeal, moveable or immovable, tangible or intangible, and legal documents or instruments evidencing title to, or interest in such assets.
<i>Risk</i>	All references to risk in this Regulation refer to the risk of money laundering and/or terrorist financing.
<i>Settlor</i>	Settlers are persons or companies who transfer ownership of their assets to trustees by means of a trust deed. Where the trustees have some discretion as to the investment and distribution of the trusts assets, the deed may be accompanied by a non-legally binding letter setting out what the settlor wishes to be done with the assets.
<i>Shell bank</i>	Shell bank means a bank that has no physical presence in the country in which it is incorporated and licensed, and which is unaffiliated with a regulated financial services group that is subject to effective consolidated supervision. Physical presence means meaningful mind and management located within a country. The existence simply of a local agent or low level staff does not constitute physical presence.
<i>Terrorist</i>	It refers to any natural person who: (i) commits, or attempts to commit, terrorist acts by any means, directly or indirectly, unlawfully and willfully; (ii) participates as an accomplice in terrorist acts; (iii) organises or directs others to commit terrorist acts; or (iv) contributes to the commission of terrorist acts by a group of persons acting with a common purpose whose contribution is made intentionally and with the aim of furthering the terrorist act or with the knowledge of the intention of the group to commit a terrorist act.

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***Terrorist act***

A terrorist act includes but are not limited to :

(i) An act which constitutes an offence within the scope of, and as defined in one of the following treaties: Convention for the Suppression of Unlawful Seizure of Aircraft (1970), Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation (1971), Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents (1973), International Convention against the Taking of Hostages (1979), Convention on the Physical Protection of Nuclear Material (1980), Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation (1988), Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation (1988), Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms located on the Continental Shelf (1988), and the International Convention for the Suppression of Terrorist Bombings (1997) ; and (ii) any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a Government or an international organisation to do or to abstain from doing any act.

***Terrorist financing***

Terrorist financing (FT) includes the financing of terrorist acts, and of terrorists and terrorist organizations.

***Terrorist financing offence***

A terrorist financing (FT) offence refer not only to the primary offence or offences, but also to ancillary offences.

***Terrorist organization***

Refers to any group of terrorists that :

(i) commits, or attempts to commit, terrorist acts by any means, directly or indirectly, unlawfully and wilfully ; (ii) participates as an accomplice in terrorist acts ; (iii) organises or directs others

to commit terrorist acts ; or (iv) contributes to the commission of terrorist acts by a group of persons acting with a common purpose where the contribution is made intentionally and with the aim of furthering the terrorist act or with the knowledge of the intention of the group to commit a terrorist act.

*Those who finance Terrorism*

Those who finance terrorism refers to any person, group, undertaking or other entity that provides or collects, by any means, directly or indirectly, funds or other assets that may be used, in full or in part, to facilitate the commission of terrorist acts, or to any persons or entities acting on behalf of, or at the direction of such persons, groups, undertakings or other entities. This includes those who provide or collect funds or other assets with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out terrorist acts.

*Trustee*

Trustees, include paid professionals or companies or unpaid persons who hold the assets in a trust fund separate from their own assets. They invest and dispose of them in accordance with the settlor's trust deed, taking account of any letter of wishes. There may also be a protector who may have power to veto the trustees' proposals or remove them, and/or a custodian trustee, who holds the assets to the order of the managing trustees.

*Unique identifier*

A unique identifier refers to any unique combination of letters, numbers or symbols that refer to a specific originator.

*Wire transfer*

The term wire transfer refers to any transaction carried out on behalf of a originator person (both natural and legal) through a financial institution by electronic means with a view to making an amount of money available to a beneficiary person at another financial institution. The originator and the beneficiary may be the same person.

## APPENDIX C:

## MONEY LAUNDERING AND TERRORIST FINANCING "RED FLAGS"

**Introduction.**

1. Monitoring and reporting of suspicious transactions is key to AML/CFT effectiveness and compliance. Financial institutions are, therefore, required to put in place effective and efficient transaction monitoring programmes to facilitate the process.

Although the types of transactions which could be used for money laundering are numerous, it is possible to identify certain basic features which tend to give reasonable cause for suspicion of money laundering.

This appendix, which lists various transactions and activities that indicate potential money laundering, is not exhaustive. It does reflect the ways in which money launderers have been known to operate.

Transactions or activities highlighted in this list are not necessarily indicative of actual money laundering if they are consistent with a customer's legitimate business. Identification of any of the types of transactions listed here should put financial institutions on enquiry and provoke further investigation to determine their true legal status.

**Suspicious Transactions "Red Flags"****2.—(i) Potential Transactions Perceived or Identified as Suspicious**

- Transactions involving high-risk countries vulnerable to money laundering, subject to this being confirmed.
- Transactions involving shell companies.
- Transactions with correspondents that have been identified as higher risk.
- Large transaction activity involving monetary instruments such as traveller's cheques, bank drafts, money order, particularly those that are serially numbered.
- Transaction activity involving amounts that are just below the stipulated reporting threshold or enquiries that appear to test an institution's own internal monitoring threshold or controls.

**(ii) Money Laundering Using Cash Transactions**

- Significant increases in cash deposits of an individual or corporate entity without apparent cause, particularly if such deposits are subsequently transferred within a short period out of the account to a destination not normally associated with the customer.
- Unusually large cash deposits made by an individual or a corporate entity whose normal business is transacted by cheques and other non-cash instruments.

- Frequent exchange of cash into other currencies.
- Customers who deposit cash through many deposit slips such that the amount of each deposit is relatively small, the overall total is quite significant.
- Customers whose deposits contain forged currency notes or instruments.
- Customers who regularly deposit cash to cover applications for bank drafts.
- Customers making large and frequent cash deposits but with cheques always drawn in favour of persons not usually associated with their type of business.
- Customers who request to exchange large quantities of low denomination banknotes for those of higher denominations.
- Branches of banks that tend to have far more cash transactions than usual, even after allowing for seasonal factors.
- Customers transferring large sums of money to or from overseas locations with instructions for payment in cash.

*(iii) Money Laundering Using Deposit Accounts*

The following transactions may indicate possible money laundering, especially if they are inconsistent with a customer's legitimate business :

- Minimal, vague or fictitious information provided by a customer that the deposit money bank is not in a position to verify.
- Lack of reference or identification in support of an account opening application by a person who is unable or unwilling to provide the required documentation.
- A prospective customer does not have a local residential or business address and there is no apparent legitimate reason for opening a bank account.
- Customers maintaining multiple accounts at a bank or different banks for no apparent legitimate reason or business rationale. The accounts may be in the same names or have different signatories.
- Customers depositing or withdrawing large amounts of cash with no apparent business source or in a manner inconsistent with the nature and volume of the business.
- Accounts with large volumes of activity but low balances or frequently overdrawn positions.
- Customers making large deposits and maintaining large balances with no apparent rationale.

- Customers who make numerous deposits into accounts and soon thereafter request for electronic transfers or cash movement from those accounts to other accounts, perhaps in other countries, leaving only small balances. Typically, these transactions are not consistent with the customers' legitimate business needs.
- Sudden and unexpected increase in account activity or balance arising from deposit of cash and non-cash items. Typically, such an account is opened with a small amount which subsequently increases rapidly and significantly.
- Accounts that are used as temporary repositories for funds that are subsequently transferred outside the bank to foreign accounts. Such accounts often have low activity.
- Customer requests for early redemption of certificates of deposit or other investment soon after the purchase, with the customer being willing to suffer loss of interest or incur penalties for premature realization of investment.
- Customer requests for disbursement of the proceeds of certificates of deposit or other investments by multiple cheques, each below the stipulated reporting threshold.
- Retail businesses which deposit many cheques into their accounts but with little or no withdrawals to meet daily business needs.
- Frequent deposits of large amounts of currency, wrapped in currency straps that have been stamped by other banks.
- Substantial cash deposits by professional customers into client, trust or escrow accounts.
- Customers who appear to have accounts with several institutions within the same locality, especially when the institution is aware of a regular consolidation process from such accounts prior to a request for onward transmission of the funds.
- Large cash withdrawals from a previously dormant/inactive account, or from an account which has just received an unexpected large credit from abroad.
- Greater use of safe deposit facilities by individuals, particularly the use of sealed packets which are deposited and soon withdrawn.
- Substantial increase in deposits of cash or negotiable instruments by a professional firm or company, using client accounts or in-house company or trust accounts, especially if the deposits are promptly transferred between other client company and trust accounts.

- Large number of individuals making payments into the same account without an adequate explanation.
- High velocity of funds that reflects the large volume of money flowing through an account.
- An account opened in the name of a money changer that receives deposits.
- An account operated in the name of an off-shore company with structured movement of funds.

*(iv) Trade-Based Money Laundering*

- Over and under-invoicing of goods.
- Multiple invoicing of goods and services.
- Over and under-invoicing of goods and services.
- Falsely described goods and services and "phantom" shipments whereby the exporter does not ship any goods at all after payments had been made, particularly under confirmed letters of credit.
- Transfer pricing.
- Transaction structure appears unnecessarily complex and designed to obscure the true nature of the transaction.
- Items shipped are inconsistent with the nature of the customer's normal business and the transaction lacks an obvious economic rationale.
- Customer requests payment of proceeds to an unrelated third party.
- Significantly amended letters of credit without reasonable justification or changes to the beneficiary or location of payment.

*(v) Lending Activity*

- Customers who repay problem loans unexpectedly.
- A customer who is reluctant or refuses to state the purpose of a loan or the source of repayment or provides a questionable purpose and/or source of repayment.
- Loans secured by pledged assets held by third parties unrelated to the borrower.
- Loans secured by deposits or other readily marketable assets, such as securities, particularly when owned by apparently unrelated third parties.
- Loans are made for, or are paid on behalf of, a third party with no reasonable explanation.
- Loans lack a legitimate business purpose, provide the bank with significant fees for assuming minimal risk, or tend to obscure the movement of funds (e.g. loans made to a borrower and immediately sold to an entity-related to the borrower).



*(vi) Terrorist Financing "Red flags"*

- Persons involved in currency transactions share an address or phone number, particularly when the address is also a business location or does not seem to correspond to the stated occupation (e.g., student, unemployed, or self-employed).

- Financial transaction by a nonprofit or charitable organisation, for which there appears to be no logical economic purpose or for which there appears to be no link between the stated activity of the organisation and other parties in the transaction.

- A safe deposit box opened on behalf of a commercial entity when the business activity of the customer is unknown or such activity does not appear to justify the use of a safe deposit box.

- Large number of incoming or outgoing funds transfers takes place through a business account, and there appears to be no logical business or other economic purpose for the transfers, particularly when this activity involves designated high-risk locations.

- The stated occupation of the customer is inconsistent with the type and level of account activity.

- Funds transfer does not include information on the originator, or the person on whose behalf the transaction is conducted, the inclusion of which should ordinarily be expected.

- Multiple personal and business accounts or the accounts of nonprofit organisations or charities are used to collect and funnel funds to a small number of foreign beneficiaries.

- Foreign exchange transactions are performed on behalf of a customer by a third party, followed by funds transfers to locations having no apparent business connection with the customer or to high-risk countries.

- Funds generated by a business owned by persons of the same origin or by a business that involves persons of the same origin from designated high-risk countries.

*(vii) Other Unusual or Suspicious Activities*

- Employee exhibits a lavish lifestyle that cannot be justified by his/her salary.

- Employee fails to comply with approved operating guidelines, particularly in private banking.

- Employee is reluctant to take a vacation.

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- Safe deposit boxes or safe custody accounts opened by individuals who do not reside or work in the institution's service area despite the availability of such services at an institution closer to them.

- Customer rents multiple safe deposit boxes to store large amounts of currency, monetary instruments, or high value assets awaiting conversion to currency, for placement in the banking system.

- Customer uses a personal account for business purposes.

- Official Embassy business is conducted through personal accounts.

- Embassy accounts are funded through substantial currency transactions.

- Embassy accounts directly fund personal expenses of foreign nationals.

Made at Abuja this 23rd day of December, 2009.

SANUSI LAMIDO SANUSI  
*Governor, Central Bank of Nigeria*

**SECTION I**  
**MONETARY POLICY CIRCULARS, POLICIES AND GUIDELINES**



## **CENTRAL BANK OF NIGERIA COMMUNIQUE NO. 121 OF THE MONETARY POLICY COMMITTEE MEETING OF WEDNESDAY 21<sup>ST</sup> AND THURSDAY 22<sup>ND</sup> NOVEMBER, 2018**

### **Background**

The Monetary Policy Committee (MPC) met on the 21<sup>st</sup> and 22<sup>nd</sup> of November, 2018, amidst a resurgence of global inflationary pressures, increased fragilities in the global financial markets, weakening crude oil prices, continuous capital flow reversal and moderate currency depreciations, especially in the emerging markets as well as a strengthening US dollar and subdued global economic growth outlook. The Committee appraised recent developments in the global and domestic macroeconomic and financial environments, as well as the economic outlook for the first half of 2019. In attendance were eleven (11) members of the Committee.

### **Global Economic Developments**

The Committee noted the contraction in global output, underpinned largely by escalating trade tensions resulting in widespread uncertainty and waning investor confidence. Consequently, global growth in 2018 has been downgraded to 3.7 per cent from the earlier projection of 3.9 per cent. Growth softened in major advanced economies in the third quarter of 2018. In the Emerging Markets and Developing Economies (EMDEs), growth remained divergent, reflecting a combination of country-specific factors.

Thus, growth in the advanced economies is expected to remain at 2.4 per cent in 2018, supported by strong output growth in the US projected at 2.9 per cent. The U.S. expansionary fiscal stance, strong wage growth and continued inflow of capital into U.S. dollar denominated assets, are expected to provide the impetus for growth. In the United Kingdom, growth remained weak, hampered by uncertainties around Brexit negotiations. Growth in the Euro Area, projected at 2.0 per cent, appears to be subdued by low domestic aggregate demand amidst

relatively high unemployment and reduced global trade. In the Emerging Markets and Developing Economies, growth was revised downwards to 4.7 per cent from the earlier projection of 4.9 per cent, largely in anticipation of a slowdown in China as the country is confronted with an adverse external trade environment.

Overall, the downside risks to global economic activity remained: elevated financial fragilities and policy uncertainties, the gradual erosion of rule-based multilateral trading system, tighter financial conditions with latent disruptive portfolio adjustments, increased capital flow reversals with potentials for heightened exchange rate depreciation and some volatility, fiscal fragilities and increased debt burden, geo-political tensions and increasingly depressed aggregate demand in some countries. These factors will continue to shape developments for the rest of 2018 and into 2019.

The MPC also noted that monetary policy in most advanced economies, particularly the US, continued on a path of normalisation in view of strong wage growth and declining unemployment. The Bank of England hiked its policy rate in August 2018, while the European Central Bank (ECB) has given guidance to terminate its asset purchase programme in December 2018. The Committee was concerned that these developments will in the medium term, accentuate capital flow reversals from emerging and developing economies, including Nigeria.

### **Domestic Output Developments**

The Committee noted the positive outlook for output growth, evidenced by the Manufacturing and Non-manufacturing Purchasing Managers Indexes (PMI), which stood at 56.8 and 57.0 index points, respectively, in October 2018, indicating expansion for the 19<sup>th</sup> and 18<sup>th</sup> consecutive months. This was attributed to the stability in the foreign exchange market, implementation of the 2018 capital budget and the on-going intervention of the Central Bank of Nigeria (CBN) in the real sector of the economy. However, the recent incidence of flooding across the country and the impact of herdsmen attack on farming communities could affect output growth for the rest of the year.

Overall, the Committee believes that, even though output recovery remains fragile, the effective implementation of the 2018 capital budget, relative improvements in power supply, progress with counter-insurgency in the NorthEast and sustained intervention by the CBN in the real sector, will improve the

investment climate and reduce unemployment. Consequently, the MPC reaffirmed its support for all initiatives designed to stimulate domestic output growth.

### **Developments in Money and Prices**

The Committee noted that broad money (M2) grew by 6.52 per cent in October 2018 over its level at the end-December 2017; and annualised to a growth rate of 7.82 per cent, which was below the provisional benchmark of 10.48 per cent for 2018. The growth in M2 was largely due to the significant growth in Net Foreign Assets (NFA) which grew by 20.71 per cent in October 2018, annualised to 24.85 per cent which is above the 2018 provisional growth benchmark of 14.50 per cent. Credit to Government and Net Domestic Credit (NDC) expanded by 7.43 and 2.71 per cent, annualized to 8.92 and

3.26 per cent, respectively; but below the annual benchmark of 13.10 and 17.40 per cent, respectively. Credit to the private sector grossly underperformed as it grew by 1.94 per cent, annualised to 2.33 per cent, below the 2018 benchmark of 12.40 per cent. The underperformance of the monetary aggregates was of concern to the MPC, which urged the CBN to ensure improved credit delivery to the small and medium scale industries, particularly to the unbanked urban and rural populations.

The Committee noted the benign performance of inflation, as headline inflation (year-on-year) decreased to 11.26 per cent in October 2018 from 11.28 per cent in September 2018 after two consecutive months of marginal increases. The drop in headline inflation was driven by food inflation, which moderated to 13.28 per cent in October from 13.31 per cent in September 2018. Core inflation, however, inched up marginally to 9.9 per cent in October 2018 from 9.8 per cent in the previous month. On a month-on-month basis, headline and food inflation also moderated to 0.74 and 0.82 per cent in October from 0.84 and 1.0 per cent in September 2018, respectively, while core inflation increased from 0.64 per cent in September 2018 to 0.80 per cent in October 2018.

The Committee noted that the moderation in inflation was largely seasonally driven and was therefore, unsustainable as prices were expected to pick towards the end of the year. However, the MPC observed that the near-term upside risks to inflation remained; the disruption to agricultural production and distribution arising from flooding, insurgency in the North-East, herdsmanfarmer crisis, high cost of

energy, anticipated spending in the run-up to Christmas festivities and campaign-related spending towards the upcoming 2019 general elections. Accordingly, the Committee enjoined the appropriate authorities to continue to address these challenges and to sustain the implementation of the 2018 budget and the Economic Recovery and Growth Plan of the Federal Government to ameliorate the supply side constraints.

Money market interest rates oscillated throughout the review period, reflecting fluctuations in banking system liquidity. Inter-bank call and Open Buy Back (OBB) rates, which stood at 16.00 and 17.08 per cent, respectively, on September 26, 2018, declined moderately to 14.00 and 16.31 per cent, respectively, on October 24, 2018. On average, interbank call and OBB rates rose from 8.68 and 7.64 per cent in September 2018 to 14.18 and 13.93 per cent, respectively, in October 2018, closing at 10.00 and 9.72 per cent, respectively, on November 21, 2018. The developments in net liquidity position and flows which culminated in higher market rates reflected the impact of higher risk perception in the market, withdrawals from the banking system for monthly statutory disbursements to states and local governments; OMO sales and foreign exchange interventions.

The average naira exchange rate remained relatively stable and converging at both the Bureau-de-Change (BDC) and the Investors' and Exporters' (I&E) window segments of the foreign exchange market during the review period. The exchange rate at the I&E window opened at N364.00/US\$ and closed at N363.90/US\$ with a daily average of N363.87/US\$ between September 26 and November 16, 2018. At the BDC segment, the exchange rate opened at N360.00/US\$ and closed at N361.85/US\$, with a daily average of N360.98/US\$, over the same period. The relative stability in the foreign exchange market, the MPC noted, was attributable to the sustained policies of the Bank to increase the supply of foreign exchange from autonomous sources. Gross official reserves decreased from US\$42.60 billion at end-September, 2018 to US\$41.53 billion on 16<sup>th</sup> November, 2018.

The Committee noted the bearish trend in the equities segment of the capital market during the review period. Thus, All-Share Index (ASI) decreased by 8.70 per cent from 34,848.45 on August 31, 2018 to 32,058.28 on November 16, 2018. Similarly, Market Capitalization (MC) decreased by 8.72 per cent from N12.72 trillion to N11.70 trillion during the same period. Relative to the endDecember 2017, the indices decreased by 19.29 and 16.32 per cent, respectively. These developments largely reflect the sustained profit taking activities by portfolio investors as foreign

yields become increasingly more attractive abroad. The MPC, however, believes that this trend will reverse in the medium term given the current efforts at further improving investor confidence and the relative stability in the Investors and Exporters (I&E) window of the foreign exchange market.

### **The Overall Outlook and Risks**

Forecasts of key macroeconomic variables indicate a positive outlook for the economy in Q4 of 2018. The Committee expects that the effective implementation of the Economic Recovery and Growth Plan (ERGP) and the 2018 budget, improvements in the security challenges, enhanced flow of credit to the real sector and stability in the foreign exchange market will redirect the economy on a path of inclusive and sustainable growth. Increased production in the oil and the non-oil sectors are also expected to drive output growth in the medium term. The Committee, however, acknowledged the downside risks to this outlook to include: reduced portfolio inflows, weak of fiscal buffers, low domestic credit, and sluggish aggregate demand.

The inflation outlook suggests continued but moderate inflationary pressure to the end of 2018, based largely on increased consumer spending for the Christmas festivities, election-related expenditure and increased pace of implementation of the 2018 Federal government budget. Improvements in the security, increased harvests as well as a stable exchange rate are expected to moderate the rise in inflation.

Overall, the outlook for the economy remains positive with a growth projection of 1.75 per cent in 2018.

### **Committee's Considerations**

The Committee assessed the macroeconomic environment in 2018 and noted the modest stability thus far achieved in domestic prices, output growth and the financial system. The Committee noted that the economy was on the right path but some key sectors continued to experience significant challenges. The MPC, however, expressed concern about the tepid growth expectations and growing uncertainty in the global financial markets arising from the poor reception of the Brexit deal by British politicians, continuing trade war between the US and her major trading partners, as well as the commencement of US sanctions on Iran.



The Committee believed that although the domestic economy was recovering modestly from recession, however, the recovery was tepid and efforts should be stepped up to strengthen aggregate output and demand. In this regard, the Committee urged the CBN to deepen and broaden access to finance to high employment elastic sectors with particular emphasis on small and medium scale enterprises. The Committee called on the CBN to extend the success recorded under the Anchor Borrowers Programme to other items including fish and palm oil, etc. by introducing more stringent measures to curb access to foreign exchange for products that can be produced within Nigeria.

The MPC welcomed the moderation in inflation in October, reflecting declining food prices. The Committee believes that given the negative output gap, the proposed increase in the national minimum wage would stimulate output growth due to prolonged weak aggregate demand arising from salary arrears and contractor debt. Consequently, its impact on the aggregate price level would be largely muted, given that the monetary aggregates have largely underperformed in fiscal 2018. In addition, the prevailing stability in the foreign exchange market would continue to moderate pressures on the domestic price level.

The MPC noted the improvements in the financial stability indicators, including non-performing loans, capital adequacy and liquidity ratios of the Deposit Money Banks (DMBs). It urged the Bank to sustain its surveillance over the Banking industry by taking prompt corrective measures to further improve stability in the system. The Committee also called on the fiscal authorities to build significant buffers to strengthen the efficacy of monetary policy.

Overall, the MPC considered the options to loosen, hold or tighten. The Committee continues to hold the view that although loosening would encourage the flow of credit to the real sector, help in reduction of the aggregate cost of credit and spur business spending and investment, thereby reinforcing the CBN's support for output growth and economic recovery, it, however, believed that doing so will reverse more rapidly, the gains of price and exchange rate stability achieved so far given the liquidity impact that would entail. The ensuing liquidity will exert pressure on the exchange rate in the light of increased capital flow reversals arising from monetary policy normalisation by the US Fed. This would further depress the capital market.

As for tightening, The MPC hold the view that, while tightening will strengthen the stability of the foreign exchange market because of its dampening effect on the demand for foreign exchange, it was however convinced that this would simultaneously dampen investment growth, widen the output gap, depress aggregate demand and weaken output growth.

The MPC recognises the fact that it had held the policy rate and other policy parameters constant over the last several meetings. The Committee underscores that by holding its policy position constant, it has confidence in the various policies and administrative measures deployed by the Bank which have resulted in the moderation in domestic price levels and stability in the foreign exchange rate. Thus, a hold position is an expression of confidence in the policy regime, given the gradual improvements in both output growth and price stability. On this premise, the downside risks to growth and upside risks to inflation appears contained.

### **The Committee's Decision**

In light of the above, the MPC decided by a vote of all eleven (11) members present to HOLD.

In summary, the MPC voted to:

1. Retain the MPR at 14 per cent;
2. Retain the asymmetric corridor of +200/-500 basis points around the MPR;
3. Retain the CRR at 22.5 per cent; and
4. Retain the Liquidity Ratio at 30 per cent.

Thank you.

**Godwin I. Emeziele**  
**Governor, Central Bank of Nigeria**  
**22<sup>nd</sup> November, 2018**



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 120 OF THE MONETARY POLICY**

### **COMMITTEE MEETING OF MONDAY 24<sup>th</sup> AND TUESDAY 25<sup>th</sup> SEPTEMBER, 2018**

#### **Background**

The Monetary Policy Committee (MPC) met on the 24<sup>th</sup> and 25<sup>th</sup> of September, 2018 and evaluated developments in the global and domestic economic and financial environments in the first eight months of 2018, as well as the outlook for the rest of the year. Ten members of the Committee were in attendance.

#### **Global Economic Developments**

The Committee noted the uneven expansion in global output amidst growing trade tension, rising oil prices and debt levels as well as currency depreciation in most of the notable emerging markets and developing economies. These developments notwithstanding, there was evidence of resilient financial markets and output growth in the advanced economies led by the United States, which experienced sharp improvements in output growth. In the Euro area, United Kingdom and Japan, the pace of growth was moderate but steady, while in the Emerging Markets and Developing Economies (EMDEs), growth was sluggish and relatively uneven.

Growth in the advanced economies was projected to remain at 2.4 per cent in 2018, same as in 2017, led by the US which grew by 4.1 per cent in Q2 2018 and is projected to grow by 2.9 per cent in 2018. The Euro area and Japan, grew by 0.4 and 0.7 per cent, respectively, in Q2 and are projected to grow by 2.2 and 1.0 per cent, respectively, in 2018. In the EMDEs and Developing Economies, growth is expected to remain strong at 4.9 per cent in 2018 compared with 4.7 per cent in 2017. Growth in the EMDEs is expected to be led by India and China, which are projected to grow by 7.3 and 6.6 per cent, respectively, in 2018.

On average, the momentum of the global economy remained on track towards achieving the 2018 growth projections of 3.9 per cent as financial conditions remain broadly favourable with limited spill over of trade tensions amongst the general political sentiments. However, the recent episodes of large-scale flooding in major areas across the globe could pose some threat to growth.

Accordingly, the MPC believes that rising oil prices, tighter financial conditions, higher yields in the advanced economies and capital flow reversal from the EMDEs, resulting in pressure on currencies of some countries with fragile conditions, as well as growing trade tensions between the US and China, would continue to shape developments in the EMDEs in the medium term.

### **Domestic Output Developments**

Available data from the National Bureau of Statistics (NBS) showed that real GDP growth declined by 45 basis points as the economy grew by 1.50 per cent in the second quarter of 2018, down from 1.95 per cent in the preceding quarter, but higher than 0.72 per cent in the corresponding quarter of 2017. The growth slowdown was traceable to contraction in the oil sector in the second quarter of 2018, compared with the previous quarter. The Committee noted that non-oil real GDP grew by 2.05 per cent, reflecting the strong performance of construction, services and agriculture, which grew, by 7.66, 4.19 and 1.19 per cent, respectively. Furthermore, the non-oil sector was similarly supported by the stability in the foreign exchange market, continued implementation of the 2017 capital budget and the on-going interventions of the Bank in the real sector of the economy.

The MPC was of the view that even though growth remained weak, the effective implementation of the 2018 FGN capital budget and policies that would encourage credit delivery to the real sector of the economy would boost aggregate demand, stimulate economic activity and reduce unemployment in the country.

### **Developments in Money and Prices**

The Committee noted that relative to the level at end-December 2017, Broad Money (M2) grew by 2.98 per cent in August 2018, annualised to 4.47 per cent, but below the provisional benchmark of 10.48 per cent for 2018. The growth in M2 was

largely driven by growth in Net Foreign Assets (NFA) of 18.63 per cent in August 2018, annualised to 27.94 per cent and above the provisional growth benchmark of 18.15 per cent for the year. Net Domestic Credit (NDC), however, contracted by 4.18 per cent, annualized to 6.27 per cent, in contrast to the growth benchmark of 12.45 per cent for 2018. The contraction in NDC was attributed to the 34.68 per cent contraction in net credit to the Government in August 2018. Conversely, credit to the private sector grew marginally by 0.81 per cent in August 2018 from a contraction of 0.13 per cent in July 2018, annualized to 1.21 per cent, against the annual benchmark of 5.64 per cent.

The MPC observed that despite the under-performance of key monetary aggregates, headline inflation (year-on-year) inched up to 11.23 per cent in August 2018, from 11.14 per cent in July 2018. The rise in headline inflation was from food, while core inflation declined, indicating that supply side factors were driving the price increase. The near-term upside risks to inflation remained the dissipation of the base effect, expected 2019 election-related spending, continued herdsmen attack on farmers and the current episodes of flooding which has destroyed crops and would affect food supply and prices. In this regard, the Committee urged the fiscal authorities to ensure sustained implementation of the 2018 budget to relieve the supply side growth constraints, as well as address the flooding incidence which has become perennial, on a permanent basis.

The average inter-bank call rate declined from 9.0 per cent in July 2018, to 4.0 per cent on September 20, 2018. Similarly, the average Open Buy Back (OBB) rate declined from 11.44 to 4.72 per cent over the same period. The relative decline in market rates reflected the increased statutory allocations to states and local governments and maturing securities. The development did not significantly transmit to retail interest rates as average maximum lending rates marginally declined to 30.93 per cent in August from 31.09 per cent in July 2018. Similarly, average prime lending rate decreased to 16.65 per cent in August from 16.83 per cent in July 2018. The weighted average deposit rate also declined to 4.57 per cent in August from 4.79 per cent in July 2018, widening the spread between the average lending rate and weighted average deposit rate to 26.36 per cent in August 2018 from 26.30 per cent in July 2018.

The Committee noted the decrease in external reserves to US\$44 billion on September 20, 2018 from US\$45 billion at the end-July 2018. Total foreign exchange inflow through the economy fell by 38.34 per cent to US\$6.00 billion in July from

US\$9.73 billion in June 2018. The Committee believes that accretion to external reserves should strengthen in the last quarter of 2018, with crude oil price remaining above the budget benchmark price of US\$51.00 per barrel and oil production increasing to 2.3 million barrels per day.

The Committee, noted the relative stability in both the Investors' and Exporters' (I&E) window of the foreign exchange market, which was sustained by autonomous inflows and measures taken by the Bank to deepen the foreign exchange market and curb speculative practices.

The MPC expressed concern at the decline in major capital market indices. The All-Share Index (ASI) decreased by 14.99 per cent to 32,540.17 on September 21, 2018 from 38,278.55 at end-June 2018. Similarly, Market Capitalization (MC) decreased by 14.33 per cent to N11.38 trillion on September 21, 2018 from N13.87 trillion at end-June 2018. The development was due largely to sustained profit-taking by portfolio investors and capital reversals as foreign yields become increasingly more attractive.

### **The Overall Outlook and Risks**

Available data and forecast of key macroeconomic indicators show a positive outlook for the economy in the third quarter of 2018. The Committee expects that sustained implementation of the 2018 budget, improvements in the security situation and sustained stability in the foreign exchange market will stabilize prices and strengthen economic growth. Growth in the non-oil sector, especially agriculture, manufacturing, services and light industries are expected to drive output growth over the medium term. The Committee, however, identified the downside risks to the outlook to include: the impact of increased monetary policy normalization in the advanced economies and the strengthening US dollar. Others are: the late implementation of the 2018 budget, weakening demand and consumer spending, build-up in contractor debt, low minimum wage, impact of flooding on agricultural output and other economic activities, continuing security challenges across the North-East and North-Central zones, and growing level of sovereign debt.

The outlook for the year, however, remains positive as the economy is projected to grow by 1.75 per cent in 2018, anchored on continued stability in the foreign

exchange market, sustained high price and production of oil and improved electricity supply.

Inflation outlook suggests a mild resurgence of inflationary pressure in the economy, traceable largely to cost-push factors, election related spending, amongst other domestic factors. The moderating factors to the outlook would include; improved power supply, increased expenditure on capital projects and improved security conditions, all of which may exert downward pressure on consumer prices in the near-term.

### **The Considerations of the Committee**

The Committee appraised the macroeconomic environment and noted that at its July meeting, modest stability had been achieved in key indicators, including inflation, exchange rate and external reserves. In particular, relative stability had returned to the foreign exchange market, buoyed by a robust level of external reserves with inflation trending downwards for the 18<sup>th</sup> consecutive month. These gains so far achieved appear to be under threat of reversal, following new data which provides evidence of weakening fundamentals. The Committee identified rising inflation and pressure on external reserves created by capital flow reversal as the current challenges to growth. It noted that inflationary pressures have started rebuilding and capital flow reversals have intensified as shown by the bearish trend in the equities market even though the exchange rate remains very stable.

The Committee was concerned that the exit from recession may be under threat as the economy slowed to 1.95 and 1.50 per cent in Q1 and Q2 2018, respectively. The Committee noted that the slowdown emanated from the oil sector, with strong linkages to employment and growth in other key sectors of the economy. In this regard, the Committee urged government to take advantage of the current rising oil prices to rebuild fiscal buffers, strengthen government finances in the medium term and reverse the current trend of decline in output growth. The MPC also called on the fiscal authorities to intensify the implementation of the Economic Recovery and Growth Plan (ERGP) to stimulate economic activity, bridge the output gap and create employment.

The Committee noted that disruptions to the food supply chain in major food producing states due to the combined effects of poor infrastructure, flooding and the on-going security challenges resulted in a rise in food prices, contributing to the

uptick in headline inflation. The Committee was, however, optimistic that as harvests progress in the coming months, pressure on food prices would gradually recede, while growth enhancing measures would over the medium term have some moderating impact on food prices.

The MPC expressed concern over the potential impact of liquidity injections from election related spending and increase in FAAC distributions which is rising in tandem with increase in oil receipts.

The Committee was concerned with the rising level of non-performing loans in the banking system, traced mainly to the oil sector and urged the Bank to closely monitor and address the situation. It also expressed concern over the weak intermediation by Deposit Money Banks and its adverse impact on credit expansion and investment growth by the private sector.

In view of the above developments, the MPC noted that the economy was still confronted with growth headwinds and inflationary pressures. It reiterated the need for synergy between monetary and fiscal policies as a viable option for macroeconomic stability. The Committee, therefore, identified two likely policy options as tightening or maintaining the status quo ante. Tightening would tame inflationary pressures, stem the reversal in portfolio capital, improve the external reserves position and maintain stability in the foreign exchange market. Conversely, the MPC felt that raising rates would further weaken growth as credit would become more expensive, NPLs would increase further, leading to a deceleration in output. In the Committee's opinion, the upward adjustment would not only signal the Bank's commitment to price stability but also its desire to maintain positive real interest rates.

A decision to hold all policy parameters constant would sustain gradual improvements in output growth, maintain the current monetary policy stance and await a clearer understanding of the quantum and timing of liquidity injections into the economy before deciding on possible adjustments. The MPC, however, called on the government to fast track the implementation of the 2018 budget to help jumpstart the process of sustainable economic recovery, and to facilitate passage of the Petroleum Industry Bill in order to increase the contribution of the sector to overall GDP.



## **The Committee's Decision**

In light of the above, the MPC decided by a vote of seven (7) members to retain the MPR at 14 per cent. However, three (3) out of these seven (7) members voted to raise the Cash Reserve Requirement (CRR) by 150 basis points, an indication that left to them, we should have tightened. The other three (3) members voted to tighten by raising the MPR by 25 basis points.

In summary, the MPC voted to:

- I. Retain the MPR at 14 per cent;
- II. Retain the asymmetric corridor of +200/-500 basis points around the MPR;
- III. Retain the CRR at 22.5 per cent; and
- IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

**Godwin I. Emefiele**  
**Governor, Central Bank of Nigeria**  
**25<sup>th</sup> September 2018**



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 119 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY, 23RD AND TUESDAY, 24TH JULY, 2018**

### **1.0 Background**

The Monetary Policy Committee (MPC) held its 262<sup>nd</sup> meeting on Monday, 23<sup>rd</sup> and Tuesday, 24<sup>th</sup> July, 2018 amid fragile improvements in global growth and the domestic economic recovery. The Committee reviewed developments in the global and domestic economic and financial environments, as well as the outlook for the rest of the year. The MPC also assessed the risks to price stability, credit growth, employment creation and financial system stability, in the short-to-medium term. Ten (10) members of the Committee were in attendance.

### **Global Economic Developments**

Global growth momentum remained promising despite rising trade tensions, uncertainties in BREXIT negotiations and scepticism over North Korea's commitment to the denuclearise the Korean Peninsula. Global growth was projected at 3.9 per cent in 2018, compared with 3.7 per cent in 2017, largely driven by the recovery in oil prices, rising asset prices and long term yield on major financial markets as well as a rebound in investment, manufacturing output and trade.

In the Advanced Economies, growth was projected at 2.4 per cent in 2018, the same as in 2017. The growth was expected to be driven majorly by fiscal stimulus in the United States coupled with accommodative financial conditions. In the Emerging Markets and Developing Economies output growth was projected at 4.9 per cent in 2018, up from 4.7 per cent in 2017, due largely to sustained recovery in global commodity prices (particularly crude oil); rebound in investment, manufacturing and trade as well as the strengthening of domestic consumption.

The downside risks to global output growth remains the build-up in financial vulnerabilities; rising costs of borrowing in the Emerging Markets and Developing Economies; fragile corporate balance sheets; escalating trade protectionism, uncertainties around the BREXIT negotiations; heightened geopolitical tensions; and fiscal sustainability concerns.

Global inflation was projected at 3.2 per cent in 2018, driven by rising energy prices, and currency depreciations in some emerging market and developing economies. In the advanced economies, inflation was projected to increase to 2.2 per cent in 2018, up from 1.7 per cent in 2017, as a result of increases in the cost of transport, housing, energy and food. Similarly, inflation in the emerging markets and developing economies is projected to rise from 4.0 per cent in 2017 to 4.4 per cent in 2018, due to currency depreciations and rising energy prices. The Committee believes that global inflation is likely to remain subdued over the medium term relative to long term trends despite subsisting monetary accommodation in some advanced economies.

### **Domestic Output Developments**

Economic recovery was sustained with a positive outlook over the medium-term, anchored on oil price recovery, fiscal spending and stability in the foreign exchange market. Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 1.95 per cent in the first quarter of 2018, compared with 2.11 per cent and a contraction of 0.91 per cent in the preceding and corresponding quarters of 2017, respectively. The oil sector, which contributed 1.26 per cent in Q1 2018, compared with 0.76 per cent during Q4 2017 was the major source of the growth. The Purchasing Managers Indices (PMI) for manufacturing, and non-manufacturing activities rose for the fifteenth and fourteenth consecutive months to 57.0 and 57.5 index points, respectively, in June 2018. The Committee noted the positive impact of the sustained improvement in foreign exchange supply on the performance of manufacturing and other key sectors of the economy. The Committee welcomed the positive economic growth, but observed that the recovery was still fragile and called for the speedy implementation of the 2018 Federal Government Budget and the Economic Recovery and Growth Plan (ERGP) to strengthen output growth in the Nigerian economy.

## Developments in Money and Prices

The Committee observed that Narrow money (M1), contracted by 4.25 per cent, annualised to -8.49 per cent, relative to the provisional benchmark of 8.04 per cent. Broad money supply (M2), however, grew by 2.79 per cent in June 2018, annualised to 5.58 per cent, compared with the provisional growth benchmark of 10.84 per cent for fiscal 2018. The increase in M2 was mainly driven by Net Foreign Assets (NFA), which grew by 18.15 per cent in June 2018, annualised to 36.30 per cent, compared with the provisional benchmark of 18.15 per cent for 2018. The development reflected improvements in foreign receipts arising from favourable crude oil prices. On the other hand, Net Domestic Credit (NDC) contracted by 1.40 per cent, annualized to -2.80 per cent, compared with the provisional benchmark of 12.45 per cent. The development was driven largely by the decrease in net credit to government, which contracted by 9.74 per cent in June 2018, annualised to -19.48 per cent against the provisional benchmark of 54.97 per cent. Credit to the private sector similarly contracted by 0.04 per cent, annualised to -0.08 per cent in June 2018, in contrast to the provisional annual benchmark of 5.64 per cent.

A revised and seasonally adjusted money supply aggregate, however, showed an uptick. The new aggregate (M3), which is still being finalised by the Bank, appears to comprehensively capture the liquidity in and outside the banking system, compared with the existing M2. More details about the impact of M3 on macroeconomic variables would be reviewed at future MPC meetings.

Headline inflation (year-on-year) trended downwards for the seventeenth consecutive month to 11.23 per cent in June 2018 from 11.61 per cent in May 2018. Food and Core inflation also fell to 12.98 and 10.40 per cent, from 13.45 and 10.71 per cent, respectively, over the same period. The Committee, however, noted the rise in the month-on-month inflation rate, to 1.24 per cent in June, from 1.09 per cent in May 2018. Food inflation (month-on-month) also increased from 1.33 per cent in May to 1.57 per cent in June 2018, representing an increase of 0.24 percentage point. During the same period, core inflation (month-on-month) also rose by 0.05 percentage point, from 0.98 per cent in May to 1.03 per cent, in June 2018. In view of the trend in rising month-on-month inflation rate, amid the slowly declining year-on-year headline inflation, indications were that inflationary pressures are rebuilding in the domestic economy.

The review of developments in the money market revealed that the average inter-bank call rate fell to 5.0 per cent in June 2018, from 25.43 per cent in May 2018, while the average Open Buy Back (OBB) rate decreased from 18.37 per cent in May 2018 to 10.84 per cent in June 2018. The trend in market rates and the net liquidity position reflected the impact of the auction of Open Market Operations (OMO) bills, foreign exchange interventions, FAAC allocations to various levels of government, as well as the servicing of maturing CBN Bills.

External reserves stood at US\$47.2 billion on July 23, 2018. The Committee was optimistic and expected further increases in the level of external reserves in the near term, citing the favourable crude oil prices. The Committee, therefore, advised the Bank to sustain its current efforts to maintain investor confidence and ensure accretion to external reserves. The MPC also called on the Federal Government to continue to build fiscal buffers against possible oil price shocks in the future. Noting that the rise in the monthly distribution of revenues at the FAAC portend the danger of the absence of reserve buffers to absorb shocks in the future.

The All-Share Index (ASI) increased marginally by 0.09 per cent to 38,278.55 on June 29, 2018, from 38,243.19 at end-December 2017. Market Capitalisation (MC) also increased by 1.89 per cent to N13.87 trillion on June 29, 2018, from N13.61 trillion at end-December 2017. However, ASI and MC fell by 7.24 per cent, respectively, on June 29, 2018 compared with the level at end-April 2018, due majorly to profit taking activities of investors, and the effect of monetary policy normalization in the United States. The Committee noted with satisfaction, the relative stability in the foreign exchange market and high level of activities, particularly, at the Investors' and Exporters' (I&E) window.

The Committee noted the commencement of the currency swap deal with the People's Bank of China (PBoC) and observed that the availability of Renminbi currency to Nigerian investors would ease pressure in the foreign exchange market. The MPC called for speedy implementation of the framework of the currency swap and urged the Bank to carry out sensitization programme for the public.

## **2.0. The Overall Outlook and Risks to the Domestic Economy**

The forecasts of key macroeconomic indicators point to positive economic growth in the second half of 2018. The expectation is premised on the implementation of the 2018 budget, sustained stability in the foreign exchange market, as well as increase in crude oil production and prices. The MPC, cautioned that the downside risks to the growth outlook include: continuing delay in the implementation of the 2018 budget; worsening farmer-herdsmen conflicts in some parts of the country; continued nonpayment of workers' salaries and pensions in some states; rising sovereign debt, as well as uncertainties surrounding the direction of trade, including the external demand for Nigeria's oil.

Inflation forecast for the near term points to further moderation in price level in the short term. However, the downside risks to inflation include: the impact of excess liquidity that could arise from the implementation of the approved N9.12 trillion 2018 FGN budget; pre-election spending; anticipated review of salaries and wages; security challenges; and monthly FAAC injections. Although these could boost aggregate demand, it would equally exert upward pressure on domestic prices for the rest of the year. The Committee, therefore, called for a co-ordinated fiscal, monetary and exchange rate policies to stem the upward build-up in price pressures.

The Committee observed that rates in the foreign exchange market have remained relatively stable in near term, supported by continued intervention in the market by the Bank, sustained increase in the price of crude oil in the international market, as well as positive developments in the external sector.

## **3.0. The Considerations of the Committee**

The MPC noted with satisfaction the fourth consecutive quarters of growth in real GDP and the positive growth outlook in the domestic economy. This is shown by the sustained improvement in the Manufacturing and Non-manufacturing Purchasing Managers' indices in the second quarter of the year. The MPC commended the approval of 2018 Federal Government budget and called for an accelerated implementation to further support the fragile growth recovery. The Committee also called for sustained implementation of the Economic Recovery and Growth Plan (ERGP) to further stimulate output growth. The Committee was, however, concerned about the liquidity impact of the 2018 expansionary fiscal

budget and increasing FAAC distribution, arising from rising prices of crude oil as well as the build-up in election related spending.

Notwithstanding, the positive direction of the outlook, the MPC reviewed the effects of the sustained monetary policy normalization in the US with implications for capital flow reversals, exchange rate and domestic price pressures, as well as other challenges to growth during the second half of 2018.

The Committee took note of the sustained moderation in inflationary pressures, especially headline inflation, as well as stability in the foreign exchange market, but expressed concern on the threat posed by incessant herdsmen-farmers crisis in some key food producing states and the negative impact on food supply chains which would continue to exert upward pressure on food prices. The Committee, therefore, called on the Bank to continue to build on the progress already made to sustain the moderation in inflation.

The MPC also observed with satisfaction high level of activities in the Investors' and Exporters' (I&E) window of the foreign exchange market which continued to supply liquidity in foreign exchange market, narrow exchange rate premium, and reduce speculative activities in the market.

The MPC noted the continued improvements in the performance of deposit money banks and expressed optimism that the moderation in the levels of non-performing loans in the industry would continue. The Committee, therefore, called on the Federal Government to accelerate the settlement of outstanding contractor debts and also encourage the Bank to ensure strict compliance prudential guidelines.

In discussing the economic report presented to the members, it was observed that as the prices of crude oil rose in 2017 and 2018, the monthly allocation to various levels of government also increased, suggesting that the Federal Government may not be saving adequately for the future. The Committee, therefore, advised the fiscal authority to build-up buffers, especially now that the price of crude oil is relatively high.

#### **4.0. The Committee's Decisions**

Informed by the developments in the global and domestic economic and financial environments, the Committee painstakingly reviewed the policy options available. In particular, the Committee considered the sustained positive growth in real GDP over the last quarter, stability in the foreign exchange market and high level of accretion to the external reserves.

The MPC deliberated on the rise in food inflation, impact of the expected liquidity from expansionary 2018 FGN budget and rising FAAC disbursement in the second half of the year along with the build-up in pre-election year spending. The Committee strongly considered the option of tightening believing that tightening would curtail the threat of a rise in inflation, even as the injection from the fiscal authorities would still provide the economy with substantial liquidity. Notwithstanding the deceleration in headline inflation, the current double digit inflation rate remains above the Bank's 6-9 per cent target range. In addition, the Committee was of the view that tightening would help stem the tide of capital flow reversals in the face of sustained monetary policy normalization in the US. This, the Committee believed would rein-in inflationary pressure and moderate inflation rate to single digit, increase real interest rate, build investor confidence with attendant positive impact on capital inflows and further stabilize the country's exchange rate.

On the contrary, the Committee was of the view that raising interest rate at this time would weaken consumption and raise the cost of borrowing to investors in the domestic economy. In addition, the policy would trigger the re-pricing of financial assets by deposit money banks, thus further constrict credit to the real sector, and that would promote non-inclusive growth.

In considering the option of loosening, the Committee assessed the potential effects of stimulating aggregate demand through lower cost of capital. This could stimulate consumption and aggregate demand. The Committee, however, considered its potential relevance, taking into account the expected liquidity injections from the 2018 budget, increased FAAC disbursements and election related spending ahead of the 2019 general elections. If these crystalize, it would exacerbate inflationary and exchange rate pressures as well as return the real interest rate into negative trajectory. Moreover, lowering the policy rate may not translate to an automatic reduction in market rates due to poor transmission



mechanism owing to structural rigidities. The Committee was also of the view that loosening could reverse the gains already made on reduced importation which has strengthened the current account balance. It would also lower banks risk appetite and possible rise in NPLs which could negatively impact on the banking industry stability.

In the discussion for a hold, it was noted that risks to the macroeconomic and financial environment appears fairly balanced with improvements in output growth and inflation. Holding policy at the current stance would support growth and further moderate inflation. The Committee, however, noted the preference of the public for loosening, concerns that the MPC had held the MPR at 14 per cent since July 2016 and also considering the dynamic nature of the market, the MPR may have lost its signalling effect to the market. The argument in favour of maintaining the current policy stance is to monitor the magnitude of the liquidity impact of the fiscal injections and electionrelated expenditure ahead of the 2019 general elections.

Overall, the MPC was of the opinion that, while it is difficult to encourage job creation in an environment with deficit infrastructure, the Committee believes that the Bank should continue to encourage deposit money banks (DMBs) to increase the flow of credit to the real economy to consolidate economic recovery. In this regard, the Committee believed that a heterodox approach to reform the market in order to strengthen the flow of credit would be appropriate at this time. Consequently, credit constrained businesses, particularly the large corporations are encouraged to issue commercial paper to meet their credit needs and the Central Bank of Nigeria may, if need be, buy those instruments to complement the efforts of the DMBs. In addition, as a way of incentivise deposit money banks to increase lending to the manufacturing and agriculture sectors, a differentiated dynamic cash reserves requirement (CRR) regime would be implemented, to direct cheap long term bank credit at 9 per cent, with a minimum tenor of seven (7) years and two (2) years moratorium to employment elastic sectors of the Nigerian economy. Details of this framework are being worked out by the Banking Supervision, Monetary Policy and Research Departments of the Bank and would be released soon.

In consideration of the foregoing, therefore, the Committee decided by a vote of Seven (7) members to retain the Monetary Policy Rate (MPR) at 14.00 per cent alongside all other policy parameters. Two (2) members, however, voted to

increase the MPR by 50 basis points, while one (1) member voted to increase the MPR by 25 basis points.

Consequently, the MPC voted to retain the:

- (i) MPR at 14.0 per cent;
- (ii) CRR at 22.5 per cent;
- (iii) Liquidity Ratio at 30.0 per cent; and
- (iv) Asymmetric corridor at +200 and -500 basis points around the MPR.

Thank you for listening.

**Godwin I. Emefiele**  
**Governor, Central Bank of Nigeria**  
**24th July, 2018**



## **CENTRAL BANK OF NIGERIA COMMUNIQUE NO 118 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 21ST AND TUESDAY 22ND MAY, 2018**

### **Background**

The Monetary Policy Committee (MPC) met on the 21<sup>st</sup> and 22<sup>nd</sup> of May, 2018 against the backdrop of optimistic global growth outlook and sustained recovery in the domestic economy. The Committee examined the performance, risks, vulnerabilities in the global and domestic economies up to May 2018, and the outlook for the rest of the year. In attendance were nine members of the Committee.

### **Global Economic Developments**

The momentum of global economic activities remained broadly sustained, with outcomes likely to be shaped by emerging geo-political issues including: easing geo-political tensions on the Korean Peninsula; reduced trade tensions between China and the United States; United States withdrawal from the 2015 Iranian Nuclear Deal; easy financing conditions in the Euro Area, the UK and Japan; as well as difficulties associated with the Brexit negotiations. Accordingly, global output is projected to grow at 3.9 per cent in 2018, up from 3.8 per cent in 2017. Growth in the advanced economies is projected to strengthen to 2.5 per cent in 2018 from 2.3 per cent in 2017 premised on improved investments and consumption spending. Similarly, output growth in the emerging markets and developing economies (EMDEs) is projected to rise marginally at 4.9 per cent in 2018 reflecting improvements from 4.8 per cent in 2017, led by oil exporters, such as Russia, Brazil, and Nigeria. The Committee noted that despite these optimistic developments, the downside risks to global growth include: the geo-political tensions in the Middle-East; lingering uncertainties from BREXIT negotiations; and growing trend towards trade protectionism.

Inflation in the advanced economies is projected to rise by 2.0 per cent and would remain subdued relative to the long term trend. In the emerging markets and developing economies, price developments could surge by 4.6 per cent in 2018.

The International Monetary Fund (IMF) forecasts that inflation may rise modestly over the medium to long-term, due to rising asset prices and longterm yields in the major financial markets.

### **Domestic Output Developments**

The Committee noted improvements in the domestic economy, attributable to the steady decline in inflation, rebound in oil prices and increase in production level, as well as the continued stability in the foreign exchange market. According to data from the National Bureau of Statistics (NBS), real Gross Domestic Product (GDP) for Q4 2017 was revised upwards from 1.92 per cent to 2.11 per cent, while a growth of 1.95 per cent was recorded in the first quarter of 2018, up from a contraction of 0.91 per cent in the corresponding period of 2017. The development was due to growth in the oil and non-oil sectors by 14.77 and 0.76 per cent, respectively. The Monetary Policy Committee also noted the sustained positive outlook based on the Manufacturing, and Non-manufacturing Purchasing Managers' Indices (PMI), which rose for thirteenth and twelfth consecutive months to 56.9 and 57.5 index points, respectively, in April 2018. The Committee welcomed this development but believes that growth remains largely fragile and could benefit from further reforms and stimulus. In this regard, the MPC urged the various levels of government to accelerate the settlement of contractor debt and salary arrears as well as facilitate the quick implementation of the 2018 Federal Government budget.

### **Developments in Money and Prices**

The Committee noted that broad money supply (M2) grew by 2.16 per cent in April 2018 from 1.26 per cent in March 2018, annualised to 6.48 per cent. This was in contrast to the provisional growth benchmark of 10.48 per cent for 2018.

The performance of M2 was mainly driven by the growth in Net Domestic Credit (NDC) of 6.24 per cent (annualised to 18.72%), owing largely to net credit to government, which grew by 46.13 per cent (annualised to 138.39%) against the provisional benchmark of 54.97 per cent. Credit to the private sector, however, contracted by 0.16 per cent (annualised to -0.47%) in April 2018, in contrast to the provisional annual benchmark of 5.64 per cent. Net Foreign Assets (NFA) grew by 7.38 per cent in April 2018, annualized to 22.13 per cent, compared with the provisional benchmark of 18.15 per cent. Narrow money (M1), however,

contracted by 3.31 per cent (annualised to -9.94%), compared with the provisional benchmark of 8.04 per cent.

Inflationary pressures continued to moderate with headline inflation (year-on-year) declining for the fifteenth consecutive month to 12.48 per cent in April 2018 from 13.34 per cent in March 2018. Food and Core inflation also decelerated to 14.80 and 10.92 per cent from 16.08 and 11.18 per cent, respectively, during the same period.

The average inter-bank call rate decreased to 3.34 per cent in April 2018 from 9.49 per cent in December 2017. Similarly, the average Open Buy Back (OBB) rate fell to 2.96 per cent in April 2018 from 8.46 per cent in December 2017. The movement in the net liquidity position and interest rates reflected the combined effects of Open Market Operations (OMO) auctions, foreign exchange interventions and statutory allocation to state and local governments.

The Committee welcomed the sustained improvement in the level of external reserves, which stood at US\$47.79 billion on May 18, 2018, compared with US\$46.73 billion at the end of March 2018. The Committee urged the Bank to sustain this momentum and continue to boost investor confidence in the economy. The Committee also welcomed the continued rise in the price of crude and called on the Federal Government to seize the opportunity to build fiscal buffers against future oil price shocks.

The All-Share Index (ASI) decreased by 6.6 per cent from 43,330.54 on February 28, 2018 to 40,472.45 on May 18, 2018, owing largely to profit taking activities of investors, and capital reversals in response to monetary policy normalization in some advanced economies particularly, the United States. Similarly, Market Capitalization (MC) fell by 5.7 per cent from N15.55 trillion on February 28, 2018 to N14.66 trillion on May 18, 2018. The Committee noted the need to maintain remunerative domestic rates to stem the trend towards huge capital outflow.

The MPC welcomed the continued stability in the foreign exchange market, promoted by improved dollar liquidity in the market due to the high level of activity at the Investors' and Exporters' (I&E) window, that is equally driving rates towards convergence at all segments of the market. Total foreign exchange inflow through the economy from January to March 2018 stood at US\$24.719 billion, of which funding from the CBN was US\$8.81 billion or 28.5 per cent, while autonomous

sources accounted for the larger balance of US\$15.91 billion or 71.5 per cent of the total. In addition, the Committee welcomed the US\$2.5 billion or RMB 15 billion Currency Swap between the Central Bank of

Nigeria (CBN) and the People's Bank of China (PBoC). This swap, the Committee noted, will ease pressure in the foreign exchange market by the reduction in reliance on a third currency for trade settlement between Nigeria and China. They further noted that this swap arrangement could be the basis for an expanded and mutually beneficial economic relationship between Nigeria and China.

## **2.0. The Overall Outlook and Risks**

The macroeconomic environment that propelled the economy's exit from recession has remained positive and is likely to continue in the near-term. The expectation was premised on speedy implementation of the 2018 budget, improved security, continued stability in the foreign exchange market as well as increase in crude oil production and prices. The Committee noted the downside risks to the outlook to include: the late approval and implementation of the 2018 budget; farmers-herdsmen conflict; weak demand and consumer spending associated with outstanding salaries and contractor debt; and the growing level of sovereign debt.

The outlook for inflation indicates continued moderation in the price level, even though the risks include huge liquidity injections that is expected to arise from the implementation of the proposed N9.12 trillion 2018 FGN budget; expenditure towards the 2019 elections; monthly FAAC injections, approval and implementation of the proposed new national minimum wage, possibly finance by a supplementary budget. These could impact aggregate demand and put pressure on domestic prices in the remaining months of 2018 and may dampen the gains already made by the Bank in stabilizing prices.

Staff forecasts, given the anticipated liquidity injections into the economy, indicates upward trending pressure on domestic prices from the second half of fiscal 2018. Consequently, the Committee advocates an orderly injection of the anticipated liquidity by the fiscal authorities to prevent a negative shock to prices that would derail the positive but fragile recovery so far achieved.

Given the CBN's interventions, the current level of oil prices and developments in the global economy, we expect rates to remain stable in the foreign exchange market in the near-term. However, the bearish signs in the capital market associated with profit taking activities of investors, call for a careful calibration of policy so as to moderate the trend of capital outflows in an era of monetary policy normalization in the United States. This is given that there are already indications of severe attacks on the foreign exchange markets of some emerging economies.

Nevertheless, there is significant high level of uncertainties that could arise from the fiscal operations of government in the near term. Amongst these are: when the implementation of the 2017 budget will end; dwindling revenue projections; as well as the possibilities of full implementation of the 2018 Federal budget. Consequently, we expect a likely bunching of government spending in view of the late passage of the budget and government's commitment to honour prior obligations. This could pose a serious challenge to the Bank's price stability mandate.

Revenue is expected to increase in view of the favourable prices of crude oil and improvements in non-oil revenue, particularly taxes. In addition, production levels have also increased in recent times and this is expected to be maintained. However, the implications of a China-US trade deal on China's oil imports from Nigeria remain unclear, especially as the US has included energy imports on the list of items for negotiation with China.

### **3.0. The Considerations of the Committee**

The Committee expressed satisfaction on the positive outlook in the domestic economic environment as the real GDP grew for the fourth consecutive quarter by the first quarter of 2018 and the positive trend in the Manufacturing and Non-manufacturing Purchasing Managers' Indices in the first quarter of 2018. It noted the continued deceleration in headline inflation as well as stability in the foreign exchange market and therefore, called on the Bank to sustain the momentum in order to further subdue inflation and ensure growth. The Committee expressed satisfaction with the level of activities in the Investors' and Exporters' (I&E) window of the foreign exchange market.

The Committee further noted the overall upward growth momentum of the economy with key activity sectors returning positive growth. Despite the improving

macroeconomic environment, the Committee noted that disruptions to the supply chains in major food producing states of the country remains a concern as food prices remained sticky downwards. It also noted the potential adverse effect of the rising global inflation on domestic prices and therefore, urged the Government not to relent on curtailing the security challenges to advance controlling inflation to its historical path.

Members of the Committee were satisfied with the progress made with the implementation of the Economic Recovery and Growth Plan, but were concerned on the effect of delay in the passage of the 2018 Appropriation could derail the programme and urged the Federal Government to sustain its implementation to further accelerate the economic recovery thus far achieved. The Committee urged the Government to set the machinery for the effective implementation of the 2018 budget to further stimulate the economy. It also encouraged the Government to sustain current efforts at boosting tax revenue generation notwithstanding the increase in crude oil and other commodity prices. The MPC, however, noted the potential effects of expansionary fiscal budget of 2018 and the liquidity impact of rising FAAC distribution, following increase in the prices of crude oil as well as the build up in election related spending towards the 2019 general elections.

The Committee took note of the improved performance of deposit money banks and observed that the relatively high levels of non-performing loans in the industry was moderating and urged Government to promptly settle outstanding contractor arrears as earlier promised. The Committee commended the effort of the Bank in achieving the positive outlook for the industry and advice the Bank to intensify efforts to further improve banking sector soundness. It called on the Bank to sustain its monitoring apparatus to ensure compliance with existing prudential regulations and early detection and management of emerging vulnerabilities. Also, it similarly encouraged the Bank not to relent in ensuring that liquidity continues to flow from the banking sector to the real sector to further strengthen economic recovery and employment generation.

#### **4.0. The Committee's Decisions**

The Committee critically evaluated the policy options in terms of developments in the international and domestic environments, noting in particular progress made in stimulating output growth, including stability in the foreign exchange market



increase in the level of foreign exchange reserves, and sustained deceleration in the rate of inflation.

The Committee considered the forecast of high liquidity injection in the second half of 2018, upward pressure on prices, driven largely by substantial expansionary fiscal policy, which will arise from the late passage of the 2018 appropriation bill, outstanding balance from the 2017 budget and the preelection expenditures. Thus, tightening would ensure the mop-up of excess liquidity. Mindful that despite the moderation in inflation, the current inflation rate is still above targeted single digit and that real interest rate only turned positive in the review period. The objective of the policy stance therefore, would be to accelerate a reduction in the inflation rate to single digit to promote economic stability, boost investor confidence, and promote foreign capital flows with complementary impact on exchange rate stability.

Conversely, the Committee believes that raising interest rate would, however, depress consumption and increase the cost of borrowing to the real sector. Moreover, such policy would make deposit money banks to re-price their assets.

In reviewing the choice of loosening, the Committee evaluated the potential impact of stimulating aggregate demand through lower cost of credit. Nevertheless, the Committee deliberated on the effectiveness of the choice at a time when liquidity injection had been forecast to rise tangentially in the second half of the year. The outcome therefore, would most likely exacerbate inflationary pressure, cause higher pressure on the exchange rate as demand for forex increases and return real rate into negative territory as nominal interest rate fall lower than the inflation rate. Owing to the poor transmission mechanism as a result of structural rigidities, the reduction in the MPR may not necessarily transmit to lowering market lending rate on account of the high cost of doing business. The Committee further noted that loosening could worsen the current account balance through increase in importation, margin lending, lowering of risk evaluation in accessing loans which will drive up loans and likely increase in NPLs with potential negative consequence on the stability of the banking industry. The cost of liquidity management would also rise considerably.

The Committee, while arguing for a hold, observed that the downside risk to growth and upside risk to inflation appears balanced as growth is improving while inflation is moderating. Maintaining the current policy stance would sustain

gradual improvements in both indices. It was noted that there is need to see how all the components of GDP would evolve in the second quarter of 2018 in order to gain greater clarity on the direction of monetary policy. In summary, the predominant argument for a hold at this time is to await more clarity on the evolution of key indicators i.e. the passage and implementation of the budget, economic activities, and traction in fiscal policy in 2018.

Overall, the Committee was convinced that the economy needed a new impetus of increased lending by the banking system and would work with the Bank to adopt innovative ways to encourage the deposit money banks (DMBs) to adopt innovative ways to accelerate credit growth, including a reduction in the policy rate when conditions for such a decision arise. The MPC noted that at single digit inflation and higher reserve levels, the risks associated with a policy rate reduction under conditions of wavering foreign capital inflows and an unstable oil market, including other severe uncertainties, could be better managed to deliver macroeconomic stability in Nigeria. In consideration of the foregoing, therefore, the Committee decided by a vote of 8 members to retain the Monetary Policy Rate (MPR) at 14.0 per cent alongside all other policy parameters. One (1) member, however, voted to increase the MPR by 50 basis points.

Consequently, the MPC voted to retain the:

MPR at 14.0 per cent;

CRR at 22.5 per cent;

Liquidity Ratio at 30.0 per cent; and

Asymmetric corridor at +200 and -500 basis points around the MPR.

Thank you for listening.

**Godwin I. Emefiele**  
**Governor, Central Bank of Nigeria**  
**22<sup>nd</sup> May, 2018**



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 117 OF THE MONETARY POLICY COMMITTEE MEETING OF TUESDAY 3<sup>RD</sup> AND WEDNESDAY 4<sup>TH</sup> APRIL, 2018**

### **Background**

The re-constituted Monetary Policy Committee (MPC) held its maiden meeting, the 260<sup>th</sup> meeting of the Committee, its first in 2018, on 3<sup>rd</sup> and 4<sup>th</sup> of April, 2018 against the backdrop of strengthening global growth and improving domestic economic conditions. The Committee assessed the developments in the global and domestic economic environments during the first quarter of 2018, including the risks to price stability, financial stability, and economic growth in the short-to-medium term. Nine members of the Committee attended the meeting.

### **Global Economic Developments**

The strong headwinds which confronted the global economy in 2017 showed signs of moderation, giving way to prospects for stronger growth in 2018. Consequently, global output is projected to grow by 3.9 per cent in 2018 from 3.7 per cent in 2017 on the heels of rebound in investment as a result of improvements in investor confidence, strengthening commodity prices, rising aggregate demand and accommodative monetary policy, especially in some advanced economies. With the sustained recovery in oil prices, aggregate demand is expected to continue to firm up. Growth in the advanced economies is projected at 2.3 per cent in 2018, and 4.9 per cent for emerging markets and developing economies (EMDEs). The Monetary Policy Committee noted some downside risks to the outlook for global growth to include: continuing normalization of monetary policy in the advanced economies; new U.S. trade policy; uncertainties associated with the BREXIT negotiations; and rising geo-political tensions in the Middle-East and on the Korean Peninsula.

In the advanced and emerging market economies, inflation is projected at 1.9 and 4.5 per cent in 2018, respectively. However, the broad indication from the IMF is that over the medium to long term, inflation may rise at a modest pace as general economic conditions remain subdued. Asset prices and long-term yields in major financial markets are also on the increase, confirming the possibility of a future rise in the price level.

### **Domestic Output Developments**

Data from the National Bureau of Statistics (NBS) indicate that real Gross Domestic Product (GDP) grew by 1.92 per cent in the fourth quarter of 2017, up from 1.40 and 0.72 per cent in the third and second quarters, respectively. The economy grew overall by 0.83 per cent in 2017. The main drivers of real GDP growth were agriculture (1.08%), industry (0.56%) and trade (0.35%). Non-oil real GDP grew by 1.45 per cent in the fourth quarter of 2017 compared with a contraction of 0.76 per cent in third quarter of 2017, indicating that the economy is gradually returning to a path of sustainable positive growth.

The Committee also noted the continuous positive outlook based on the Manufacturing, and Non-manufacturing Purchasing Managers' Index (PMI), which stood at 56.7 and 57.2 index points, respectively, in March 2018, indicating expansion for the twelfth and eleventh consecutive months. The Committee believes that effective implementation of the Economic Recovery and Growth Plan (ERGP) by the Federal Government and quick passage of the 2018 budget will continue to enhance aggregate demand and confidence in the Nigerian economy.

### **Developments in Money and Prices**

The Committee noted that money supply (M2) grew marginally by 0.07 per cent in February 2018 (annualised to 0.42%), in contrast to the provisional growth benchmark of 10.29 per cent for 2018. The development in M2 largely reflected growth in net domestic credit (NDC) of 4.05 per cent (annualised to 24.30%), emanating majorly from net credit to government, which grew by 19.99 per cent (annualised to 119.94%) against the provisional benchmark of 33.12 per cent. Credit to the private sector also grew by 1.49 per cent (annualised to 8.94%) in February 2018, compared with the provisional annual benchmark of 14.88 per cent. Net foreign assets (NFA), contracted by 2.82 per cent, annualized to 16.92 per cent, compared with the provisional benchmark of -29.31 per cent. Narrow

money (M1), also contracted by 2.77 per cent (annualised to 16.62%). The Committee urged the Federal Government to strongly exercise restraint on domestic borrowing in order to lower the cost of credit to the private sector.

The Committee noted that the continued low level of lending by banks remains a constraint to growth of the real sector of the economy. The Committee advised the Management of the CBN to continue to provide the required policy impetus to engender improved credit delivery by the deposit money banks to the economy.

Inflationary pressures in the economy continued to moderate with headline inflation (year-on-year) receding for the thirteenth consecutive month to 14.33 per cent in February 2018 from 18.72 per cent in January 2017. Month-on-month food inflation fell by 133 basis points to 17.59 per cent in February 2018, and core inflation also declined marginally by 38 basis points to 11.71 per cent during the same period.

Money market interest rates reflected liquidity conditions in the banking system as the average inter-bank call rate increased to averagely 12.42 per cent in February 2018 from 9.49 per cent in December 2017. The Open buy back (OBB) rate also increased to 13.19 per cent in February 2018 from 8.46 per cent in December 2017. The movement in the net liquidity position and interest rates reflected the combined effects of OMO auctions, foreign exchange interventions and statutory allocation to state and local governments.

The Committee also noted the continuous improvement in the level of external reserves, which stood at US\$46.699 billion as at March 29, 2018. Similarly, the All-Share Index (ASI) rose by 8.5 per cent from 38,243.19 on December 29, 2017, to 41,504.51 on March 29, 2018. Market Capitalization (MC) improved by 10.2 per cent from N13.61 trillion on December 29, 2017, to N14.99 trillion during the same period. The Committee observed that, while this development may be a reflection of improved investor confidence in the economy, it cautioned that the Management of the Bank should carefully monitor the developments and to establish mechanisms for safeguarding the stability of the foreign exchange market in the event of a sudden capital reversal. The Committee observed the continued rise in oil prices, but acknowledged the inherent volatility in commodity prices and urged the Bank not to relent in building external reserves buffers against any future price downturns and as a means of sustaining investor confidence in the economy.

The Committee noted the relative stability in the foreign exchange market, with declining premia across all segments of the market. It observed with satisfaction, the sustained high level of activity at the Investors' and Exporters' (I&E) window of the foreign exchange market. The window continues to attract more investors, thus boosting foreign exchange supply. Consequently, total foreign exchange inflow through the central bank increased by 73.00 per cent in February 2018, compared with the previous month. This was attributed to the increase in receipt of proceeds from Petroleum Profit Tax (PPT), royalties and crude oil & gas. Total outflow also increased in February 2018 by 15.69 per cent, as a result of higher payments for invisibles, interbank transactions as well as JVC cash call payments.

## **2.0. Overall Outlook and Risks**

Forecasts of key macroeconomic indicators give a positive outlook for the Nigerian economy in 2018. This is predicated on the quick passage and effective implementation of the 2018 budget, improved security, foreign exchange market stability as well as favourable crude oil prices. On the downside, the Committee noted the potential impact of the 2019 election-related spending, against the weak backdrop of tax revenue efforts, herdsmen related violence and rising yields in the advanced economies. Indications in the US and the UK point to higher interest rates in the short to medium term.

## **3.0. The Considerations of the Committee**

The Committee noted with satisfaction the gradual return to macroeconomic stability as reflected in the third consecutive quarterly growth in real GDP in the fourth quarter of 2017. It also noted the continued moderation in all measures of inflation as well as sustained stability in the naira exchange rate and urged the Bank to sustain the stability to avoid a mission drift. In particular, the Committee welcomed the narrowing of the exchange rate premium between the BDC segment and the Investors' and Exporters' (I&E) window of the foreign exchange market. Overall, the Committee noted that the recovery of the economy was strengthening, in view of the return to growth of the Services Sector. As the fiscal sector continues to settle its outstanding liabilities, it reduces its domestic debt profile, thus increasing the liquidity of the banking system. However, the Monetary Policy Committee observed increasing monetization of oil proceeds as evident in the growing FAAC distribution, relative to the 2017 level of disbursements. The

Committee urged the Government to initiate strong stabilization programmes and to freeze the growth in its aggregate expenditure and FAAC distributions in order to create savings; needed to stabilize the economy against future oil price related shocks.

Notwithstanding the general improvement in macroeconomic conditions, the Committee noted the rather slow pace of moderation in food inflation. It also took note of the potential risk of a pass-through from rising global inflation to domestic prices. Members, however, expressed confidence that the tight stance of monetary policy would continue to complement other policies of government in addressing some of the structural issues underlying the stickiness of food prices. The Committee noted that at 14 per cent, the policy rate was tight enough to rein-in current inflationary pressures. The Committee, therefore, reaffirmed its commitment to price stability conducive to sustainable and inclusive growth.

The Committee noted with satisfaction the gradual implementation of the Economic Recovery and Growth Plan, in an effort to stimulate economic recovery. In the same vein, the Committee urged quick passage of the 2018 Appropriation Bill by the National Assembly, so as to keep fiscal policy on track and deliver the urgently needed reliefs in terms of employment and growth for the citizenry.

The Committee noted the relatively strong balance sheets of the deposit money banks' and the stable outlook. This is in spite of the concentration of non-performing loans in a few sectors, which the Committee observed was satisfactorily being addressed by adequate mechanisms established by the Bank to address the phenomenon. The Committee also noted that as Government pays off its huge contractor debts, a sizeable portion of these nonperforming loans will be addressed. The Committee urged the Bank to strengthen its supervisory oversight and early warning systems to promptly identify, monitor compliance with extant prudential regulations, sustain macro-prudential policy and manage emerging vulnerabilities in the banking system.

The Committee reiterated the Bank's commitment to delivery of low interest credit as evidenced in its bold steps to adopt unconventional monetary policy to aid credit flow to vulnerable and growth enhancing sectors of the Nigerian economy. The Committee, therefore, enjoined the Bank to continue to support and encourage credit delivery at single digit interest rate through other mechanisms in the interim, while encouraging the banking system to establish frameworks to

increase credit delivery to the employment generating sectors of the economy. In consideration of available data and evolving macroeconomic indicators, the Monetary Policy Committee is committed to revisiting its decisions in the short to medium term as the fundamentals evolve.

#### **4.0. The Committee's Decisions**

In reaching its decision, the Committee appraised potential policy options in terms of the balance of risks. The Committee also took note of the gains made so far as a result of its earlier decisions; including the stability of the foreign exchange market, the moderation in inflation rate as well as the restoration of economic growth. The launching of the Food Security Council by the Federal Government to improve food sustainability is a step in the right direction. The Committee was concerned about the fiscal distortions associated with absence of buoyancy between GDP growth and tax revenue, and urged the fiscal authorities to deploy appropriate corrective measures to address this phenomenon.

The Committee was of the view that further tightening would strengthen the impact of monetary policy on inflation with complementary positive effects on capital flows and exchange rate stability. Nevertheless, it could potentially dampen the positive outlook for growth and financial stability. However, the Committee is of the view that loosening would strengthen the outlook for growth by stimulating domestic aggregate demand through reduced cost of borrowing. This may, however, lead to a rise in consumer prices, generating exchange rate pressures on the currency in the process. The Committee also believes that loosening could worsen the current account balance through increased importation. On the argument to hold, the Committee believes that key macroeconomic variables have continued to evolve in a positive direction in line with the current stance of macroeconomic policy and should be allowed more time to fully manifest.

In consideration of the foregoing, the Committee decided unanimously by a vote of all members present to retain the Monetary Policy Rate (MPR) at 14.0 per cent alongside all other policy parameters.

Consequently, the MPC voted unanimously to retain the

MPR at 14.0 per cent;

CRR at 22.5 per cent;



Liquidity Ratio at 30.0 per cent; and  
Asymmetric corridor at +200 and -500 basis points around the MPR.  
Thank you for listening.

**Godwin I. Emefiele**  
**Governor, Central Bank of Nigeria**  
**4<sup>th</sup> April, 2018**



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 116 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 20<sup>th</sup> AND TUESDAY 21<sup>st</sup> NOVEMBER, 2017**

### **Background**

The Monetary Policy Committee met on the 20<sup>th</sup> and 21<sup>st</sup> of November, 2017 against the backdrop of a relatively optimistic global economic outlook. The Committee reviewed key developments in the global and domestic economies during the first ten months of 2017 and assessed the risks to price and financial stability in the short- to-medium term as well as outlook for the first half of 2018. Nine (9) members of the MPC were present at the meeting.

### **External Developments**

Global output is projected to improve to 3.6 per cent in 2017 from 3.2 per cent in 2016. The revised growth forecast reflects the uptick in global economic activity, strengthened by the recovery in oil and other commodity prices and leading to improved aggregate demand. Growth in the advanced economies is projected to improve to 2.2 per cent in 2017 from 1.7 per cent in 2016. Similarly, emerging markets and developing economies are forecast to grow at 4.6 per cent in 2017 up from 4.3 per cent in 2016. The MPC, however, noted some risks to the outlook for global growth to include: continued tension in the Korean Peninsula, complexities arising from the BREXIT negotiations and financial market uncertainties due to monetary policy normalization in the US.

The Committee noted that the pace of increase in inflation in the advanced economies, with the exception of the UK, is expected to be considerably slow towards the end of 2017. In the emerging market economies, inflationary pressures have abated as key economies exit recession and their currencies stabilize. Inflation is projected at 1.7 and 4.2 per cent in 2017 in the advanced and developing economies, respectively. The Committee observed that the outlook for global monetary policy remains largely accommodative, in support of economic recovery and growth.

## **Domestic Output Developments**

Data from the National Bureau of Statistics (NBS) indicate that real Gross Domestic Product (GDP) grew by 1.40 per cent in the third quarter of 2017, up from 0.72 per cent, and contraction of 0.91 per cent in the second and first quarter of 2017, respectively. The major drivers of real GDP growth were agriculture (0.88%) and industry (1.83%). Some subsectors contracted, including: construction (0.01%), trade (0.29%) and services (1.02%). Overall, non-oil real GDP contracted by 0.76 per cent in Q3 2017, giving credence to the argument that more work is required to consolidate the recovery process; by putting in place policies that will boost growth through the non-oil sector.

The Committee also noted the continuous positive outlook based on the Manufacturing Purchasing Managers Index (PMI), which stood at 55.0 index points in October 2017, indicating expansion in the manufacturing sector for the seventh consecutive month. Eleven of the sixteen sub-sectors reported growth in the review period. Also, the composite PMI for the non-manufacturing sector stood at 55.3 index points in October 2017, indicating growth for the sixth consecutive month. The Committee hopes that, while the economic recovery appears to remain fragile, a tenacious implementation of the 2017 budget and quick passage of the 2018 budget would boost aggregate demand and confidence in the economy.

## **Developments in Money and Prices**

The Committee noted that money supply (M2) contracted by 5.54 per cent in October 2017 (annualised), in contrast to the provisional growth benchmark of 10.29 per cent for 2017. The development in M2 is largely due to the contraction of 37.50 per cent in other assets net (OAN). Similarly, M1 contracted by 7.79 per cent (annualised to -9.35 per cent). Net domestic credit (NDC) expanded by 1.18 per cent, annualized to 1.42 per cent, driven primarily by net credit to government, which also expanded by 7.60 per cent against the programmed growth of 33.12 per cent. Credit to the private sector, however, contracted by 0.24 per cent in October 2017, compared with the provisional benchmark of 14.88 per cent. The MPC also noted the structural constraints in the transmission of credit to the real sector of the economy as well as the rising unemployment level. The Committee urged the Management of the Bank to continue to encourage the deposit money banks to accelerate the rate of credit growth to the real sector of the economy. Inflationary pressures in the economy continued to moderate with headline inflation (year-on-year) receding for the ninth consecutive month to 15.91 per cent

in October 2017 from 15.98 per cent in September 2017. Food inflation fell marginally to 20.31 per cent from 20.32 per cent in September, while core inflation increased slightly to 12.14 per cent from 12.12 per cent during the same period. These developments were attributable to the contraction in money supply, favourable but dwindling base effects, and the relatively stable naira exchange rate. In spite of the marginal decline in food inflation in October, the Committee noted that the rate remained high, traceable to cross border sales, distribution bottlenecks, high prices of farm inputs and supply shortages.

Money market interest rates oscillated in tandem with the level of liquidity in the banking system as the average inter-bank call rate, which opened at 12.00 per cent on October 3, 2017, closed at 5.38 per cent on November 16, 2017. The OBB rates opened at 10.41 per cent and closed lower at 6.02 per cent in the same period. However, the average inter-bank call and OBB rates for the period stood at 10.94 and 10.15 per cent, respectively. The development in net liquidity positions and flows reflected the effects of Federation Account payments to states and local governments; remittances by the Nigerian Customs, Federal Inland Revenue Services; OMO sales; foreign exchange interventions and maturing CBN Bills.

The Committee noted the continuing improvement in the level of external reserves and the equities segment of the capital market. External reserves grew to US\$34.9 billion at the close of business on November 16, 2017. Similarly, the All-Share Index (ASI) rose by 3.38 per cent from 35,504.62 on August 31, 2017 to 36,703.58 on November 17, 2017. Market Capitalization (MC) improved by 4.35 per cent to N12.77 trillion from N12.24 trillion during the same period. Relative to end-December 2016, capital market indices rose by 36.57 and 38.10 per cent, respectively, indicating rising investor confidence, due to improvements in foreign exchange supply.

Total foreign exchange inflow through the central bank declined by 6.61 per cent in October 2017, compared with the previous month and attributable to the decline in crude oil and gas receipts as well as revenues from petroleum profit tax (PPT) and royalty payments. Total outflows, however, increased by 18.77 per cent during the same period, as a result of interbank sales, direct payments and JVC calls.

The Committee noted the gradual convergence between the rates at the bureau-de-change (BDC) and the Nigeria Autonomous Foreign Exchange (NAFEX) market segments, as well as the stability of the exchange rate at the inter-bank segments

of the foreign exchange market during the review period. Similarly, the Committee viewed with satisfaction, the growing patronage at the Investors' and Exporters' (I&E) window of the foreign exchange market and attributed the development to increased confidence by foreign investors and the preference of Nigerian investors' and exporters' for the window compared with all other windows. The MPC noted that the I&E window had increased liquidity and boosted confidence in the market with over US\$18.70 billion in transactions since its introduction in April 2017.

## **2.0. Overall Outlook and Risks**

Forecasts of key macroeconomic variables indicate a positive outlook for the economy up to Q1 2018. This is predicated on continued implementation of the 2017 budget into early 2018, anticipated improvements in government revenue from the implementation of the Voluntary Asset and Income Declaration Scheme (VAIDS) as well as favourable crude oil prices. The development finance initiatives by the CBN in the real sector, particularly in agriculture, are expected to continue to yield positive results in terms of output expansion and job creation. Focusing on the downside risks to the outlook, the Committee noted the low fiscal buffers and weak aggregate domestic demand. On the external front, widening global imbalances, and rising geo-political tensions were some of the crucial risks identified.

## **3.0. The Considerations of the Committee**

The Committee noted with satisfaction the second consecutive quarterly growth in real GDP following five quarters of contraction. In addition, Members welcomed the relative stability in the exchange rate, particularly the narrowing premia and the very slow deceleration in consumer price inflation, largely attributable to base effects. Overall, the economy has begun to show strong signs of recovery as public investment has picked up with increased housing construction at the Federal and state levels, as well as shipping activities at the ports. The Committee was, however, of the view that policy makers must not relent in their aggressive policy initiatives aimed at continuing the positive growth trajectory. The Committee was also concerned about potential adverse external developments and the cautious approach to lending and financial intermediation by domestic deposit money banks.

The Committee similarly evaluated other concerns in the domestic economy and the opportunities for strengthening output recovery, noting that some highly critical subsectors were yet to resume growth. The Committee noted the significant contribution of food prices to headline inflation and observed that the benefit of base effect on overall headline inflation had substantially dwindled. Members, however, expressed confidence that the tight stance of monetary policy and the stability in the exchange rate of the naira should continue to positively weigh in on price developments. The Committee reaffirmed its commitment to maintaining price stability, which is crucial to sustainable economic growth and development.

The Committee welcomed the review of the Economic Recovery and Growth Plan (ERGP), in an effort to realise the objectives of the plan. In the same vein, the Committee urges a quick passage of the 2018 Appropriation Bill by the National Assembly, so as to keep fiscal policy on track and deliver the urgently needed reliefs in terms of employment and growth of the economy.

On financial stability, the Committee noted the concentration of non-performing loans in a few sectors but observed that the overall condition and outlook for the banking system was stable as deposit money banks' balance sheets remained strong. This assessment is strengthened by developments in the national accounts and the expectations that the affected sectors are returning to growth. Nonetheless, the Committee urged further strengthening of supervisory oversight and deployment of early warning systems in order to promptly identify vulnerabilities and proactively manage emerging risks in the banking system. The Committee further observed that government was increasing debt, both domestically and externally, thus crowding out the private sector.

#### **4.0. The Committee's Decisions**

In arriving at its decision, the Committee appraised potential policy options in terms of the balance of risks. The Committee also took note of the gains made so far as a result of its earlier decisions; including the stability in the foreign exchange market and the moderate reduction in inflation and thus extensively deliberated the options regarding whether to hold , tighten or ease the policy stance.

While tightening would strengthen the impact of monetary policy on inflation with complementary effects on capital inflows and exchange rate stability, it nevertheless could also potentially dampen the positive outlook for growth and financial stability. On the other hand, whereas loosening would strengthen the

outlook for growth by stimulating domestic aggregate demand through reduced cost of borrowing, it could aggravate upward trend in consumer prices and generate exchange rate pressures. The Committee also feels that loosening would worsen the current account balance through increased importation. On the argument to hold, the Committee believes that key variables have continued to evolve in line with the current stance of macroeconomic policy and should be allowed to fully manifest. Members noted that the developments in output and inflation in particular required effective close monitoring in order to gain clarity on the medium term optimal path of monetary policy.

In consideration of the foregoing, the Committee decided by a vote of 8 to 1 to retain the Monetary Policy Rate (MPR) at 14.0 per cent alongside all other policy parameters. One member voted to reduce the MPR by 100 basis points.

Consequently, the MPC voted to:

Retain the MPR at 14.0 per cent;

Retain the CRR at 22.5 per cent;

Retain the Liquidity Ratio at 30.0 per cent; and

Retain the Asymmetric corridor at +200 and -500 basis points around the MPR.

Thank you for listening.

**Godwin I. Emefiele**  
**Governor, Central Bank of Nigeria**  
**21<sup>st</sup> November, 2017**



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 115 OF THE MONETARY POLICY COMMITTEE MEETING OF 25<sup>th</sup> AND 26<sup>th</sup> SEPTEMBER, 2017**

### **Background**

The Monetary Policy Committee met on the 25<sup>th</sup> and 26<sup>th</sup> of September, 2017 against the backdrop of a relatively optimistic global economy. The Committee examined the global and domestic economic and financial environments up to the third quarter of 2017, and the outlook for the rest of the year. The recent spate of flooding and hurricanes in some parts of the globe; the flooding in Nigeria; the increasing tension between the US and North Korea, and the perception of hostilities on the Korean Peninsula as well as the associated geo-political tensions, were identified as key risks to global output growth.

On the domestic front, the economy exited recession (which began in the first quarter of 2016) in the second half of 2017, with a modest positive short to medium-term outlook, resulting largely from deliberate macroeconomic stimulus and a stable naira exchange rate. Inflation expectations also appeared anchored on the strength of prevailing tight monetary policy stance.

Seven (7) members of the MPC were present at the meeting.

### **External Developments**

Global output is projected to improve further in 2017, as growth forecast by the IMF in its July World Economic Outlook (WEO) was projected at 3.5 per cent, up from 3.2 per cent in 2016. Output growth in some advanced economies, including Japan, the Euroarea as well as some emerging market and developing economies is expected to improve in 2017. Nigeria, Brazil and South Africa, all exited recession, while Russia is likely to exit recession in the fourth quarter of 2017, after a mild contraction of 0.57 per cent in the second quarter. Growth forecast for the US was revised downwards from 2.3 per cent to 2.1 per cent in 2017, as a result of the weak growth observed in the first quarter of the year.



The MPC, however, noted some headwinds confronting the optimistic global growth prospects to include: recent developments on the Korean peninsula; the damage to infrastructure caused by hurricanes - Harvey, Irma and Maria; the lull in BREXIT negotiations and the normalization of monetary policy by the US Fed, which is expected to instigate global capital flow reversal. Other challenges include the continued slow pace of recovery in global oil and other commodity prices and China's reduction in uptake of global commodities. In addition, the Committee noted the tepid global inflation momentum, implying that continued monetary policy normalization could be injurious to global growth prospects.

The uptick in global inflation persisted, but moderated, in response to rising oil prices, continued accommodative monetary policy in the advanced economies; and currency appreciation in some emerging markets and developing countries. Average inflation for the developed economies is projected at 1.9 per cent in 2017, while it is forecast to average 4.5 per cent in the emerging and developing economies, as prices are expected to moderate due to seasonal effects. The Committee observed that the outlook for global monetary policy remains predominantly accommodative, in support of recovery and growth.

### **Domestic Output Developments**

Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 0.55 per cent in the second quarter of 2017, against the contractions of 0.91 and 1.49 per cent in the previous quarter of 2017, and the corresponding quarter of 2016, respectively, marking the technical exit of the Nigerian economy from recession. Non-oil real GDP grew by 0.45 per cent in Q2, 2017, driven largely by agriculture (3.0%), industry (1.1%), and construction (0.1%). The modest growth was attributed to fiscal injections from the implementation of the Economic Recovery and Growth Plan (ERGP), and enhanced supply of foreign exchange arising from improved crude oil prices. The Committee also noted the positive outlook from the Purchasing Managers Index (PMI) for manufacturing and non-manufacturing activities, which stood at 53.6 and 54.1 index points in August 2017, respectively, above the 50 index points benchmark, indicating moderate signs of recovery. The Committee further noted that, although the recovery was weak, it was hopeful that the active implementation of the 2017 budget could boost aggregate demand and employment.

## **Developments in Money and Prices**

The Committee noted that money supply (M2) contracted by 11.06 per cent in August 2017 (annualised), in contrast to the provisional growth benchmark of 10.29 per cent for 2017. The development in M2 is largely due to the contraction of 18.42 per cent in other assets net (OAN) in August 2017. Similarly, M1 contracted by 12.25 per cent in August 2017, (annualised to -18.37 per cent). Net domestic credit (NDC) contracted by 0.14 per cent, annualized at -0.20 per cent, driven majorly by net credit to government, which also contracted by 1.05 per cent against the programmed growth of 33.12 per cent. Credit to the private sector, however, grew marginally by 0.07 per cent in August 2017, compared with the provisional benchmark of 14.88 per cent. The MPC also noted the policy constraints in ensuring the flow of credit to the real sector in the face of weak and underperforming monetary aggregates.

Inflationary pressure in the economy continued to moderate with headline inflation (year-on-year) receding for the seventh consecutive month to 16.01 per cent in August 2017, from 16.05 per cent in July 2017. Food inflation declined slightly to 20.25 per cent in August 2017 from 20.28 per cent in July 2017, while core inflation increased to 12.30 per cent in August 2017 from 12.21 per cent in July 2017. This development was attributed to the contraction in money supply, decline in imported food and nonfood prices, favourable base effects, and the moderating effects of stable exchange rates. The Committee, however, noted that the high food inflation was traceable to rising prices of farm inputs and supply shortages, intermittent clashes between farmers and herdsmen, as well as weak harvest, due to increased flooding of farmlands.

Money market interest rates oscillated in tandem with the level of liquidity in the banking system as the average inter-bank call rate which opened at 18.00 per cent on July 26, 2017, closed at 7.00 per cent on August 31, 2017. The OBB rate opened at 15.03 per cent and closed lower at 7.83 per cent in the same period. However, the average inter-bank call and OBB rates for the period stood at 22.63 and 39.66 per cent, respectively. The movement in net liquidity positions and flows reflected the effects of OMO sales; foreign exchange interventions; statutory revenue payments to states and local governments; remittances by Nigerian Customs and Federal Inland Revenue Services for FAAC meetings; and the maturity of CBN Bills.

The Committee noted the continuing improvement in the external reserves position and the equities segment of the capital market. External reserves position grew to US\$32.9 billion at close of business on 25<sup>th</sup> September, 2017 while the All-Share Index (ASI) rose by 7.20 per cent from 33,117.48 on June 30, 2017 to 35,504.62 on August 31, 2017. Market Capitalization (MC) improved by 6.90 per cent to N12.24 trillion from N11.45 trillion during the same period. Relative to end-December 2016, capital market indices rose by 32.10 and 32.30 per cent, respectively, reflecting growing investor confidence, due to improvements in foreign exchange management.

Total foreign exchange inflows through the Central Bank of Nigeria (CBN) rose by 1.98 per cent in August 2017, compared with the previous month. Similarly, total outflow increased by 7.03 per cent during the same period, as a result of increased international remittances, inclusive of public sector and JVC payments; which rose by 58.59 per cent in the period under review.

The Committee noted the trend towards convergence between the rates at the bureau-de-change (BDC) and the Nigeria Autonomous Foreign Exchange (NAFEX) segments, as well as the stability of the exchange rate at the inter-bank segment of the foreign exchange market during the review period. Similarly, the Committee noted the success of the Investor and Exporters' window (I &E) of the foreign exchange market and traced this not only to foreign investor confidence but also to the zeal and commitment of Nigerian exporters who have demonstrated preference for the window to the parallel market. The Committee observed that the I&E window has increased liquidity and boosted confidence in the market with over US\$7.0 billion inflow in the last five months. The Committee will continue to introduce policies that will improve the confidence of foreign investors in the country's macroeconomic management regime.

## **2.0. Overall Outlook and Risks**

Available data and forecast of key macroeconomic variables indicate a relatively positive outlook, predicated on existing policy initiatives including the ERGP. Other potential drivers of economic recovery are; the expected increase in government revenue arising from favourable crude oil prices, stable output, and general improvements in the non-oil sector, especially, agriculture, industry and construction. The intervention by the CBN in the real sector is expected to continue to yield positive results in terms of output and lower consumer prices.

The Committee, however, noted some downside risks to the overall short- to medium-term positive outlook for the economy. These include; flooding which displaced farming communities and political agitations. On the external front, the hawkish policy stance in the United States, rising geo-political tensions and sluggish output recovery in the Euro-area and Japan, could slowdown the momentum of global output growth, with significant spillovers to emerging markets and developing countries, including Nigeria.

### **3.0. The Considerations of the Committee**

The Committee applauded the exit of the Nigerian economy from recession but observed that the growth remains fragile and, therefore, hopes that complementary fiscal and monetary policies would sustain the growth momentum. The Committee further expressed satisfaction with the gradual, but consistent decline in inflation, noting, however, the substantial base effect in addition to the continuous improvement in the naira exchange rate across all segments of the foreign exchange market; and considerable improvement in foreign capital inflow. The Committee welcomed the steady implementation of the 2017 Budget, especially, the capital component of the budget, and urged increased momentum in expenditure directed at the growth-stimulating sectors of the economy in order to reduce youth unemployment and restiveness.

The Committee, however, expressed concern on the sustained pressure on food prices, noting risks posed by floods, strikes and insurgencies in various parts of the country to food production and distribution. Regarding the tepid turnaround in economic activities in the second quarter of 2017, the Committee emphasized that the employment gains of recovery were still minimal, noting that a number of important job elastic sub-sectors were still weak and may require more fiscal support to regain traction. The Committee, however, commended the Federal Government for issuing the Executive Order aimed at improving the ease of doing business in the country. It also noted the efforts of the government to create jobs in the agricultural sector with the inauguration of the Presidential Committee on job creation, targeting at least ten thousand jobs in each state of the Federation, over the next six months through a boost in agricultural support and funding. The Committee enjoins the state governments to work with the Presidential Committee to actualise this plan without further delay.

The MPC also noted with satisfaction, the directive of the Federal Government to all states to promptly pay outstanding salary arrears, in order to boost aggregate demand. It commended efforts to clear outstanding contractor arrears; prompt settlement of trade disputes with certain Unions of organised labour, including the Academic Staff Union of Universities (ASUU) and Health Workers; as well as the release of money to settle outstanding entitlements of the erstwhile workers of the defunct Nigeria Airways. These efforts, the Committee reasoned would improve aggregate demand and strengthen the weak recovery.

The Committee restated its commitment to maintaining stability in prices, without which meaningful recovery cannot be achieved. In this regard, members welcomed the gradual narrowing of rate spreads in the foreign exchange market and urged the Bank to continue to monitor and respond proactively to threats and vulnerabilities in the foreign exchange market.

On the outlook for financial stability, the Committee noted that, in spite of the banking sub-sector's resilience, the weak macroeconomic environment has continued to impact negatively on the stability of the sub-sector. The Committee reiterated its call on the Bank to sustain its surveillance of deposit money banks (DMBs) activities for the purpose of prompt identification and mitigation of potential vulnerabilities. The Committee also called on the DMBs to support the quest to move the economy forward by extending reasonably low priced credit to the private sector.

#### **4.0. The Committee's Decisions**

In arriving at its decision, the Committee took note of the gains so far achieved as a result of its earlier decisions; including the stability in the foreign exchange market and the moderate reduction in inflation. The option was whether to hold, tighten or ease. These were subjected to extensive debate. As in previous meetings, although tightening would help rein in inflation expectations and strengthen the stability in the foreign exchange market, the Committee felt that it would further widen the income gap, depress aggregate demand and adversely affect credit delivery to the private sector. The Committee also noted that tightening may result in the deposit money banks re-pricing their assets and loans, thus raising the cost of borrowing and therefore heightening the already weak investment climate and non-performing loans.

With respect to loosening, the Committee believed that although while it would make it more attractive for Nigerians to acquire assets at cheaper prices, thus increasing their net wealth, and therefore stimulate spending as confidence rises, it nevertheless, felt constrained that loosening at this time would exacerbate inflationary pressures and worsen the exchange rate and inflationary conditions. The Committee also felt that loosening will further pull the real rate deeper into negative territory as the gap between the nominal interest rate and inflation widens.

On the argument to hold, the Committee believes that the effects of fiscal policy actions towards stimulating the economy have begun to manifest as evident in the exit of the economy from the fifteen-month recession. Although still fragile, the fragility of the growth makes it imperative to allow more time to make appropriate complementary policy decisions to strengthen the recovery. Secondly, the Committee was of the view that economic activity would become clearer between now and the first quarter of 2018, when growth is expected to have sufficiently strengthened and gains in receding inflation, very obvious. The most compelling argument for a hold was to achieve more clarity in the evolution of key macroeconomic indicators including budget implementation, economic recovery, exchange rate, inflation and employment generation.

In consideration of the headwinds confronting the domestic economy and the uncertainties in the global environment, the Committee decided by a vote of 6 to 1 to retain the Monetary Policy Rate (MPR) at 14.0 per cent alongside all other policy parameters. In arriving at this HOLD decision, the MPC commits to employing maximum flexibility to guide the economy on the path to optimal growth. Consequently, 6 members voted to retain the MPR and all other parameters at their current levels, while one member voted to lower the MPR to signal an ease to the current stance of tight monetary policy. However, overall, majority of the members expressed a strong commitment to policy flexibility that would allow the Committee to promptly take the necessary actions that would promote overall macroeconomic stability and engender sustainable growth.

In summary, the MPC voted to:

Retain the MPR at 14.0 per cent;

Retain the CRR at 22.5 per cent;

Retain the Liquidity Ratio at 30.0 per cent; and

Retain the Asymmetric corridor at +200 and -500 basis points around the MPR.

Thank you for listening.

**Godwin I. Emefiele**  
**Governor, Central Bank of Nigeria**  
**26<sup>th</sup> September, 2017**



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 114 OF THE MONETARY POLICY COMMITTEE MEETING OF 24<sup>th</sup> AND 25<sup>th</sup> JULY, 2017**

### **Background**

The Monetary Policy Committee met on the 24<sup>th</sup> and 25<sup>th</sup> of July 2017, against the backdrop of a relatively improving global economy. However, protectionism in trade and immigration; fragilities in the financial markets, remain the key risks to global economic stability.

On the domestic front, the economy is on a path to moderate recovery with a positive short- to medium-term outlook, premised largely on fiscal stimulus and a stable naira exchange rate. Inflation expectations also appear sufficiently anchored with the current stance of monetary policy.

In attendance were 8 out of 12 members of the Committee. The Committee examined the global and domestic economic and financial environments in the first half of 2017 and the outlook for the rest of the year.

### **External Developments**

The momentum witnessed in the global economy in Q1 2017 continued through the second quarter, driven by a generally accommodative monetary policy stance in most advanced economies, moderation in energy prices and improved global demand. The emerging markets and developing economies, are experiencing positive spillovers from somewhat improved commodity prices and developments in the advanced economies. The growth prospects for this group of countries in 2017 are expected to rise to about 4.6 per cent from 4.3 per cent in 2016.

Complemented by the momentum in other blocks and a potential positive prospect for expansion in world trade, the IMF in its July edition of the World Economic Outlook (WEO) projected global output growth in 2017 at 3.5 per cent from 3.1 per cent in 2016.



The MPC, however, noted some headwinds confronting the optimistic outlook to global growth arising mainly from receding market expectations of expansionary U.S. fiscal policy, weaker than expected growth in the U.K due to difficult BREXIT negotiations and geo-political risks associated with the forthcoming German general elections. In addition, the Committee noted the downward trend in global inflation after earlier indications of an uptick as the U.S. continues to build up inventories in shale oil, while emerging economies such as Brazil, Russia and South Africa witness strong economic headwinds leading to sharp downturn in output.

### **Domestic Output Developments**

Data from the National Bureau of Statistics (NBS) showed that the contraction in the economy moderated to 0.52 per cent in Q1 2017 from 1.30 per cent in Q4 2016. The data further revealed that fifteen economic activities recorded positive growth in Q1 2017, showing strong signs of recovery. The Purchasing Managers Index (PMI) for manufacturing and non-manufacturing activities stood at 52.9 and 54.2 index points in May and June 2017, respectively from 52.7 and 52.5 index points in May 2017, indicating an expansion for the third consecutive month. Similarly, the Composite Index of Economic Activities (CIEA) rose from 55.85 to 59.50 index points between April and June 2017. The Committee noted the continuous positive effects of improved foreign exchange management on the performance of manufacturing and other economic activities. Non-oil real GDP grew by 0.72 per cent in Q1 2017, reflecting growth in the agricultural sector by 0.77 per cent in the same period. Provisional data also showed that the external sector remained resilient in Q2 2017, as the overall Balance of Payments (BOP) position recorded a surplus of US\$0.65 billion, equivalent to 0.8 per cent of GDP. The Committee hopes that the implementation of the 2017 budget and the Economic Recovery & Growth Plan (ERGP) will further strengthen growth and stimulate employment.

### **Developments in Money and Prices**

The Committee noted that money supply (M2) contracted by 7.33 per cent in June 2017, annualized to a contraction of 14.66 per cent, in contrast to the provisional growth benchmark of 10.29 per cent expansion for 2017. The development in M2 reflected a contraction of 7.45 per cent in net foreign assets (NFA) in June 2017. Similarly, M1 contracted by 7.98 and 10.70 per cent in May and June 2017, respectively, consistent with the directive of the MPC that expansion in

narrow money should be controlled. On the other hand, net domestic credit (NDC) grew modestly by 1.02 per cent in June 2017, (annualized at 2.04 per cent), driven mainly by net credit to government, which grew by 5.91 per cent. Credit to the private sector, however, declined relative to end-December 2016 by 0.02 per cent. The MPC noted the widening fiscal deficit of N2.51 trillion in the first half of 2017 and the growing level of government indebtedness and expressed concern about the likely crowding out effect on private sector investment. The constrained growth in the monetary aggregates provides evidence of weak financial intermediation in the banking system arising from the constraints imposed by developments in the macroeconomy.

Headline inflation (year-on-year) declined for the fifth consecutive month in June 2017, to 16.10 per cent from 16.25 per cent in May, and 18.72 per cent in January 2017. Core inflation moderated to 12.50 per cent in June from 13.00 per cent in May 2017 while the food index rose marginally to 19.91 per cent in June from 19.27 per cent in May 2017. This development was traced to intermittent attacks by herdsmen on farming communities, sporadic terrorist attacks in the North-East and other seasonal farming effects. The Committee was particularly concerned about the unabating pressure from food inflation but hopeful that the situation will dampen in the third quarter as harvests begin to manifest.

The Committee also attributed the moderation in inflation to be partly due to the effects of the relative stability in the foreign exchange market, stemming from improved management, which promoted increased inflows. Against this backdrop, the Committee reiterated its commitment to sustain and deepen flexibility in the foreign exchange market to further enhance foreign exchange flow in the economy. The Committee, however, noted the protracted effects of high energy and transportation costs as well as other infrastructural constraints on consumer price developments and expressed hope that government will fast-track its reform agenda to address these legacy issues. The Committee noted that while responding to the current tight monetary policy stance, inflation still had a strong base effect which is expected to wane by August 2017.

Money market interest rates moved in tandem with the high level of liquidity in the banking system. The interbank call rate opened at 16.13 per cent on May 25, 2017 and closed at 4.43 per cent on June 29, 2017. However, the average inter-bank call rate during the period stood at 12.49 per cent. The movement in the net

liquidity position reflected the effects of OMO, foreign exchange interventions, statutory allocation to state and local governments, and maturity of CBN Bills.

The Committee noted the improvements in the equities segment of the capital market as the All-Share Index (ASI) rose by 33.33 per cent from 25,516.34 on March 31, 2017, to 34,020.37 on July 21, 2017. Similarly, Market Capitalization (MC) rose by 32.84 per cent from N8.83 trillion to N11.73 trillion during the same period. Relative to end-December 2016, capital market indices rose by 26.59 and 26.81 per cent, respectively, reflecting growing investor confidence due to improvements in foreign exchange management. The Committee however, noted the seeming bubble in the capital market and cautioned on the utilization of the inflows.

Total foreign exchange inflows through the Central Bank of Nigeria (CBN) increased by 35.41 per cent in June 2017 compared with the previous month. Total outflows, on the other hand, decreased by 12.73 per cent during the same period, as a result of reduced CBN intervention in the interbank foreign exchange market, which also reduced TSA (dollar) payments balances by 61.4 per cent in the period under review. The positive net flows resulted in an improvement of gross external reserves to \$30.30 billion at end-June 2017, compared with \$29.81 billion at end-May 2017.

The Committee noted the emerging convergence between the bureau-de-change (BDC) and Nigeria Autonomous Foreign Exchange (NAFEX) segment rates and the stability of the average naira exchange rate at the inter-bank segment of the foreign exchange market during the review period.

## **2.0. Overall Outlook and Risks**

Available forecasts of key macroeconomic indicators point to a fragile economic recovery in the second quarter of the year. The Committee cautioned that this recovery could relapse in a more protracted recession if strong and bold monetary and fiscal policies are not activated immediately to sustain it. Thus, the expected fiscal stimulus and non-oil federal receipts, as well as improvements in economy-wide non-oil exports, especially agriculture, manufacturing, services and light industries, all expected to drive the growth impetus for the rest of the year must be pursued relentlessly. The Committee expects that timely implementation of the 2017 Budget, improved management of foreign exchange, as well as security gains across the country, especially, in the Niger Delta and North Eastern

axis, should be firmly anchored, to enhance confidence and sustainability of economic recovery.

The Committee identified the downside risks to this outlook to include weak financial intermediation, poorly targeted fiscal stimulus and absence of structural programme implementation.

### **3.0. The Considerations of the Committee**

Notwithstanding the improved outlook for growth, the Committee assessed the implications of the uncertainties arising from the continued normalization of monetary policy by the US Fed and the implications of a strong dollar, the weak recovery of commodity prices, and the uncertainty of US fiscal policy. The Committee similarly evaluated other challenges confronting the domestic economy and the opportunities for achieving economic growth and price stability in 2017.

The Committee expressed satisfaction with the gradual but consistent decline in inflationary pressures in the domestic economy, noting its substantial base effect, continuous improvements in the naira exchange rate across all segments of the foreign exchange market, and considerable signs of improved investments inflows. The Committee welcomed the move by the fiscal authorities to engage the services of asset-tracing experts to investigate the tax payment status of 150 firms and individuals in an effort to close some of the loopholes in tax collection, towards improving government revenue. However, the Committee expressed concern about the slow implementation of the 2017 Budget and called on the relevant authorities to ensure timely implementation, especially, of the capital portion in order to realize the objectives of the Economic Recovery and Growth Plan. The MPC believes that at this point, developments in the macroeconomy suggest two policy options for the Committee: to hold or to ease the stance of monetary policy.

Against the backdrop of the outlook for the domestic and global economy; the enthusiasm around the base-effect which reduced inflationary pressures and the continuous relative stability in the naira exchange rate, there is need to maintain cautious optimism, given the potential ramification of a major deviation from the existing policy path. The Committee is not unmindful of the high cost of capital and its implications on the still ailing economy, which arguably necessitates an

accommodating monetary policy stance. The MPC also noted the liquidity surfeit in the banking system and the continuous weakness in financial intermediation, but agreed on the need to support growth without jeopardizing price stability or upsetting other recovering macroeconomic indicators, particularly the relative stability in the foreign exchange market.

The MPC thinks that easing at this point would signal the Committee's sensitivity to growth and employment concerns by encouraging the flow of credit to the real economy. It would also promote policy consistency and credibility of its decisions. Also, the Committee observed that easing at this time would reduce the cost of debt service, which is actually crowding out government expenditure. The risks to easing however, would show in terms of upstaging the modest stability achieved in the foreign exchange market, the possible exit of foreign portfolio investors as well as a resurgence of inflation following the intensified implementation of the 2017 budget in the course of the year. The Committee also reasoned that easing would further pull the real interest rate down into negative territory.

The argument for holding is largely premised on the need to safeguard the stability achieved in the foreign exchange market, and to allow time for past policies to work through the economy. Specifically, the MPC considered the high banking system liquidity level; the need to continue to attract foreign investment inflow to support the foreign exchange market and economic activity; the expansive outlook for fiscal policy in the rest of the year; the prospective election related spending which could cause a jump in system liquidity, etc.

The MPC expressed concern over the increasing fiscal deficit estimated at N2.51 trillion in the first half of 2017 and the crowding out effect of high government borrowing. While urging fiscal restraint to check the growing deficit, the Committee welcomed the proposal by government to issue sovereign-backed promissory notes of about N3.4 trillion for the settlement of accumulated local debt and contractors arrears. The Committee, however, advised the Management of the Bank to monitor the release process of the promissory notes to avoid an excessive injection of liquidity into the system thereby offsetting the gains so far achieved in inflation and exchange rate stability.

On the outlook for financial system stability, the Committee noted that, in spite of the resilience of the banking sector, the prolonged weak macroeconomic environment has continued to impact negatively on the sector's stability. The MPC reiterated its call on the Bank to sustain its intensive surveillance of deposit money

banks' activities for the purpose of promptly identifying and addressing vulnerabilities. The Committee also called on the DMBs to support economic recovery and growth by extending reasonably priced credit to the private sector.

#### **4.0. The Committee's Decisions**

In consideration of the headwinds confronting the domestic economy and the uncertainties in the global environment, the Committee decided by a vote of 6 to 2 to retain the Monetary Policy Rate (MPR) at 14.0 per cent alongside all other policy parameters. Consequently, 6 members voted to retain the MPR and all other parameters at their current levels while two members voted to ease the stance of monetary policy.

In summary, the MPC decided to:

Retain the MPR at 14 per cent;

Retain the CRR at 22.5 per cent;

Retain the Liquidity Ratio at 30.00 per cent; and

Retain the Asymmetric corridor at +200 and -500 basis points around the MPR.

Thank you for listening.

**Godwin I. Emefiele**

**Governor, Central Bank of Nigeria**

**25<sup>th</sup> July, 2017**



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 113 OF THE MONETARY POLICY COMMITTEE MEETING OF 22<sup>nd</sup> AND 23<sup>rd</sup> May 2017**

### **Background**

The Monetary Policy Committee (MPC) met on the 22<sup>nd</sup> and 23<sup>rd</sup> of May, 2017, against the backdrop of slowly improving global growth prospects even as international cooperation continues to be threatened by anti-globalization sentiments in major advanced economies. On the domestic front, the economy has shown greater resilience in the intervening period since the last meeting of the Committee, anchored on more focused macroeconomic policies and improvements in oil prices. While the general economic outlook seems cautiously optimistic for the remainder of fiscal 2017, emerging indicators suggest that economic policy must remain circumspect.

In attendance were 8 out of 12 members of the Committee. The MPC assessed the global and domestic economic and financial environments in the first five months of 2017 and the outlook for the rest of the year.

### **External Developments**

The global economy continued to gather momentum in Q1, 2017, aided by gradual recovery in the emerging markets on the back of a pick-up in global demand and higher commodity prices, coupled with fairly robust domestic demand in the advanced economies. Accordingly, global output growth in Q1 2017 is estimated to expand by 2.8 per cent annualized. In spite of the fairly optimistic global economic outlook, uncertainty surrounding the direction of macroeconomic policy in the advanced economies continues to cloud the prospects of sustained recovery. Global inflation appears to be upward trending on the back of improved commodity prices and depreciated currencies in several emerging markets.

## **Domestic Output Developments**

Data from the National Bureau of Statistics (NBS) showed that the economy contracted marginally by 0.52 per cent in Q1 2017, a much more positive development since Q1 2016.

The data also shows that about eighteen (18) economic activities recorded positive growth in Q1 2017; indicating that the economy was firmly on the path of recovery. The key growth activities were led by quarrying (52.54%), metal ores (40.79%), road transportation (12.35%), water supply and sewage (12.63%), fishing (5.49%), crop production (3.5%), oil refining (3.01%), motion pictures (2.95%), telecommunication (2.89%), forestry (2.59%), amongst others. The Committee noted the positive effects of improved foreign exchange management on the performance of the manufacturing sector and other economic activities. The non-oil sector grew by 0.72 per cent in Q1 2017, largely reflecting the growth recorded in agriculture and solid minerals, and recovery in manufacturing, construction and services sectors. The Committee urged the fiscal authorities to expeditiously commence the implementation of the recently approved 2017 budget, especially, the capital expenditure portion, in order to sustain the momentum of recovery, engender employment and restore confidence in the Nigerian economy.

## **Developments in Money and Prices**

The committee noted that money supply (M2) contracted by 8.48 per cent in April 2017, annualized to a contraction of 25.44 per cent in contrast to the provisional growth benchmark of 10.29 per cent for 2017. Net Domestic Credit (NDC) grew by 1.40 per cent in April, 2017, annualized to 4.21 per cent, which is significantly below the 17.93 per cent provisional growth benchmark for 2017. However, net credit to government grew by 24.08 per cent over end-December 2016, representing an annualized growth of 72.0 per cent. The Committee was concerned that credit to government continued to outpace the programmed target of 33.12 per cent for fiscal 2017, while credit to the private sector declined considerably far below the programmed target of 14.88 per cent.

Headline inflation (year-on-year) moderated for the third consecutive month, falling to 17.24 per cent in April, from 17.26 per cent in March, 17.78 per cent in February and 18.72 per cent in January 2017, effectively reversing the monthly upward momentum since January, 2016. The food index component, however,



rose to 19.30 per cent in April, from 18.44 per cent in March and 18.53 per cent in February, 2017. The moderation in headline inflation in April, 2017 thus reflected the decline in the core component to 14.80 per cent in April from 15.40, 16.01, and 17.87 per cent, respectively in March, February and January, 2017. Similarly, month-on-month inflation moderated to 1.60 per cent in April from 1.72 per cent in March, 2017.

The Committee attributed these developments in part to the effects of the recent gains in the naira exchange rate, brought about by the Bank's interventions in the foreign exchange market and the resulting downward price adjustments on imported items and their derivatives. Against this background, the Committee emphasized the need to sustain and deepen the Bank's foreign exchange management policies and measures in order to reap the benefits of the pass-through to consumer prices. The MPC recognized the continued influence of structural factors such as high energy and transportation costs, production bottlenecks on prices and hoped that the ongoing reforms by the Government would address some of these constraints.

Money market interest rates moved in tandem with the level of liquidity in the banking system. Rates were relatively stable during the review period. The interbank call rate opened at 11.40 per cent on March 22, 2017 and closed at 38.94 per cent on May 18. The movement in net liquidity position was influenced by sales at the Open Market Operations, foreign exchange interventions, the payment of statutory revenues to States and Local Governments as well as maturing CBN Bills.

The MPC noted the bullish trend in the equities segment of the capital market as the All-Share Index (ASI) rose by 10.20 per cent from 25,516.34 on March 31, 2017, to 28,113.38 on May 19, 2017. Similarly, Market Capitalization (MC) increased by 10.10 per cent from N8.83 to N9.72 trillion during the same period. Relative to end-December 2016, the capital market indices rose by 4.60 and 5.10 per cent, respectively, reflecting growing investor confidence following improvements in foreign exchange supplies reflected in the over US\$1 billion injected through the investor window and exchange rate management. Total foreign exchange inflows through the CBN increased by 69.77 per cent in April, 2017 compared with the previous month. Total outflows, however, rose, but less significantly, at 29.35 per cent during the same period. Consequently, the Committee observed that the

average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market in the review period.

## **2.0. Overall Outlook and Risks**

Available data and various forecasts of key economic variables as well as assessment of government initiatives, including the recently released Federal Government Economic Recovery and Growth Plan (ERGP), all point to prospects of recovery in 2017. The Committee expects that the timely implementation of this plan, judicious execution of the approved 2017 Budget and sustenance of the new foreign exchange implementation regime supported by the restoration of security in different parts of the country, especially, in the Niger Delta region, would help accelerate growth and restore confidence in the economy. The MPC however, identified the downside risks to this outlook to include the possibility of low oil prices due to renewed investments in shale oil exploration and production, continuing monetary policy normalization by the U.S. Fed which may result in strengthening of the U.S dollar, and consequent capital reversal from Nigeria and other emerging market economies. Also, the MPC believes that the inflation outlook does not appear benign as the limit of the base effect driving the current moderation in prices may have been reached.

## **3.0. The Considerations of the Committee**

Notwithstanding the improved outlook for the economy, the Committee weighed the implications of continuing global uncertainties arising from the dwindling commitment to global cooperation, the strengthening of the U.S. dollar, and the unsteady commodity prices. The Committee similarly evaluated other challenges confronting the domestic economy and the opportunities for achieving economic growth and price stability in 2017. The MPC was of the view that whereas the downward trend in inflation in April 2017 is a welcomed development; the rate was still significantly above the policy reference band.

The MPC is particularly pleased with the gradual retreat in inflation, the relative stability in the Naira exchange rate across all segments of the foreign exchange market and the improved prospects of foreign investment inflow. The Committee also welcomes the passage of the 2017 Budget and called on the relevant authorities to ensure its judicious implementation, especially, the capital budget in line with the Economic Recovery and Growth Plan. It, however, noted the associated risks to banking system liquidity of the envisaged fiscal injections during

the remainder of the year. Against this risk, the Committee contemplated the prospects of further tightening of monetary policy should the need arise. The MPC however, noted that further tightening would widen the income gap, depress aggregate consumption and adversely affect credit to the real sector of the economy.

Nevertheless, against the backdrop of the rather unclear outlook around key economic activities (food production especially) and some optimism about current deceleration in inflation as well as relative stability in the naira exchange rate, the MPC was reluctant to alter the current policy configuration in any fundamental manner. This is intended to allow the existing policies to fully achieve their intended goals and objectives. On the other hand, the Committee noted that the cost of capital in the economy remains high and not helpful to growth. The MPC was however, concerned that loosening would exacerbate inflationary pressures and worsen the gains so far achieved in the exchange rate of the naira. It was also convinced that loosening would further increase the negative real interest rate as the gap between the nominal interest rate and inflation widens.

On the financial stability outlook, the Committee noted that in spite of the banking sector's resilience, the weak macroeconomic environment has continued to exert pressure on the banking system. The MPC urged the CBN to intensify its surveillance, in order to address emerging vulnerabilities. The Committee also called on the DMBs to step up credit to the private sector to support economic recovery and convey a positive feedback to the financial system.

#### **4.0. The Committee's Decisions**

In consideration of the challenges weighing down the domestic economy and the uncertainties in the global environment, the Committee decided by a unanimous vote of the 8 members in attendance to retain the MPR at 14.0 per cent alongside all other policy parameters. One member was absent at the meeting.

In summary, the MPC decided to:

Retain the MPR at 14 per cent;

Retain the CRR at 22.5 per cent;

Retain the Liquidity Ratio at 30.00 per cent; and

Retain the Asymmetric corridor at +200 and -500 basis points around the MPR

Thank you for listening.

**Godwin I. Emefiele**

**Governor, Central Bank of Nigeria**

**23<sup>rd</sup> May, 2017**



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 112 OF THE MONETARY POLICY COMMITTEE MEETING OF 20<sup>TH</sup> AND 21<sup>ST</sup> MARCH 2017**

### **1.0. Background**

The Monetary Policy Committee met on the 20<sup>th</sup> and 21<sup>st</sup> of March, 2017, against the backdrop of persistent uncertainty in the global economy, stemming from economic and socio-political developments around the world. On the domestic front, while the Q4 2016 GDP figure was better than the last two consecutive quarters, the economy remained in recession with inflationary pressures continuing unabated. These adverse external and domestic conditions continued to complicate the policy environment.

In attendance at the meeting were 10 members of the Committee. The Committee assessed the global and domestic economic and financial environments in Q1 2017 as well as the outlook for the medium-term.

#### **External Developments**

The global economy witnessed greater momentum in Q4 2016, facilitated by gains in both developed, emerging markets and developing economies which propelled global GDP growth to 2.7 per cent year-on-year in Q4, 2016, a 0.2 percentage point improvement over Q3 2016.

In spite of this improvement, the external environment continued to be plagued by political, economic and financial market uncertainties, with the defining issues being: Brexit, growing protectionist and anti-globalization sentiments, divergent monetary policies of the advanced economies' central banks and volatile commodity price movements. The protectionist stance of the new U.S. administration could impact negatively on global trade and economic recovery.

The MPC noted the slip in oil prices against the backdrop of fears of a supply glut, fuelled by increased activities in US Shale oil production, which threatens to undermine the rebalancing effects of the last OPEC decision to cut output. The

Committee also noted the increase in the target range of the US Fed funds rate at the last meeting of the FOMC and the potential spillover effects on global capital flows and interest rates, especially given the still tepid global economic activity and weak demand. Challenges in the emerging markets and developing economies persist, as they struggle with strong headwinds from low commodity prices, rising inflation, currency volatility, receding real income and capital reversals.

Overall, the Committee noted the dampening effects of economic stagnation and uncertainty on global trade and investment. In spite of these constraints, however, the IMF estimates that the global economy would witness a slight improvement in growth from 3.1 per cent in 2016 to 3.4 per cent in 2017.

Global inflation continued its moderate but steady rise against the backdrop of improved oil prices and depreciated currencies in several emerging markets. Amongst the major advanced economies, the U.S Fed maintained its tightening stance, with a further upward adjustment<sup>1</sup> in March 2017. Meanwhile the Bank of Japan (BOJ), Bank of England and the European Central Bank, maintained the soft policy stance at their most recent meetings.

<sup>1</sup> The Federal Reserve again raised its benchmark Federal Fund rate by 25 basis points in March 2017, to a range of 0.75 to 1.00 per cent, having raised rates by the same margin in December, 2016, and also provided indication of further rate hikes in 2017

## **Domestic Output Developments**

Data released by the National Bureau of Statistics (NBS) in February 2017 showed that the economy contracted marginally by 1.30 per cent in Q4 2016, effectively remaining in recession since Q2 2016. Overall, in 2016, the economy contracted by 1.51 per cent, with the contraction in Q4 being the least since Q2 2016. The non-oil sector grew by 0.33 per cent in Q4, largely reflecting the slowdown in the agricultural sector, which decelerated to 4.03 per cent in Q4 2016 from the 4.54 per cent recorded in Q3 2016. The Committee remains of the conviction that fiscal policy remained the most potent panacea to most of the key negative undercurrents i.e. stunted economic activity, heightened unemployment and high inflation.

In spite of the recent moderate recovery in oil prices, the Committee approached developments in commodity prices cautiously. It noted that the era of high oil prices was over, thus making diversification away from oil more imperative today than ever.

### **Developments in Money and Prices**

The committee noted that money supply (M2) contracted by 5.73 per cent in February 2017, annualized at -34.38 per cent in contrast to the provisional growth benchmark of 10.29 per cent for 2017. Similarly, Net Domestic Credit (NDC) contracted by 1.41 per cent in February, 2017, annualized to 8.46 per cent, being significantly below the 17.93 per cent provisional growth benchmark for 2017. Likewise, net credit to government contracted at an annualized rate of 49.74 per cent, representing 82.86 per cent below its programmed target of 33.12 per cent. In effect, all the major monetary aggregates contracted by end-February and underperformed their programmed provisional benchmarks for fiscal 2017.

Headline inflation (year-on-year), however, declined for the first time in 15 months, dropping by 0.94 percentage point to 17.78 per cent in February, from the 18.72 per cent recorded in January 2017, and 18.55 per cent in December, 2016 seemingly reversing the monthly upward momentum recorded since January, 2016. The moderation in headline inflation in February, 2017 reflected base effect as well as decline in the core component, which fell by 1.90 percentage points from 17.90 per cent in January to 16.0 per cent in February, 2017. The food index, however, rose to 18.53 per cent in February, a 0.71 percentage point increase over the 17.87 per cent recorded in January, 2017.

The Committee, similarly, observed a continuous upward trend in the month-on-month inflation rate in February, having slightly moderated between December 2016 and January, 2017. It noted the sustenance of the structural factors mounting pressures on consumer prices, such as the high cost of power and energy, transport and production factors, as well as rising prices of imports. Nonetheless, the Committee remains optimistic that the adopted policy stance and other ancillary measures directed at improving the agricultural and other relevant sectors of the economy would combine to restart growth and drive down prices in the short to medium-term.

Money market interest rates moved in tandem with the level of liquidity in the banking system. Rates were relatively stable during the review period, the interbank call rates opened at 6.25 per cent on January 25, 2017 and closed at 13.14 per cent on February 28, 2017. However, the average inter-bank call rate rose to 100.00 and 133.84 per cent on January 21 and January 23, 2017, respectively, following the withdrawal of liquidity from the banking system through the sale of foreign exchange worth N137.00 billion on February 21, 2017.

The Committee noted the decline in the equities segment of the capital market as the All-Share Index (ASI) fell by 3.07 per cent from 26,036.24 on January 31, 2017, to 25,238.01 on March 10, 2017. Similarly, Market Capitalization (MC) decreased by 2.68 per cent from N8.97 to N8.73 trillion during the same period. Relative to end-December 2016, the capital market indices, fell by 3.12 and 3.03 per cent, respectively, reflecting the challenges still confronting the economy.

Total foreign exchange inflows through the CBN decreased by 8.87 per cent in February, 2017 compared with the previous month, as foreign exchange market receipts were significantly lower. Total outflows, also declined by 7.32 per cent during the same period. The Committee noted that the average naira exchange rate remained stable at the interbank segment of the foreign exchange market in the review period.

## **2.0. Overall Outlook and Risks**

Available data and forecasts of key economic variables as well as the newly released Federal Government's Economic Recovery and Growth Plan (ERGP), indicate prospects of output recovery in 2017. The Committee expects that the implementation of this plan, the new foreign exchange policy as well as the current effort by the Federal Government to restore peace in the Niger Delta region would help revive economic growth and stabilize prices.

The Committee identified the downside risks to this outlook to include the possibility of a slower-than-expected rate of global economic activity, tight monetary policy stance by the U.S. Fed, resulting in strengthening U.S dollar, and low oil prices.



### **3.0. The Considerations of the Committee**

The Committee re-evaluated the implications for Nigeria of the continuing global uncertainties as reflected in the unfolding protectionist posture of the United States and some European countries; sustenance of the OPEC-Russian agreement to cut oil production beyond July 2017; sluggish global recovery and the strengthening U.S. dollar.

The Committee also evaluated other challenges confronting the domestic economy and the opportunities for achieving price stability, conducive to growth in 2017. In particular, the Committee noted the persisting inflationary pressures; continuing output contraction; high unemployment rate; elevated demand pressure in the foreign exchange market; low credit to the real sector and weakening financial system indicators, amongst others. Nonetheless, members welcomed the improved implementation of the foreign exchange policy that resulted in naira's recent appreciation. Similarly, the Committee expressed satisfaction on the release of the Economic Recovery and Growth Plan, and urged its speedy implementation with clear timelines and deliverables. On the strength of these developments, the Committee felt inclined to maintain a hold on all policy parameters.

Nevertheless, the Committee noted the arguments for tightening policy which remained strong and persuasive. These include: the real policy rate which remains negative, upper reference band for inflation remains substantially breached and elevated demand pressure in the foreign exchange market. The reality of sustained pressures on prices (consumer prices and the naira exchange rate) cannot be ignored, given the Bank's primary mandate of price stability. It noted that the moderation in inflation in February was due to base effect as other parameters, particularly; month-on-month CPI continued to rise. However, tightening at this time would portray the Bank as being insensitive to growth. Also, the deposit money banks may easily reprice their assets which would undermine financial stability. Besides, the Committee noted the need to create binding restrictions on growth in narrow money and structural liquidity and the imperative of macroeconomic stability to achieving price stability conducive to growth.

The Committee also considered the arguments for loosening the stance of monetary policy, noting its desirability in stimulating aggregate demand if credit increased with lower rates of interest. It noted the arguments that loose monetary

policy was capable of delivering cheaper credit, making it more attractive for Nigerians to acquire assets, thus increasing wealth and stimulating aggregate spending and confidence by economic agents, which would eventually lead to lower Non-performing loans in the system. However, the counterfactual arguments against loosening was anchored on the upward trending month-on-month inflation and its impact on the exchange rate. Loosening would thus worsen the already negative real interest rate, widen the interest rate spread and reverse the positive outlook for the current account position.

On outlook for financial stability, the Committee noted that the banking sector was becoming less resilient as a result of the adverse macroeconomic environment. Nevertheless, the MPC reiterated its resolve to continue to pursue financial system stability. To this end, the Committee enjoined the Management of the Bank to work with DMBs to promptly address rising NPLs, declining asset quality, credit concentration and high foreign exchange exposures.

The Committee also noted the benefits of loosening at this time which will be in line with the needs of fiscal policy to restart growth. The MPC, however, noted that loosening would exacerbate inflationary pressures, worsen the exchange rate and further pull the real interest rate into negative territory. Since interest rates are sticky downwards, loosening may not necessarily transmit into lower retail lending rates.

The Committee noted the consecutive positive contribution of agriculture to GDP in Q4 2016, a development partly traceable to the Bank's interventions in the sector. The Committee remains optimistic that, if properly implemented, the newly released Economic Recovery and Growth Plan (ERGP) coupled with innovative, growth-stimulating sectoral policies would help fast track economic recovery.

#### **4.0. The Committee's Decisions**

The Committee, in consideration of the headwinds in the domestic economy and the uncertainties in the global environment, decided by 9 out of 10 members to retain the MPR at 14.0 per cent alongside all other policy parameters. One member voted to raise the MPR.

In summary, the MPC decided to:

Retain the MPR at 14 per cent;

Retain the CRR at 22.5 per cent;

Retain the Liquidity Ratio at 30.00 per cent; and

Retain the Asymmetric corridor at +200 and -500 basis points around the MPR

Thank you for listening.

**Godwin I. Emefiele**

**Governor, Central Bank of Nigeria**

**21<sup>st</sup> March, 2017**



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 111 OF THE MONETARY POLICY COMMITTEE MEETING OF 23RD AND 24TH JANUARY 2017**

### **1.0. Background**

The Monetary Policy Committee held its first statutory meeting of fiscal 2017 on 23<sup>rd</sup> and 24<sup>th</sup> January, 2017 against the backdrop of increased uncertainty arising from political and economic developments around the world. Over the last few weeks the pillars of the old order - free trade, multilateralism and globalization have come under intense pressure, and seemingly giving way to an era of enlightened national interest in the conduct of international economic relations. On the domestic front, the economy remains in recession and inflation pressures have yet to recede. Both external and domestic conditions have blended to significantly complicate the policy environment.

In attendance at the meeting were all 10 members of the Committee. The Committee reviewed the global and domestic economic and financial environments in 2016 and the outlook for the short to medium term in 2017.

### **External Developments**

The uncertainty in the external environment persisted owing to a combination of recent political and economic developments. The key issues include: Brexit, the rising wave of populist and anti-globalization sentiments anchored by emerging bilateralism, divergent monetary policy stance of the advanced central banks and disorderly commodity price movements. With global output growth improving sluggishly, the outlook for 2017 remains unchanged owing to persisting uncertainties in commodity prices and volatility in the financial markets as well as slowing demand in the advanced economies and the emerging markets. The MPC welcomed the modest increase in oil prices following the last OPEC decision to cut output and noted the increase in the policy rate of the US Federal Reserve Bank in December 2016 and the potential implications of that decision for international interest rates and capital flows. While noting the materiality of the

output cut on oil prices, the Committee cautioned that the effect could rapidly wane, given the likelihood of a supply glut from non-OPEC members, low level of global economic activity and weak growth. Emerging markets and developing economies, in particular, have continued to confront strong headwinds such as low commodity prices, rising inflation, currency instability, intractable low aggregate demand and subdued capital flows.

Overall, the Committee noted that whereas improved commodity prices may provide modest tailwinds for resource dependent economies in 2017, the medium-term outlook continues to be muffled by stagnation and uncertainty in the prospects for global trade, subdued investment and heightened policy uncertainty, especially in some major economies. Nevertheless, the IMF estimates that these constraints would decline; paving way for mild improvements in economic growth from 3.1 per cent in 2016 to 3.4 per cent in 2017.

Global inflation commenced a moderate but steady rise on the backdrop of improvements in oil prices and currency depreciation in several emerging markets. However, amongst the major advanced economies, only the U.S Fed has commenced policy tightening<sup>1</sup> while the Bank of Japan (BOJ), the Bank of England and the European Central Bank, all retained their accommodative policy stance at their most recent meetings.

<sup>1</sup> The Federal Reserve raised its benchmark Federal Fund rate by 25 basis points in December 2016, to a range of 0.50 to 0.75 per cent, and also provided indication of rate hikes in 2017

## **Domestic Output Developments**

Data released by the National Bureau of Statistics (NBS) in November 2016 showed that the economy contracted further by 2.24 per cent in Q3 2016, having slipped into recession following another contraction in output in Q2, 2016. Although the overall contraction in Q3 was greater than was observed in Q1 and Q2, the non-oil sector grew by 0.03 per cent in Q3, driven mainly by agriculture, which grew by 4.54 per cent. The Committee is of the view that the key undercurrents i.e. scarcity of foreign exchange, low fiscal activity, high energy prices and the accumulation of salary arrears - cannot be directly ameliorated by monetary policy actions. The Committee hopes that the recent increase in oil prices would be complemented

by production gains to provide the needed tailwinds to sustainable economic activity. In that regard, the Committee commends the commitment of the fiscal authorities to step up efforts to fill the aggregate demand gap through a speedy resolution of the domestic indebtedness of the federal government to states and local contractors. The Committee believes that doing so will aid the effort towards economic recovery.

### **Developments in Money and Prices**

The committee noted that money supply (M2) grew by 19.02 per cent in 2016, being 8.0 percentage points higher than its programmed limit. It underscored the necessity of keeping the economy adequately lubricated in the face of declining output. Growth in Net Domestic Credit (NDC) was 24.79 per cent at end December 2016, being 17.94 per cent above its provisional benchmark for 2016. Likewise growth in net credit to government, at 58.84 per cent, surpassed its programmed target of 47.4 per cent. In effect, all the major monetary aggregates exceeded their programmed provisional benchmarks for fiscal 2016.

Headline inflation (year-on-year) continued to rise, creeping up in December 2016 to 18.55 per cent from 18.48 per cent in November, and 18.33 per cent in October, thus sustaining the upward momentum since January 2016.

The increase in headline inflation in December 2016 was driven by increase in the food component, which inched up from 17.19 per cent in November to 17.39 per cent in December. Core inflation, on the other hand, moderated slightly to 18.05 per cent in December 2016 from 18.24 per cent in November.

The Committee observed the increases in the month-on-month inflation rate in November and December, in contrast to successive declines between June and September 2016. It noted that the structural factors driving the sustained pressure on consumer prices, such as the high cost of power and energy, transport, production factors, as well as rising prices of imports are yet to abate. Nonetheless, the Committee estimates that the current policy stance and other measures directed at improving food production would combine with base effect to usher in some moderation in consumer prices in the short to medium term.

Money market interest rates fluctuated in tandem with the level of liquidity in the banking system. Thus, average interbank call rate, which stood at 15.34 per cent on 21<sup>st</sup> November 2016, closed at 9.90 per cent on December 30, 2016. Between

these periods, the interbank call rate averaged 13.59 per cent. The average interbank call rate however, fell to 3.00 per cent on December 9, 2016, due to an increase in net banking sector liquidity to N495.48 billion on December 8, 2016, following the payment of statutory revenue to states and local governments as well as maturity of CBN bills during the period.

The Committee welcomed improvements in the equities segment of the capital market as the All-Share Index (ASI) rose by 2.84 per cent from 25,499.00 on November 21, 2016, to 26,223.54 on January 20, 2016. Similarly, Market Capitalization (MC) increased by 2.5 per cent from N8.80 trillion to 9.02 trillion during the same period. Relative to endDecember 2016, the capital market indices, however, fell by 2.04 and 2.05 per cent, respectively, reflecting the challenges confronting the economy.

Total foreign exchange inflows through the CBN increased significantly by 82.45 per cent in December 2016 owing mainly to the increase in oil prices. Total outflows, however, spiked during the same period. The Committee noted that the average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market in the review period.

## **2.0. Overall Outlook and Risks**

The medium term outlook based on available data and forecast of key economic variables indicate a more resilient economy in 2017. Growth is expected to turn positive in fiscal 2017, as prior policy lags converge and the fiscal space becomes more accommodative. In addition, the agricultural sector is expected to play a bigger role in driving growth, given the expansion of the Anchor Borrower Program, as well as other developmental initiatives of the Government. Likewise, the prospects for moderation of price developments appear to be strengthening on the heels of positive developments in the food sub-sector.

The Committee identified the downside risks to this outlook to include the possibility of a slower-than-expected rate of global economic activity, fluctuating oil prices and production shut-ins due to vandalism of oil installations.

### **3.0. Summary of Considerations**

The Committee re-assessed the headwinds which confronted the economy in 2016 and the opportunities for recovery in 2017. In particular, the MPC evaluated the implications of the rising wave of nationalistic ideologues across the West, the re-evaluation of trade agreements and the possibility of rapid monetary policy normalization in the United States, with adverse consequences for other countries, including Nigeria. The uncertainties underpinning the implementation of Brexit and the apparent retreat from globalisation and free trade were also important points of reflection.

In recognition of the seemingly inevitable structural shift in the global economy, the Committee reiterated the need to be more inward looking and hasten efforts towards economic diversification to support the domestic economy and improve life for the Nigerian people. Consequently, members acknowledged the imperative of sectoral policies and greater coordination of monetary and fiscal policy.

Conscious of the prevailing market sentiments in favour of a rate cut, the Committee reasoned that most of its decisions in 2016 were informed by the need to address the delicate balance between price stability and growth. Noting that the pressures on consumer prices were yet to abate and even as the economy continued to be in recession despite the intervention support by the Central Bank, the Committee stressed that it was not oblivious of the full ramifications of the economic challenges facing the country.

The MPC was concerned that the current situation was not amenable to simplistic analyses and quick fixes such as have found expression and increased attention at different fora and the media. The domestic economic challenges which include a chronically import dependent consumption culture, lack of competitiveness of many sectors of the economy and yawning infrastructural gap, have combined with an unfavorable external environment to complicate the macroeconomic policy environment. The Monetary Authority had on many occasions, and to the extent feasible, taken extra-ordinary steps to support other policies as well as compensate for aspects of structural gaps in the economy even at the expense of its core mandate.



The Committee specifically noted the positive contribution of agriculture to GDP in the third quarter, mostly attributable to the Bank's interventions in the sector. The Committee hopes that given the thrust of the 2017 budget and accompanying sectoral policies, output growth should resume in the short to medium term. The MPC, therefore, lends its voice to efforts for an early finalization of the 2017 Federal Budget by the authorities concerned, and the resolve to pursue a non-oil driven economy, as these will go a long way in stimulating aggregate demand and restoring confidence in the economy. The Committee also urged the authorities to seriously consider using the Public Private Partnership (PPP) model in its infrastructure development programme as a means of cushioning any possible shocks to budgeted revenue.

The Committee further noted that Inflationary pressures would begin to subside as non-oil output recovers and the naira exchange rate stabilizes. Until then, it stressed, a rate cut would worsen the inflationary conditions and undermine the current outlook for stability in the foreign exchange market. The Committee also feels that doing so would further aggravate demand pressures while undermining existing income levels in the face of the already expansionary monetary policy and increasing inflationary pressure which will make the economy unattractive for foreign and domestic investment. Given these limitations, the Committee was reluctant to lower the policy rate on this occasion but remained committed to doing so when the conditions permit.

From a financial stability standpoint, the Committee noted the possible impact of the inclement macroeconomic environment on banking sector resilience. The MPC urged the Management of the Bank to engage industry operators to discuss likely issues of asset quality, credit concentration and high foreign exchange exposures.

Given the growth in money supply arising from unconventional monetary policy operations of the Bank and implications for price and exchange rate developments, the Committee is committed to moderating growth in narrow money in the 2017 fiscal year in line with the Bank's monetary growth benchmarks.

#### **4.0. The Committee's Decisions**

The Committee, in consideration of the headwinds in the domestic economy and the uncertainties in the global environment, decided by a unanimous vote to retain the MPR at 14.0 per cent alongside all other policy parameters.

In summary, the MPC decided to:

Retain the MPR at 14 per cent;

Retain the CRR at 22.5 per cent;

Retain the Liquidity Ratio at 30.00 per cent; and

Retain the Asymmetric corridor at +200 and -500 basis points around the MPR

Thank you for listening.

**Godwin I. Emefiele**

**Governor, Central Bank of Nigeria**

**24<sup>th</sup> January, 2017**



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 110 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY AND TUESDAY 21<sup>ST</sup> AND 22<sup>ND</sup> NOVEMBER 2016**

The Monetary Policy Committee met on 21<sup>st</sup> and 22<sup>nd</sup> November 2016, amidst relatively subdued global and domestic economic and financial conditions. The Committee evaluated the global and domestic macroeconomic and financial developments as well as the challenges to the domestic economy up to November 2016, and the outlook for the first quarter of 2017. In attendance were 10 out of 12 members.

### **International Economic Developments**

The Committee acknowledged the tapered growth in global output, stemming from relatively unbalanced risks to the global economic outlook. Global recovery remains fragile in the advanced economies while the emerging markets and developing economies (EMDEs) continue to struggle against strong headwinds, including low commodity prices, slowing demand and instability of capital flows.

The path to the modest improvements in the advanced economies has increasingly turned fragile owing to persistent uncertainties. While still being expected to unravel, the BREXIT shocks have been rapidly followed by the outcome of the U.S. Presidential Elections; a development which has created its own uncertainties. Accompanied by the planned referendum in Italy, and general elections in France and Germany, the global political environment could not be more uncertain. In effect, current judgments about growth prospects in the first half of 2017 could be overly optimistic. The IMF's current outlook for global growth for 2016 which was revised to 3.1 per cent in July and retained in October could be missed by a significant margin. The World Bank has been more cautious in retaining its June 2016 global output growth projection of 2.4 per cent. Headwinds

to global growth prospects are also emanating from weak trade and financial conditions. The OECD' Economic Forecast, September 2016 update, emphasized that both elements underpin the current low-growth trap facing the global economy.

The United States (US) economy exceeded its growth expectation in Q3 2016, growing at an annual rate of 2.9 per cent, a significant uptick from the average growth rate of 1.1 per cent in H1 2016. The enhanced performance of the economy was attributed largely to the growth of inventories and robust surge in exports, coupled with improved consumer spending, even as the mining sector recorded a pull back.

Japan's economy grew at a seasonally adjusted annualized rate of 0.2 per cent in Q2 of 2016 compared with 1.7 per cent in Q1 of 2016. The moderation in growth was largely attributed to weak wage growth and a strong yen. The Bank of Japan (BoJ) in a rare move at its September MPC meeting set a target for government bond yields and introduced an inflation-overshooting commitment.

The Bank voted to apply an interest rate of minus 0.1 per cent to the policy rate on balances in current accounts held by financial institutions. The Bank also announced a plan to purchase Japanese Government bonds up to JPY 80 trillion (approximately USD788 billion), among series of policy measures taken towards achieving the price stability target of 2 per cent. The government had, in August, approved a fiscal stimulus of ¥13.5 trillion (US\$132 billion) in a spirited attempt to jumpstart the economy.

Real GDP in the Euro area is expected to maintain or outperform its Q2 growth rate of 0.3 per cent in the third quarter. While short-term downside risks from the Brexit vote have largely subsided, the longterm potential economic impact remains uncertain.

As such, the zone's growth path remains challenged. At its October 20<sup>th</sup>, 2016 meeting, the Governing Council of the European Central Bank decided to retain its key interest rates on refinancing operations, the marginal lending facility and the deposit facility at 0.00, 0.25 and -0.40 per cent, respectively. The Council also reaffirmed its commitment to sustain its quantitative easing programme of monthly asset purchases of €80 billion (US\$85.6 billion) until March 2017 and beyond, as economic conditions dictate.

The growth outlook for the UK in 2016 was upgraded to 1.8 per cent from 1.7 per cent, although that for 2017 was downgraded to 1.1 per cent from 1.3 per cent. The Bank of England (BoE), at its November 2<sup>nd</sup> meeting, decided to leave its benchmark interest rate unchanged at 0.25 per cent as part of its earlier commitment to support output recovery in the aftermath of the Brexit vote. In addition, the Committee voted to continue its quantitative easing programme of £435 billion.

Whereas some Emerging Market and Developing Economies (EMDEs) continue to contend with low capital inflow and unstable macroeconomic environment, the prospects for their recovery look more promising. The IMF (WEO October 2016 Update) projected growth rate of 4.2 per cent, an upward review from 4.1 per cent projected in July 2016 for the EMDEs. The marginal improvement in growth outlook is expected to be powered by improvements in India and China.

Global inflation rose moderately in response to rising prices in the advanced economies due to the modest recovery in oil prices. However, their central banks are expected to stay the course on accommodative monetary policy. Following the Brexit vote and the recent outcome of the US Presidential Elections and uncertainties surrounding both events as well as the regime of negative interest rates and heavy fiscal and monetary stimuli in Japan and elsewhere, we expect a resurgence of aggregate demand and even higher price increases.

## **Domestic Economic and Financial Developments**

### **Output**

Data released by the National Bureau of Statistics (NBS) in August showed that the economy slipped into recession following a second consecutive contraction in Q2, 2016. Domestic output contracted in the quarter by 2.06 per cent. The latest release in November 2016 by the NBS shows that real income actually worsened in Q3, 2016 as output contracted further by 2.24 per cent relative to its level in the previous and corresponding quarter of 2015. The non-oil sector grew by 0.03 per cent, driven by Agriculture which grew by 4.54 per cent, following the 0.38 per cent contraction in Q2 2016.

The MPC noted that the key undercurrents – shortage of foreign exchange, low fiscal activity, high energy prices and the accumulation of salary arrears, especially at the sub-national levels of government – continued in the third quarter of the year. Members also noted that those conditions could not have been ameliorated directly with monetary policy instruments. It, however, recognized the need to continue to engineer monetary policy in such a way as to enable fiscal policy the required space to improve public investment in infrastructure.

## **Prices**

The Committee noted that headline inflation (year-on-year) continued to rise in October 2016 to 18.3 from 17.9 per cent in September and 17.6 per cent in August, 2016, thus maintaining the upward momentum since January 2016. The increase in headline inflation in October reflected increases in both the food and core components of inflation. Core and food inflation increased from 17.7 and 16.6 per cent in September to 18.1 and 17.1 per cent, respectively, in October, 2016.

The Committee also noted the less rapid movement in the month-on-month CPI between September and October. Headline inflation index (month-on-month) rose by 0.83 per cent in October, from 0.81 per cent in September, contrasting the successive declines since May 2016. Similarly, the core index has been increasing at a slower pace since May when it rose by 2.7 per cent. It moderated to 0.75 per cent in October from 0.96 in September. A similar pattern is noted with the food (month-on-month) index which rose by 0.86 per cent in October from 0.81 per cent in September.

The MPC observed that the incessant pressure on consumer prices continues to come from structural factors including high cost of power and energy, transport, production factors, as well as rising prices of imports.

## **Monetary, Credit and Financial Markets Developments**

Broad money supply (M2) grew by 10.50 per cent in September, 2016, compared with the 8.08 per cent in August, 2016. When annualized, M2 grew by 14.0 per cent in September 2016, above the growth benchmark of 10.98 per cent for 2016. Net domestic credit (NDC) grew by 21.88 per cent in the same period, annualized at 29.17 per cent. At this rate, the growth rate of NDC was above the provisional

benchmark of 17.94 per cent for 2016. The development in NDC, essentially reflected the relative growth in credit to the private sector of 20.69 per cent in September, annualized to 27.59 per cent. Credit to government grew by 29.57 per cent in the review period, which annualized to a growth of 39.43 per cent compared with the growth benchmark of 13.28 per cent for fiscal 2016. The growth in government borrowing was largely to compensate for the continued decline in oil receipts.

Money market interest rates oscillated in tandem with the level of liquidity in the banking system. Thus, average inter-bank call rate, which stood at 11.50 per cent on 11<sup>th</sup> October 2016, closed at 15.02 per cent on November 17, 2016. Between these periods the interbank call rate averaged 11.68 per cent. However, the average interbank call rates fell to 10.00 per cent on October 24, 2016, following net government financing of N149.00 billion between October 18 and 28, 2016 and the payment on October 24<sup>th</sup> 2016 from statutory revenue allocation of N174.00 billion.

The Committee noted a decline in the equities segment of the capital market as the All-Share Index (ASI) fell by 7.33 per cent from 27,839.93 on September 19, 2016, to 25,797.88 on November 16, 2016. Similarly, Market Capitalization (MC) declined by 7.11 per cent from N9.56 trillion to 8.88 trillion during the same period. In addition, relative to endDecember 2015, the capital market indices fell by 9.93 per cent and 9.85 per cent, respectively, reflecting the challenges facing the economy.

### **External Sector Developments**

The average naira exchange rate weakened at the inter-bank segment of the foreign exchange market during the review period. The exchange rate at the interbank market opened at N305.00/US\$ and closed at N305.90/US\$ between September 1<sup>st</sup> and October 27, 2016. The Committee observed that total foreign exchange inflows through the CBN decreased by 31.85 per cent, from US\$1,404.84 million in September to US\$957.37 million in October 2016. The decrease was due to lower crude oil and other government revenues in the period under review. In spite of the resumed Joint Venture payments in October, total outflows also continued to decrease, dropping significantly by 58.68 per cent from US\$2,456.86 million to US\$1,015.08 million during the same period.

The Committee also implored the Management to continue to direct more focus at making foreign exchange available to agriculture and manufacturing sectors of the economy by enforcing its policy directing DMBs to allocate 60 per cent of the FX available to these sectors.

The MPC believes that the Security agencies should sustain their checks on the activities of illegal foreign exchange operators in order to bring sanity to that segment of the market. The Committee reiterated that the extant foreign exchange regulation outlaws the trafficking of currency on the streets as some unlicensed operators currently do. Thus, to evolve an appropriate naira exchange rate that stabilizes the foreign exchange market, BDC operators must strictly observe the terms and conditions of their license.

### **The Committee's Considerations**

The Committee assessed the fragile macroeconomic conditions and the strong headwinds confronting the economy. In particular, the Committee considered the implications of the twin deficits of current account and budget deficits, the rise of nationalist sentiments across the West and implications for national elections in France and Germany as well as the forthcoming referendum in Italy. Other considerations include the yet to be unveiled long term uncertainties of Brexit and expectations of significant shifts in US economic policy. The Committee reaffirmed the urgency of prioritizing the diversification of the economy given the emerging gloomy protectionist outlook of the global economy.

The Committee also evaluated the impact of its July and September 2016 actions on the macroeconomy noting that while foreign exchange inflows into the economy had improved significantly in July and August, it declined after the September MPC meeting, leading to rising inflation and increasing negative real interest rates. However, outflows significantly dropped, lending credence to the propriety of the decisions of the July and September MPC meetings.

The MPC reiterated the limitations of monetary policy in reversing the current stagflationary condition in the economy, which it traced to supply and demand shocks. Members stressed the need for a robust and more keenly coordinated macroeconomic policy framework that would restart output growth, stimulate aggregate demand and rein in inflation expectations. Consequently, the MPC



welcomes efforts at resuscitating planning, noting the progress made in developing the medium term economic recovery plan. The MPC urged the Federal Government to urgently assess the extent of its indebtedness to domestic economic agents and develop a framework for securitizing the debts in order to settle its outstanding domestic contractual obligations which cuts across all sectors of the economy. These accumulated debts have slowed business activities of economic agents; most of who are indebted to the banking system, thus compromising the integrity of the financial system. It also advised the Bank to commit to greater surveillance and deployment of early warning systems in managing the banking system.

Overall, members called for an enrichment of fiscal and other sector initiatives and interventions towards resolving the growth challenges in the economy in order to promptly revive confidence in the economy.

## **Outlook**

Available data and forecasts of key economic variables indicate that the outlook for growth and inflation in the medium term continues to be challenging. Growth is expected to remain less robust given the absence of sufficient fiscal space while the current tight stance of monetary policy and improved agricultural harvests are expected to contain further price increases and moderate price expectations as the trend has already revealed.

## **The Committee's Decisions**

The Committee assessed the relevant risks to the global and domestic economy and concluded that the risks to the economy remained highly elevated on two fronts (price and output). However, considering the importance of price stability, and being mindful of the limitations of monetary policy in influencing output and employment under conditions of stagflation, the Committee decided unanimously in favour of retaining the current stance of monetary policy, thus keeping the MPR at 14.0 per cent alongside all other policy parameters.

In summary, all 10 MPC members voted to:  
Retain the MPR at 14 per cent;  
Retain the CRR at 22.5 per cent;  
Retain the Liquidity Ratio at 30.00 per cent; and  
Retain the Asymmetric Window at +200 and -500 basis points around the MPR.

Thank you for listening.

**Godwin I. Emefiele**  
**Governor, Central Bank of Nigeria**  
**22<sup>nd</sup> November 2016**



## **CENTRAL BANK OF NIGERIA COMMUNIQUE NO 109 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY AND TUESDAY 19TH AND 20TH SEPTEMBER 2016**

The Monetary Policy Committee met on 19<sup>th</sup> and 20<sup>th</sup> September 2016, amidst persistently subdued global and domestic economic and financial environments. The Committee thoroughly assessed the global and domestic macroeconomic and financial developments and risks to the domestic economy up to September 2016, and the outlook for the last quarter of the year. In attendance were 10 out of 12 members.

### **International Economic Developments**

The Committee acknowledged the tepid growth performance of global output, arising from legacy factors, the June 23<sup>rd</sup> Brexit vote as well as contagion from emerging markets' weak demand and contracting productivity. Whereas growth appears to be slowly recovering in advanced economies, especially the United States, the outlook remains fraught with uncertainty as long-term government bonds have nosedived to multi-year lows on expectations of loose monetary policy from advanced economies and the continued sub-optimal performance of the Euro Area, Japan and China. Consequently, the IMF had in July 2016, further downgraded its baseline forecast for global growth to 3.1 per cent from 3.2 in April. The World Bank in its June 2016 Report on Global Economic Prospects showed even less optimism with a global output growth projection of 2.4 per cent for 2016 from the 2.9 per cent in January. The subdued global growth prospects is traced to persistently weak fundamentals, mainly in emerging markets and developing economies (EMDEs), mostly due to soft commodity prices, diminished investment, contracting trade, weak demand and rising inflation. Volatility in global financial markets appeared to have subsided in the second quarter of the year, after a wild ride following the UK Brexit vote, and against the backdrop of less likely US rate hike expectations and some stability in the crude oil market.

The United States (US) economy firmed up at a seasonally-adjusted annualized rate of 1.1 per cent in Q2 2016, although with a downward adjustment of 0.1 per

cent from the first estimate of 1.2 per cent. It, however, still represents a noticeable improvement compared with the 0.8 per cent growth recorded in Q1 2016. The improved performance of the economy was attributed to increased private consumption spending, a robust labor market and increased exports, even as retail sales and manufacturing output declined.

Japan's economy expanded at a seasonally adjusted annualized rate of 0.2 per cent in Q2 2016 compared with 1.7 per cent in Q1 of 2016, against the backdrop of weak wage growth and an external sector that is undermined by a strong yen. Fearing that monetary policy may be approaching its limits, the government on 2<sup>nd</sup> August, approved a fiscal stimulus of ¥13.5 trillion (US\$132 billion) in a spirited attempt to jumpstart the economy, even as the Bank of Japan (BOJ) dismissed market speculation that it was planning to stop its monthly monetary stimulus program of ¥6.7 trillion (\$69.07 billion). The massive fiscal and monetary stimuli are, however, yet to have the desired impact.

Real GDP in the Euro area expanded by 0.3 per cent, a significant decline compared with the 0.6 per cent recorded in Q1 2016. Downside risks from the Brexit vote seems to have dissipated with no attendant major economic shock to the zone's economy thus far. As such, many of the conditions that had driven the recovery remained in place, suggesting that Q3 growth may continue in the direction of the second quarter.

Following its September 8<sup>th</sup>, 2016 meeting, the Governing Council of the European Central Bank resolved to leave its key interest rates on the main refinancing operations, the marginal lending facility and the deposit facility unchanged at 0.00, 0.25 and 0.40 per cent, respectively. The Council also reaffirmed its commitment to sustain the monthly asset purchases of €80 billion (US\$90.4 billion) until end of March 2017 or until a sustained adjustment is seen on the path of inflation, towards the 2.0 per cent policy target.

The Bank of England (BoE), at its August 4<sup>th</sup> meeting, and in attempts to further blunt the aftershocks of the Brexit vote, decided to cut its benchmark interest rate for the first time since 2009, by 25 basis points from 0.5 per cent to 0.25 per cent, the lowest ever in the Bank's history. The Committee voted to increase its monthly assets purchase program financed through the issuance of reserves by another £60 billion (US\$80.4 billion) from £375 billion (US\$502.5 billion) to £435 billion (US\$582.9 billion). Furthermore, the BoE revived its financial crises-era U.K.

government bond buying program financed through the issuance of reserves, up to £10 billion (\$13.4 billion), in effort to stimulate the economy and steer inflation towards its 2.0 per cent target.

While major EMDEs continue to be constrained by low capital inflow, the intractable macroeconomic environment faced in 2015 and through to the first half of this year is gradually abating. The prospects for near term full economic and financial recovery in the EMDEs remain subdued, with the IMF (WEO July 2016 Update) projected growth rate forecast for this group of countries at 4.1 per cent, a downward review from 4.3 projected in April. However, the resumption of growth is expected to be powered by rising credits and a surge in government spending.

The potential alliance between OPEC and non-OPEC members like Russia, to reduce quota, in the face of disruptions to production in Nigeria, Libya and Iraq, have aided relative stability in the crude oil market. Globally, general price levels remained tapered due to sustained low oil and other commodity prices. In the advanced economies, despite the uncertainties arising from the UK referendum, accommodative monetary policy stance of the region's central Banks, negative interest rate in Japan and elsewhere, as well as various fiscal stimuli, global inflation has remained suppressed. As deviations in macroeconomic fundamentals in the advanced economies and the EMDEs widen, monetary policy could continue to diverge between the two in the short to medium term.

## **Domestic Economic and Financial Developments**

### **Output**

Data released by the National Bureau of Statistics (NBS) in August indicated that the economy had slipped into recession following another contraction in Q2, 2016. The August 2016 data showed domestic output in Q2, 2016 contracted by 2.06 per cent. This represented a decline of 1.70 percentage points in output from the -0.36 per cent recorded in Q1, and 4.41 percentage points lower than the 2.35 per cent growth in the corresponding period of 2015. The nonoil sector contracted by 0.38 per cent, compared with the 0.18 per cent contraction in the preceding quarter.

Agriculture; Other Services; Education; Arts, Entertainment & Recreation; and Information & Communication, grew by 4.53, 4.32, 2.88, 1.80 and 1.35 per cent, respectively. The shocks associated with energy shortages and price hikes,

scarcity of foreign exchange and depressed consumer demand, among others, apparently proved to be more damaging than expected. Recognizing that the conditions which precipitated the current economic downturn were not essentially sensitive to monetary policy interventions, the MPC again renewed its call for urgent complementary fiscal policies to resuscitate production and engineer aggregate consumption. In particular, members underscored the imperatives of diversification of the economy away from oil into agriculture, manufacturing and services as well as more efforts towards payment of salaries and arrears of public sector employees particularly in states and local governments to stimulate aggregate consumption, as part of the overall fiscal policy menu kit. On the supply side, efforts must be intensified at increased capital expenditure to redress infrastructural deficits, improve the business environment and spur growth.

## **Prices**

The Committee noted that headline inflation (year-on-year) rose again in August to 17.6 per cent, from 17.1 per cent in July 2016, thus maintaining the upward trend since January 2016. The increase in headline inflation in August reflected increases in both food and core components of inflation. Core and food inflation have increased from 16.93 and 15.80 per cent in July to 17.2 and 16.43 per cent, respectively, in August 2016.

The Committee nonetheless, noted that the month-on-month evolution of consumer price inflation has been less phenomenal. The headline inflation index rose by 1.0 per cent in August from 1.3 per cent in July, 1.7 per cent in June; and 2.8 per cent in May 2016. Similarly, the core index has been increasing at a decreasing rate since May when it rose by 2.7 per cent. It moderated to 0.85 per cent in August from 1.22 per cent in July and 1.83 per cent in June. The same pattern of moderation is seen in the food (month-on-month) index which rose by 1.2 per cent in August from 1.21 per cent in July, 1.4 per cent in June and 2.6 per cent in May.

The MPC further noted that the pressure on consumer prices continues to be associated with reform-related legacy and structural factors including high costs of electricity, transport, production inputs, as well as higher prices of both domestic and imported food products. The MPC expects that with the onset of the harvest season, the restrictive stance of policy as well as the flexible FX regime, prices will begin to taper in the fourth quarter.

## **Monetary, Credit and Financial Markets Developments**

Broad money supply (M2) grew by 8.08 per cent in August, 2016, compared with the July level of 10.75 per cent. When annualized, M2 grew by 12.12 per cent in August 2016 above the growth benchmark of 10.98 per cent for 2016. Net domestic credit (NDC) grew by 20.09 per cent in the same period, annualized at 30.14 per cent. At this rate, the growth rate of NDC was above the provisional benchmark of 17.94 per cent for 2016. The development in NDC, essentially reflected the relative growth in credit to the private sector of 21.07 per cent in the month, annualized to 31.61 per cent. Credit to government grew by 1.99 per cent in August 2016, which annualized to a growth of 3.0 per cent compared with the growth benchmark of 13.28 per cent. The growth in M2 was traced to exchange rate effect following the depreciation of naira in the second quarter of the year.

Money market interest rates reflected liquidity conditions in the economy. Average inter-bank call rate, which stood at 15.00 per cent on 8<sup>th</sup> July 2016, closed at 30.00 per cent on August 26, 2016. Between July 8<sup>th</sup> and 26<sup>th</sup> August 2016, interbank call rate averaged 24.95 per cent. The rates increased to 50.0 per cent on July 15, 2016. The sharp increase was attributed to the drop in net liquidity during the period.

The Committee noted a decline in the equities segment of the capital market as the All-Share Index (ASI) fell by 3.51 per cent from 28,733.90 on July 18, 2016, to 27,725.40 on September 15, 2016. Similarly, Market Capitalization (MC) declined by 3.55 per cent from N9.87 trillion to 9.52 trillion during the same period. In addition, relative to end-December 2015, the capital market indices fell by 20.06 per cent and 3.35 per cent, respectively, reflecting the slowdown in the economy. Overall, the capital market did not show vulnerabilities to domestic and external sector developments.

## **External Sector Developments**

The average naira exchange rate weakened at the inter-bank segment of the foreign exchange market during the review period. The exchange rate at the interbank market opened at N285.25/US\$ and closed at N305.90/US\$, with a daily average of N302.87/US\$ between July 1<sup>st</sup> and August 26, 2016. The Committee observed that total foreign exchange inflows through the CBN increased by 89.14 per cent, from US\$1,092.21 million recorded in July to US\$2,065.79 million in August

2016. This increase was due mainly to receipts of foreign flows within the month. Total outflows, however, decreased by 4.57 per cent from US\$2,728.12 million to US\$2,603.35 during the same period. In direct efforts to deepen the foreign exchange market and stabilize the financial markets generally, a number of policy instruments were deployed since the last MPC meeting, including an increase in the benchmark interest rate. Complementary administrative measures were also taken towards achieving this goal, among which was the directive to IMTOs to sell forex directly to Bureau de Change Operators, in order to improve liquidity in that segment of the foreign exchange market. While challenges remained, the Committee expressed optimism that with the crystallization of current policy measures, noticeable improvements should be observed in the financial markets.

### **The Committee's Considerations**

The Committee acknowledged the weak macroeconomic performance and the challenges confronting the economy, but noted that the MPC had consistently called attention to the implications of the absence of robust fiscal policy to complement monetary policy in the past. The Committee also assessed the impact of its decision to tighten the stance of monetary policy by raising the MPR in July 2016. At the time, the Committee understood the complexity of the challenges facing the economy and the difficulty of arriving at an optimal policy mix to address rising inflation and economic contraction, simultaneously. The Committee also recognized that monetary policy had been substantially burdened since 2009 and had been stretched. The Committee noted that new capital flows into the economy, approximately US\$1 billion, had come in since July, while month-on-month inflation has declined continuously since May 2016. Against this background, members reemphasized the need to prioritize the use of monetary policy instruments in dealing essentially with stability issues around key prices (consumer prices and exchange rate) as prerequisites for growth.

The MPC noted that stagflation is indeed a very difficult economic condition with no quick fixes: having been imposed by supply shocks as well as fiscal and current account (twin) deficits. Consequently, the policy framework must be reengineered urgently to provide a lever for reversing the negative growth trend. While the imperative for ensuring financial system stability remains, the MPC reiterated the fact that monetary policy alone cannot move the economy out of stagflation.



The MPC considered the numerous analysis and calls for rates reduction but came to the conclusion that the greatest challenge to the economy today remains incomplete fiscal reforms which raise costs, risks and uncertainty. The calls came mainly from the believe that reducing interest rates will spur credit growth, not only in the private sector but also by the public sector, which will help provide liquidity to stimulate consumption and investment spending. The

Committee was of the view that in the past, the MPC had cut rates to achieve the above objectives; but found that rather than deploy the available liquidity to provide credit to agriculture and manufacturing sectors, the rate cuts provided opportunities for lending to traders who deployed the same liquidity in putting pressure on the foreign exchange market which had limited supply, thus pushing up the exchange rate.

With respect to providing opportunity to the public sector to borrow at lower rates to boost consumption and investment spending, the Committee agreed that while it was expected to stimulate growth through aggressive spending, doing so without corresponding efforts to boost industrial output by taking actions to deepen foreign exchange supply for raw materials will not help reduce unemployment nor would it boost industrial capacities. The Committee was also of the view that consumer demand for goods which will be boosted through increased spending may indeed be chasing too few goods which may further exacerbate the already heightened inflationary conditions. The urgency of a monetary-fiscal policy retreat along with trade and budgetary policy, to design a comprehensive intervention mechanism is long overdue.

The Bank has since 2009 expanded its balance sheet to bail out the financial system and support growth initiatives in the economy. While stimulating economic growth and creating a congenial investment climate always is and remains essentially the realm of fiscal policy; monetary policy in all cases only comes in to support sound fiscal policy. Nevertheless, the Bank has and shall continue to deploy its development finance interventions to complement the overall effort of fiscal policy towards reinvigorating the economy.

The interest rate decisions of the Bank are, therefore, anchored on sound judgment, fundamentals and compelling arguments for such policy interventions. The Committee also feels that there was the need to continue to encourage the inflow of foreign capital into the economy by continuing to put in place incentives to gain the confidence of players in this segment of the foreign exchange market.

Consequently the Committee considers that loosening monetary policy now is not advisable as real interest rates are negative, pressure exists on the foreign exchange market while inflation is trending upwards.

The Committee noted the positive response of the deposit money banks (DMBs) to the Bank's call for increased credit to the private sector between July and August. As the growth in the monetary aggregates spiked above their provisional benchmarks, headline inflation continued its upward trajectory in August 2016, and now close to twice the size of the upper limit of the policy reference band. Supply side factors including energy and utility prices, transportation and input costs, have continued to add to consumer price pressures. Members emphasized that improved fiscal activities, especially, the active implementation of the 2016 Federal Budget, and payment of salaries by states and local governments, will go a long way in contributing to economic recovery. In the same direction, the Committee urged the fiscal authorities to consider tax incentives as a stimulus on both supply and demand sides of economic activities

## **Outlook**

The data available to the Committee and forecasts of key variables suggest that the outlook for inflation in the medium term appears benign. First, month-on-month inflation has since May 2016 turned the curve; second, harvests have started to kick-in for most agricultural produce and should contribute to dampening consumer prices in the months ahead; and third, the current stance of monetary policy is expected to continue to help lock-in expectations of inflation which, has started to improve with the gradual return of stability in the foreign exchange market. In this light, the MPC believes that as inflows improve, the naira exchange rate should further stabilize. Overall, the major pressure points remain the challenges in the oil sector (production and prices), output contraction, and other financial system vulnerabilities as well as foreign exchange shortage.

## **The Committee's Decisions**

The Committee assessed the relevant risks, and concluded that the economy continues to face elevated risks on both price and output fronts. However, given its primary mandate and considering the limitations of its instruments with respect to output, the Committee elected to retain the current stance of policy. Conscious of the need to allow this and other measures like the foreign exchange market

reforms to work through fully, the Committee decided to retain all the monetary policy instruments at their current levels.

In summary, all 10 MPC members voted to:

Retain the MPR at 14.00 per cent;

Retain the CRR at 22.5 per cent;

Retain the Liquidity Ratio at 30.00 per cent; and

Retain the Asymmetric Window at +200 and -500 basis points around the MPR

Thank you for listening.

**Godwin I. Emefiele**

**Governor, Central Bank of Nigeria**

**20<sup>th</sup> September 2016**



## **CENTRAL BANK OF NIGERIA COMMUNIQUE NO 108 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY AND TUESDAY 25<sup>TH</sup> AND 26<sup>TH</sup> JULY 2016**

The Monetary Policy Committee met on 25<sup>th</sup> and 26<sup>th</sup> July 2016 against the backdrop of fragile global and domestic economic and financial conditions. The Committee evaluated the global and domestic macroeconomic and financial developments in the first six months of 2016 and the outlook for the rest of the year. In attendance were 8 members.

### **International Economic Developments**

The Committee noted the continued sluggish growth in global output, being underpinned by weak demand and slowing productivity. In addition to existing risks, rising debt levels in the Emerging Market Economies (EMEs), volatile financial markets and the vote of the United Kingdom to exit the European Union "BREXIT" have lessened the prospects for a more prosperous global economy in 2016. Consequently, the International Monetary Fund (IMF), in July 2016, further downgraded its baseline forecast for global growth to 3.1 per cent from 3.2 in April. The Organisation of Economic Cooperation and Development (OECD) forecast for global output in 2016 is even less optimistic at 3.0 per cent. Slower global growth prospects is traced to weak trade, sluggish investment, protracted weak aggregate demand and low commodity prices; which have translated to output declines in the Emerging Market and Developing Economies (EMDEs). The Brexit vote has created widespread uncertainty and elevated volatility in the global financial markets.

The United States (US) economy grew by 0.8 per cent in Q1 of 2016, though, much lower than the 1.4 per cent growth recorded in the last quarter of 2015. The tapered growth was attributed to the goods sector which continues to struggle under the weight of declining factory activity; the hitherto resilient service sector is now losing steam while trade remains under pressure from a strong dollar and weak domestic demand.

The Japan economy grew at an annualized rate of 1.7 per cent in Q1 of 2016, a reversal of the negative growth recorded in Q4 of 2015. The Bank of Japan (BoJ) at its 15<sup>th</sup>-16<sup>th</sup> July meeting of the Monetary Policy Committee, maintained its monthly asset purchase at ¥6.7 trillion (US\$63.93 billion), leaving the policy rate also unchanged at negative 0.1 per cent.

The Euro Area grew by 0.6 per cent in first quarter, 2016, up from 0.3 per cent, recorded in fourth quarter of 2015. Downside risks to the growth outlook have, however, risen following the Brexit vote. The Governing Council of the European Central Bank (ECB), at its meeting of July 21<sup>st</sup>, 2016, retained its key interest rates on the main refinancing operations, the marginal lending facility and the deposit facility at 0.00, 0.25 and -0.40 per cent, respectively, with the expectation that they would remain at present or lower levels for an extended period of time.

The ECB also sustained its monthly asset purchases of €80 billion (US\$87.91) until March 2017, with possibility of extension. In anticipation of and to mitigate the impact of the Brexit vote, the Bank of England (BoE) voted to continue its £375 billion (US\$495 billion) monthly assets purchase program, financed through the issuance of reserves and possible increase in the quantum should the need arise. The Bank also retained its policy rate at 0.5 per cent, with a commitment to stimulate inflationary growth towards its 2.0 per cent long run path. The Bank also hinted at a possible further easing of monetary policy in August, 2016.

Major EMDEs continued to face declining capital inflows, rising financing costs and geo-political tensions, all of which pose constrain to growth. Depressed commodity prices continued to tilt the balance of risk towards the downside, thus, dampening prospects for near term economic and financial recovery in the EMDEs. Consequently, the IMF (WEO July 2016 Update) downgraded the 2016 growth forecast for this group of countries to 4.1 from 4.3 per cent in the April projection.

In July, oil and other commodity prices rallied against the backdrop of better-than-expected economic data on China in the second quarter, sustained attacks on oil production facilities in Nigeria, and continued unrest in Libya. Nonetheless, global inflation remained subdued despite widespread easing of monetary policy. In the advanced economies, recent developments such as BREXIT has increased the uncertainty surrounding the future of the Euro zone thus further weakening demand and suppressing inflation. Consequently, while the stance of monetary

policy in most advanced economies is expected to remain accommodative through fiscal 2016 in the EMDEs, it is expected to remain mixed, reflecting diversity and multiplicity of shocks confronting them.

## **Domestic Economic and Financial Developments**

### **Output**

The Nigerian economy is still saddled with the effects of the shocks of the first quarter of 2016; which led to a contraction in output arising from energy shortages, high electricity tariffs, price hikes, scarcity of foreign exchange and depressed consumer demand, among others. Whereas the influence and persistence of some of the factors waned in the second quarter, it is unlikely that the economy rebounded strongly in the quarter as setbacks in the energy sector continued owing mainly to vandalism of oil installations. In addition, the implementation of the 2016 budget in the second quarter remained slower than expected in the second quarter. The Committee noted that most of the conditions undermining domestic output growth were outside the direct purview of monetary policy. It nonetheless, hopes that the deregulation in the downstream petroleum sector and the liberalization of the foreign exchange market would help bring about the much needed relief to the economy.

Data from the National Bureau of Statistics (NBS) indicate that domestic output in the first quarter of 2016 contracted by 0.36 per cent, the first negative growth in many years. This represented a decline of 2.47 percentage points in output from the 2.11 per cent reported in the fourth quarter of 2015, and 4.32 percentage point lower than the 3.96 per cent recorded in the corresponding period of 2015. Aggregate output contracted in virtually all sectors of the economy, with the non-oil sector recording a decline of about 0.18 per cent, compared with the 3.14 per cent expansion in the preceding quarter. Agriculture and Trade were the only sectors with positive growth at 0.68 per cent and 0.40 per cent, respectively, Industry, Construction and Services contracted by 0.93, 0.26 and 0.08 percentage point, respectively.

### **Prices**

The Committee noted a further rise in year-on-year headline inflation to 16.48 per cent in June 2016, from 15.58 per cent in May; 13.72 per cent in April, 12.77 per

cent in March and 11.38 per cent in February 2016. The increase in headline inflation in June reflected increases in both food and core components of inflation. Core inflation rose sharply for the fourth time in a row to 16.22 per cent in June, from 15.05 per cent in May; 13.35 per cent in April; 12.17 per cent in March; 11.00 per cent in February and 8.80 per cent in January having stayed at 8.70 per cent for three consecutive months through December, 2015. Food inflation also rose to 15.30 per cent in June, from 14.86 per cent in May; 13.19 per cent in April; 12.74 per cent in March; 11.35 per cent in February, 10.64 per cent in January and 10.59 per cent in December, 2015. The rising inflationary pressure was largely a reflection of structural factors, including high cost of electricity, high transport cost, high cost of inputs, low industrial activities as well as higher prices of both domestic and imported food products.

The MPC expressed strong support for the urgent diversification of the economy away from oil to manufacturing, agriculture and services; and called on all stakeholders to increase investment in growth stimulating and high employment elasticity sectors of the economy in order to lift the economy out of its current phase.

### **Monetary, Credit and Financial Markets Developments**

Broad money supply (M2) grew by 8.26 per cent in June, 2016, a 4.80 percentage points increase from 3.46 per cent in May compared with the 0.54 per cent contraction in June 2015. When annualized, M2 grew by 16.52 per cent in June 2016 against the provisional growth benchmark of 10.98 per cent for 2016. Net domestic credit (NDC) grew by 12.52 per cent in the same period and annualized at 25.04 per cent. At this rate, the growth rate of NDC exceeded the provisional benchmark of 17.94 per cent for 2016. There was no change in the level of banking sector net credit to government in June, contrasting the 31.45 per cent growth in May. Credit to the private sector grew by 14.45 per cent in June 2016, which annualizes to a growth of 28.90 per cent, outperforming the benchmark growth of 13.38 per cent for the year. The MPC expressed cautious satisfaction over the improved performance of credit to the private sector and urged the Bank to ensure that the tempo is sustained in order to stimulate recovery of output growth.

The MPC noted that the level of money market interest rates largely reflected the liquidity situation in the banking system during the review period. Average inter-bank call rate, which stood at 20.0 per cent on 17th June 2016, closed at 50.0 per

cent on July 15, 2016. The increase was attributed in part; to the newly introduced foreign exchange framework and the mop up of naira liquidity due to increased sale of foreign exchange by the CBN during the period. Generally, the period under review witnessed a decline in volume of activity in the inter-bank market owing to injections by FAAC and maturity of some CBN securities.

The MPC also noted the decline in the indices of the equities segment of the capital market. The All-Share Index (ASI) declined by 6.55 per cent from 29,597.79 on June 30, 2016, to 27,659.44 on July 22, 2016. Similarly, Market Capitalization (MC) declined by 6.26 per cent from N10.17 trillion to N9.50 trillion during the same period. Relative to end-December 2015, the indices fell by 3.43 per cent and 3.55 per cent, respectively. Globally, however, the equities markets remained generally bearish, in the aftermath of the Brexit vote.

### **External Sector Developments**

The MPC noted the actions taken by the Bank as part of the implementation of the flexible foreign exchange regime decided at its meeting in May which was designed to improve liquidity and stabilize the foreign exchange market. The Bank introduced a flexible exchange rate regime in the inter-bank market; introduced a Naira-settled OTC-FMDQ-OTC trading platform, adopted two-way quote trading platform at the inter-bank foreign exchange market and appointed foreign exchange primary dealers. However, the average naira exchange rate weakened at the inter-bank segment of the foreign exchange market during the review period following the liberalization of the market. The exchange rate at the interbank market opened at N197.00/US\$ and closed at N292.90/US\$, with a daily average of N244.95/US\$ between May 25 and July 19, 2016. The initial weakness was attributable to the normal market reaction to a new regulatory reform. The MPC reaffirmed its commitment to its statutory mandate of achieving a stable naira exchange rate.

### **The MPC's Considerations**

The MPC recognized the weak macroeconomic environment, as reflected particularly in increasing inflationary pressure and contraction in real output growth. In view of this, the MPC underscored the imperative of coordinated action, anchored by fiscal policy, to initiate recovery at the earliest time. Members called on the Federal Government to fast-track the implementation of the 2016 budget in order to stimulate economic activity to bridge the output gap



and create employment. In the same vein, the MPC expressed concern over the non-payment of salaries in some states and urged express action in that direction to help stimulate aggregate demand. On its part, and as a complementary measure, the MPC restated its commitment to measures and deployment of relevant instruments within its purview to complement fiscal policy with a view to restarting growth. The Committee also enjoined deposit money banks (DMBs) to partner with Government and the Bank in this direction, by redirecting credit from low employment generating sectors to those capable of supporting growth, reducing unemployment and improving citizen standards of living.

Members agreed that the economy was passing through a difficult phase, dealing with critical supply gaps and underscored the imperative of carefully navigating the policy space in order to engender growth and ensure price stability. The MPC therefore, summarized the two policy options it was confronted with as restarting growth or fighting inflation. The MPC was particularly concerned that headline inflation spiked significantly in June 2016, approaching twice the size of the upper limit of the policy reference band

The Committee noted that inflation had risen significantly, eroding real purchasing power of fixed income earners and dragging growth. The MPC was further concerned that while the situation called for obvious tightening of the monetary policy stance, the recession confronting the economy and the prospects of negative growth to yearend needed to be factored into the policy parameters.

The arguments in favour of growth were anchored on the premise that the current inflationary episode was largely structural. In particular, members noted the prominent role of cost factors arising from reform of the energy sector, leading to higher domestic fuel prices and electricity tariffs and prolonged foreign exchange shortages arising from falling oil prices leading to higher inputs costs, domestic fuel shortages, increased transportation costs, security challenges, reform of the foreign exchange market reflected in high exchange rate pass-through to domestic prices of imports. Consequently, the current episode of inflation, being largely non-monetary but largely structural, tightening at this point would only serve to worsen prospects for growth recovery as the Bank had in June 2016, withdrawn substantial domestic liquidity through the foreign exchange market upon introduction of the flexible foreign exchange market regime. Members however, noted the negative effect of inflation on consumption and investment decisions and its defining impact on the efficiency of resource allocation and investment.

The MPC further noted the prolonged non-payment of salaries, a development which has affected aggregate demand and worsened growth prospects. It also noted that at the May MPC meeting, members weighed the risks of the balance of probabilities against growth and voted to hold, allowing fiscal policy some space to stimulate output with injections, but this has been long in coming.

The MPC in putting forward for tightening considered the high inflationary trend which has culminated into negative real interest rates in the economy; noting that this was discouraging to savings. Members also noted that the negative real interest rates did not support the recent flexible foreign exchange market as foreign investors attitude had remained lukewarm, showing unwillingness in bringing in new capital under the circumstance. Members further noted that there existed a substantial amount of international capital in negative yielding investments globally and Nigeria stood a chance of attracting such investments with sound macroeconomic policies. Consequently, members were of the view that an upward adjustment in interest rates would strongly signal not only the Bank's commitment to price stability but also its desire to gradually achieve positive real interest rates. Such a decision, it was argued, gives impetus for improving the liquidity of the foreign exchange market and the urgent need to deepen the market to ensure self-sustainability. Members were of the opinion that this would boost manufacturing and industrial output, thereby stimulating growth which is desired at this time.

### **The Committee's Decisions**

The MPC, recognizing that the Bank lacked the instruments required to directly jumpstart growth, and being mindful not to calibrate its instruments in such a manner as to undermine its primary mandate and financial system stability, in assessment of the relevant issues, was of the view that the balance of risks remains tilted against price stability. Consequently, five (5) members voted to raise the Monetary Policy Rate while three (3) voted to hold.

In summary, the MPC voted to:

Increase the MPR by 200 basis points from 12.00 to 14 per cent;

Retain the CRR at 22.50 per cent;

Retain the Liquidity Ratio at 30.00 per cent; and

Retain the Asymmetric Window at +200 and -500 basis points around the MPR

Thank you for listening.

**Godwin I. Emefiele**  
**Governor, Central Bank of Nigeria**  
**26<sup>th</sup> July 2016**



## **CENTRAL BANK OF NIGERIA COMMUNIQUE NO 107 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY AND TUESDAY 23<sup>RD</sup> AND 24<sup>TH</sup> MAY 2016**

The Monetary Policy Committee met on 23<sup>rd</sup> and 24<sup>th</sup> May 2016 against a backdrop of challenging global and domestic economic and financial conditions. The Committee assessed the global and domestic macroeconomic and financial developments, the short-to medium-term prospects for the domestic economy and the outlook for the rest of the year. In attendance were 9 out of the 12 members.

### **International Economic Developments**

The Committee noted with concern, the tapered growth and continued decline in global output since 2014. At an estimated 3.2 per cent, global output in 2016 was only 0.1 percentage point below the 3.1 per cent in the corresponding period of 2015. The sluggish global output was traced to weak fundamentals in both the advanced economies and Emerging Markets and Developing Economies (EMDEs), including increased volatility in global financial markets, sustained softness in commodity prices, sluggish global trade, resulting in persistent fragility, particularly in the EMDEs.

The United States (US) economy slowed to 0.5 per cent in Q1 2016, a steep decline compared with the 1.4 per cent growth recorded in the last quarter of 2015. The deceleration in US growth was attributed to contraction in non-residential fixed investment and energy businesses, a strong dollar which harmed exports, slowdown in government spending and moderation in private consumption expenditure (PCE). Japan which is currently in deflation is projected to grow by 0.5 per cent in 2016, the same as in 2015, on the back of persistently weak aggregate demand. The Bank of Japan's (BoJ) monthly asset purchase of ¥6.7 trillion (US\$61.73 billion) resulted in the Bank holding about one-third of outstanding government bonds, while the economy remained largely intractable with a credit

crunch, indicating that the programme may have lost its steam. In response to the contraction in credit, BoJ since January 2016, adopted a negative interest rate policy.

Real GDP growth in the Euro area at 0.6 per cent in Q1, 2016 was a phenomenal improvement compared with the 0.3 per cent achieved in Q4 2015. The European Central Bank (ECB), at its meeting of 21<sup>st</sup> April, 2016 maintained the soft policy stance by holding its refinancing rate at 0.0 per cent, lending rate at 0.25 per cent and deposit rate at -0.4 per cent. The Bank also maintained its monthly asset purchase program of €80 billion (US\$87.2 billion), hoping to further stimulate output growth and achieve its 2 per cent inflation target.

The Bank of England (BoE) also retained its monthly assets purchase programme, financed through the issuance of reserves at £375 billion (US\$543.75 billion). At the end of its April 13, 2016 meeting, BoE retained its policy rate at 0.5 per cent, with a commitment to raise inflation to its 2.0 per cent long run path.

Weaknesses in major EMDEs, including low capital inflows, rising costs of funds and continuing geopolitical factors, have been identified as key constraints to growth. Adverse commodity prices continued to provide strong headwinds against growth, defining other economic and financial conditions in the EMDEs. Consequently, the IMF (WEO April 2016 Update) downgraded the 2016 growth forecast for this group of countries from 4.3 to 4.1 per cent.

Disruptions to oil supply in Canada, Nigeria and Kuwait and, demand spikes following expectations of a US interest rate hike and buildup of crude oil inventories, contributed to mild oil price recovery in April 2016. Inflation remains largely suppressed in the advanced countries but tepid consumption spending and vulnerabilities in the financial markets continue to hamper financial intermediation and growth. Consequently, the monetary policy stance in most advanced economies remained largely accommodative and most likely to be maintained throughout 2016. On the contrary, monetary policy in the EMDEs could continue to diverge substantially, reflecting the diversity of shocks confronting them.

## **Domestic Economic and Financial Developments**

### **Output**

In the first quarter of 2016, the economy suffered from severe shocks related to energy shortages and price hikes, scarcity of foreign exchange and depressed consumer demand, among others. Consequently economic agents could not undertake new investments or procure needed raw materials. Shortage of foreign exchange arising from low crude oil prices manifested in low replacement levels for raw materials, other inputs as well as new investments. In addition, the energy crisis experienced in the first five months of the year, resulted in increased power outages and higher electricity tariffs, as well as fuel shortages; which led to factory closures in some cases. The prolonged budget impasse denied the economy the timely intervention of complementary fiscal policy to stimulate economic activity in the face of dwindling foreign capital inflows. Aggregate credit to the private sector remained highly tapered while credit to government grew beyond the programmed benchmark for the period. The Committee, however, noted that many of the prevailing conditions in the economy during the review period were outside the direct control of monetary policy, but hopes that the implementation of the 2016 Federal Budget, supported by relevant sectoral policies and easing supply shocks in energy and critical inputs, would provide the needed boost to the economy.

Against this backdrop, data from the National Bureau of Statistics (NBS) for May 2016, indicated that domestic output in Q1, 2016 contracted by 0.36 per cent, the first negative growth in many years. This represents a drop of 2.47 percentage points in output from the 2.11 per cent reported in the last quarter of 2015, and 4.32 percentage point lower than the 3.96 per cent recorded in the corresponding period of 2015. Aggregate output contracted in almost all sectors of the economy, with the non-oil sector declining by about 0.18 per cent in Q1 2016, compared with 3.14 per cent expansion in the preceding quarter. Only agriculture and trade grew by 0.68 per cent and 0.40 per cent, respectively, while Industry, Construction and Services recorded negative growth of -0.93, -0.26 and -0.08 percentage point, respectively.

## **Prices**

The Committee noted a further increase in year-on-year headline inflation to 12.77 per cent and 13.72 percent in March and April 2016, respectively, from 11.38 per cent in February 2016. The increase in headline inflation in April reflected increases in both food and core components of inflation. Core inflation rose sharply for the third time in a row to 13.35 per cent in April from 12.17 per cent in March, 11.00 per cent in February and 8.80 per cent in January having stayed at 8.70 per cent for three consecutive months through December, 2015. Food inflation also rose to 13.19 per cent from 12.74 per cent in March, 11.35 per cent in February, 10.64 per cent in January and 10.59 per cent in December, 2015. The rising inflationary pressure continued to be traced to legacy factors including energy crisis reflected in incessant scarcity of refined petroleum products, exchange rate pass through from imported goods, high cost of electricity, high transport cost, reduction in food output, high cost of inputs and low industrial output.

The Committee observed that in an economy characterized by high import dependence, the shortage of foreign exchange provided some basis for price increases as currently being experienced. The Committee noted that the economy needed to aggressively earn and build up its stock of foreign reserves in order to avoid distortions when faced with severe shocks. The Committee further noted that the current inflation trend, being largely a product of structural rigidities and inadequate foreign exchange earnings would continue to be closely monitored, and in coordination with fiscal policy, with a view to addressing the underlying drivers of the upward price movements.

## **Monetary, Credit and Financial Markets Developments**

Broad money supply (M2) grew by 3.49 per cent in April 2016, a 1.29 percentage growth from the March level of 2.20 per cent and compared with the 3.67 per cent in April 2015. When annualized, M2 grew by 10.47 per cent in April 2016 against the provisional growth benchmark of 10.98 per cent for 2016. Net domestic credit (NDC) grew by 7.87 per cent in the same period and annualized at 23.61 per cent. At this rate, the growth rate of NDC was above the provisional benchmark of 17.94 per cent for 2016. The development in NDC essentially reflected the significant growth in credit to government of 35.97 per cent in the month, annualized to 107.91 per cent. Credit to the private sector grew by 3.52 per

cent in April 2016, which annualized to a growth of 10.56 per cent, below the benchmark growth of 13.28 per cent.

The Committee observed with concern, the continuous dismal performance of growth in credit to the private sector, noting that in spite of the Bank's efforts, DMBs continued to direct credit largely to low employment elastic sectors of the economy, a phenomenon that had significantly contributed to the low performance of the economy.

Money market interest rates reflected the continuing liquidity surfeit in the banking system. Average inter-bank call rate, which stood at 4.50 per cent on 21<sup>st</sup> March 2016, closed at 8.67 per cent on March 18, 2016. Between March 25<sup>th</sup> and 14<sup>th</sup> April 2016, interbank call rate averaged 2.00 per cent. The Committee noted a decline in activity in the inter-bank market in the period under review, which was due to the payment of FAAC statutory allocations and the maturity of CBN securities.

The Committee also noted a further improvement in the equities segment of the capital market as the All-Share Index (ASI) rose by 3.34 per cent from 25,899.91 on March 24, 2016 to 26,763.86 on May 18, 2016. Similarly, Market Capitalization (MC) rose by 3.14 per cent from N8.91 trillion to N9.19 trillion during the same period. However, relative to endDecember 2015, the indices declined by 6.56 per cent and 6.70 per cent, respectively. Globally, however, the equities markets were generally bearish.

### **External Sector Developments**

The average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market during the review period. The exchange rate at the interbank market opened at N197.00/US\$ and closed at N197.00/US\$, with a daily average of N197/US\$ between March 25 and May 13, 2016. The Committee, therefore, remains committed to its mandate of maintaining a stable naira exchange rate. The MPC noted the level of activity in the autonomous foreign exchange market especially, following the deregulation of the downstream petroleum sector with attendant increased demand in the interbank market, thus further exerting pressure on the naira.

The Committee recalls that over the last two consecutive meetings, it had signaled the imperative of reform of the foreign exchange market. In the intervening



period, the Committee interrogated the issues around the current foreign exchange market regime, tracing them to the low foreign exchange earnings of the economy. Consequently, in the Committee's opinion, the key issue remains how to increase the supply of foreign exchange to the economy. The Committee observed that while the Bank has been working on a menu of options to ensure increased supply of foreign exchange, there was no easy and quick fix to the foreign exchange scarcity problem as supply remained essentially a function of exports and the investment climate.

The Committee is aware that a dynamic foreign exchange management framework that guarantees flexibility could not replace the imperative for the economy to increase its stock of foreign exchange through enhanced export earnings. Consequently, such a structure must evolve to provide basis for radically improved investment climate to attract new investments. The Committee recognizes the exchange rate as a very important macroeconomic variable, which must be earned by increased productive activity and exports, noting with satisfaction that the Bank had made very significant and satisfactory progress with the reforms framework.

The Committee was of the view that the current adverse global and domestic economic and financial conditions and the imperative imposed by the demand and supply shocks to the domestic economy and considering the express intensions of Government as enunciated in the 2016 budget, policy must respond appropriately as the market continues to demonstrate confidence in the Bank's ability to deliver a credible foreign exchange market. Accordingly, the MPC decided that the Bank should embrace some level of flexibility in the foreign exchange market. Given the imperative for growth, the Management of the Bank has been given the mandate to work out the modalities for achieving the desired flexibility that is in the overall interest of the Nigerian economy and when the implementation of the new framework would begin.

### **The Committee's Considerations**

The Committee acknowledged the severely weakened macroeconomic environment, as reflected particularly in increased inflationary pressure, contraction in real output and rising unemployment. The Committee recalls that in July 2015, it had hinted on the possibility of the economy falling into recession unless appropriate complementary measures were taken by the monetary and

fiscal authorities. Unfortunately the delayed passage of the 2016 budget constrained the much desired fiscal stimulus, thus edging the economy towards contractionary output. As a stop-gap measure, the Central Bank continued to deploy all the instruments within its control in the hope of keeping the economy afloat. The actions, however, proved insufficient to fully avert the impending economic contraction. With some of the conditions that led to the contraction in Q1, 2016 still largely unresolved, the weak outlook for growth which was signaled in July 2015 could extend to Q2. To this effect, today's policy actions have to be predicated on a less optimistic outlook for the economy in the short term, given that, even after the delayed budgetary passage in May 2016, the initial monetary injection approved by the Federal Government may not impact the economy soon, as the processes involved in MDAs finalizing procurement contracts before the disbursement of funds may further delay the much needed financial stimulus to restart growth.

The Committee noted that the CBN had implemented accommodative monetary policy from July 2015, with the hope of achieving growth, up until March 2016, when the MPC switched into a tightening mode. However, while the underlying conditions necessitating tight monetary policy remained largely in place, sundry administrative measures implemented by the Bank and recent macroeconomic conditions on the back of the 2016 Budget are expected to significantly dictate a key policy preference in the dilemma now faced by monetary policy - stagflation. Given the current limited policy space, it is imperative to balance stability with growth stance while working on options that in the short term, are certain to isolate seasonal and transient factors fuelling the current price spiral.

Other than credit to government, growth in all monetary aggregates remained largely below their indicative benchmarks, yet; headline inflation spiked in April 2016, far above the upper limit of the policy reference band.

Inflation has continued to be driven mainly by supply side factors such as fuel scarcity, increase in tariff and deterioration in electricity supply, increase in the price of petrol, higher input costs as a result of scarcity of foreign exchange, persistent security challenges and exchange rate passthrough to domestic prices of import. While the Committee believed that the recent deregulation of the downstream sector of the petroleum sector was in the right direction and would lead to increased supply, the pass-through effect of prices to other products has to be factored in policy considerations. Mindful of the limitations of monetary policy

in influencing structural imbalances in the economy, the Committee stressed the need for policy coordination with the fiscal authorities in order to effectively address the identified pressure points.

The Committee noted that the continued excess liquidity in the banking system was responsible for the low level of activity in the interbank market. This is in addition to contributing to the sustained pressure in the foreign exchange market. The Committee expressed hope that efficient implementation of the recently passed 2016 Federal Budget, especially; the capital expenditure portion, would help invigorate growth in the economy as business confidence rejuvenates.

The Committee expressed concern over sustained pressure in the foreign exchange market and the necessity of implementing reforms to engender greater flexibility of rate and transparency in the operation of the inter-bank foreign exchange market. Accordingly, the Committee noted that it was time to introduce greater flexibility in the management of the foreign exchange market. The Committee reaffirmed commitment towards maintenance of price stability and reiterated the need to reappraise the coordination mechanism between monetary and fiscal policy and initiate reforms, for the purpose of more efficient policy synchronization and management.

### **The Committee's Decisions**

The Committee, in its assessment of the relevant risk profiles, came to the conclusion that although, the balance of risks remains tilted against growth; previous decisions need time to crystalize. Consequently, in a period of stagflation, the policy options are very limited. To avoid complicating the conditions, the Committee decided on the least risky option to hold. The foreign exchange market framework, now ready, the MPC voted unanimously to adopt greater flexibility in exchange rate policy to restore the automatic adjustment properties of the exchange rate. Consequently, all 9 members voted to hold and introduce greater flexibility in managing the foreign exchange rate. The Bank would however, retain a small window for funding critical transactions. Details of operation of the market would be released by the Bank at an appropriate time.

In summary, the MPC voted to:

Retain the MPR at 12.00 per cent;

Retain the CRR at 22.50 per cent;

Retain the Liquidity Ratio at 30.00 per cent; and

Retain the Asymmetric Window at +200 and -500 basis points around the MPR

Introduce greater flexibility in the inter-bank foreign exchange market structure and to retain a small window for critical transactions.

Thank you for listening.

**Godwin I. Emefiele**  
**Governor, Central Bank of Nigeria**  
**24th May 2016**



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ' NO. 106 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY AND TUESDAY, MARCH 21 AND 22, 2016**

The Monetary Policy Committee met on 21<sup>st</sup> and 22<sup>nd</sup> March 2016 amidst uncertain global economic prospects and continuing challenges in the domestic economy. In attendance were 8 out of the 12 members. The Committee appraised the international and domestic economic and financial environments in the first two months of 2016 as well as the outlook for the rest of the year.

### **International Economic Developments**

The Committee noted with concern the further decline in global output at the end of 2015, which grew at 2.3 per cent, year-on-year in Q4, its slowest in three years, representing a 0.3 percentage point decline compared with 2.6 per cent in Q3. This deceleration stemmed from the continuous slowdown of growth in the emerging market economies, worsened by deteriorating conditions in the Euro area and China as well as key emerging market economies. Other factors include sustained pressure in global financial markets arising from US monetary policy normalization, depressed global oil market and persistently weakened global aggregate demand.

The slowdown in growth in the United States to 1.0 per cent in Q4 from 2.0 per cent in Q3 was attributed to slowdown in private consumption expenditure (PCE) and non-residential fixed investments. In Japan, output declined by 1.4 percentage points in Q4, 2015 in contrast to the 1.3 per cent growth recorded in Q3. The Bank of Japan's monthly asset purchase program of ¥6.7 trillion (\$56.71 billion) remains substantially sub-optimal, as the economy continues to lurch between contraction and expansion, with the adoption of a negative interest rate policy in January 2016.

In the Euro area, GDP grew by 1.5 per cent in Q4 of 2015, and projected to grow at 1.7 per cent in 2016. The European Central Bank (ECB), at its meeting on 10<sup>th</sup> of

March, 2016 eased monetary policy by further reducing its refinancing rate to 0.0 per cent and deposit rate to 0.4 per cent. The Bank also expanded its monthly asset purchase program from €60 billion (\$65.4 billion) to €80 billion (\$87.2 billion) to further stimulate output growth and move inflation towards its long term objective of 2.0 per cent.

On the other hand, the Bank of England (BoE) sustained its stock of assets purchase, financed through the issuance of reserves at £375 billion (\$536.25 billion), while retaining its policy rate at 0.5 per cent. The BoE further committed to investing £8.4 billion (\$12.01 billion) of cash flows associated with redemption of the January 2016 government securities held in the Asset Purchase Facility, with a commitment to bring inflation closer to the 2.0 per cent target, reducing unemployment and promoting growth.

Uncertainties and geo-political tensions in the Middle East, including a negotiated ceasefire agreement in Syria and Iran's re-entry into mainstream international oil market may have further redefined conditions in the oil market. The market witnessed some uptick in prices following the resolve of the Organization of the Petroleum Exporting Countries (OPEC) and some nonOPEC members to pursue a higher anchor price, coupled with smaller-than-anticipated build-up in stocks at the Cushing Oklahoma delivery hub for United States crude futures.

The Emerging markets and developing economies (EMDEs) were forecast to grow at 4.3 per cent in 2016, an improvement over the 4.0 per cent recorded in 2015. However, external and domestic challenges have persisted, stemming from low commodity prices, troubled financial markets, tepid global demand, policy uncertainty as well as continuously feeble growth in global trade. In addition, weaknesses in major emerging market economies, diminished capital inflows, rising borrowing costs and geopolitical factors have been identified as possible deterrents to growth in the EMDEs. In the environment of suppressed inflation, slow growth, weak global demand and volatile financial markets, the stance of monetary policy in the advanced economies is expected to remain accommodative in 2016, while in the EMDEs, it is expected to be underpinned by currency adjustments and other complementary policies.

## **Domestic Economic and Financial Developments**

### **Output**

The Bank had adopted accommodative monetary policy since July 2015 in the hope of addressing growth concerns in the economy, effectively freeing up more funds for DMBs by lowering both CRR and MPR, with excess liquidity arising from the lower CRR warehoused at the CBN. DMBs were to access these funds by submitting verifiable investment proposals in the real sector of the economy. The funds have not impacted the market yet because the CBN was still processing some of the proposals submitted by the DMBs. In the first episode of easing which resulted in injecting liquidity into the Banking system, DMBs did not grant credit as envisaged. Moreover, the delay in passage of the 2016 Budget has further accentuated the difficult financial condition of economic agents as output continues to decline due to low investment arising from weak demand. The cautious approach to lending by the banking system underpinned by a strict regulatory regime conditioned by the Basel Committee in the post global financial crisis era has further alienated investors from access to credit as banks prefer to build liquidity profiles in anticipation of government borrowing.

In the light of these developments, domestic output growth in 2015 remained subdued as reported by the National Bureau of Statistics (NBS). Consequently, real GDP grew by 2.11 per cent in the last quarter of 2015, more than half a percentage point lower than the 2.84 per cent recorded in the third quarter and 3.83 percentage points in the corresponding period of 2014. Overall, growth in 2015 was estimated at 2.79 per cent, compared with 6.22 per cent in 2014. The major impetus for growth continued to come from the non-oil sector which grew by 3.14 per cent in Q4, 2015 compared with 3.05 per cent in the preceding quarter. The key drivers of growth in the non-oil sector were Services, Agriculture and Trade; contributing 1.23, 0.83 and 0.76 percentage points, respectively.

The Committee noted that the sluggish growth in output was directly attributable to certain fiscal uncertainties, which inadvertently hampered movement of labor and goods; fuel scarcity, increased energy tariffs, foreign exchange scarcity as well as slow growth in credit to private sector in preference to high credit growth to the public sector. The Committee noted that many of these factors were outside the control of monetary policy and given these limitations, in the absence of complementary fiscal and structural policies, the only option was to continue

with the existing measures. The MPC believes that complementary fiscal and structural policies are essential for reinvigorating growth.

## **Prices**

The Committee noted the increase in year-on-year headline inflation to 11.38 per cent in February 2016, from 9.62 per cent in January and 9.55 per cent in December, 2015. The increase in headline inflation in February reflected increases in both food and core components of inflation. Core inflation rose sharply for the first time to 11.00 per cent from 8.80 per cent in January after a lull of three consecutive months at 8.70 per cent through December, 2015. Food inflation also inched up to 11.35 per cent from 10.64 per cent in January and 10.59 per cent in December, 2015. The rising inflationary pressure was traced to the lingering scarcity of refined petroleum products, exchange rate pass through from imported goods, seasonal factors and increase in electricity tariff. The Committee noted that the factors responsible for rising inflation were more structural in nature than monetary, but reaffirmed its commitment to monitor the developments closely and to work with the relevant authorities to address the underlying drivers of the upward price movements.

## **Monetary, Credit and Financial Markets Developments**

Broad money supply (M2) grew by 2.29 per cent in February, 2016 in contrast to 1.69 and 0.25 per cent in January 2016 and February 2015, respectively. When annualized, M2 grew by 13.74 per cent in February 2016 against the provisional growth benchmark of 10.98 per cent for 2016. Net domestic credit (NDC) grew by 3.71 per cent in the same period, annualized, at 22.26 per cent. At this rate, the growth rate of NDC was below the provisional benchmark of 17.94 per cent for 2016. Credit to the private sector grew by 1.45 per cent in February 2016, which annualized to a growth of 8.70 per cent, below the benchmark growth of 13.28 per cent. The Committee noted with concern, the dismal performance of growth in credit to the private sector, noting that even at that, credit went primarily to low employment elasticity sectors of the economy. This had a significant negative impact on output growth.

Money market interest rates reflected the liquidity situation in the banking system. Average inter-bank call and OBB rates, which stood at 0.5 and 2.77 per cent on 25 January 2016, closed at 4.00 and 5.00 per cent, respectively, on March 9, 2016.



Between January 25<sup>th</sup> and end-February 2015, interbank call and OBB rates averaged 1.43 and 2.68 per cent, respectively. This was traced to liquidity surfeit in the banking system. The deposit money banks were, however, reluctant to grant new credit because of rising non-performing loans (NPLs), mainly in the oil sector, amongst other reasons.

The Committee also noted the slight improvement in the equities segment of the capital market during the review period. The All-Share Index (ASI) rose by 8.1 per cent from 23,916.15 on January 29, 2016 to 25,853.58 on March 14, 2016. Similarly, Market Capitalization (MC) rose by 8.02 per cent from N8.23 trillion to N8.89 trillion during the same period. However, relative to end-December 2015, the indices declined by 9.73 per cent and 9.74 per cent, respectively.

### **External Sector Developments**

The average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market during the review period. The exchange rate at the interbank market opened at N197.00/US\$ and closed at N197.00/US\$, with a daily average of N196.99/US\$ between January 25 and March 14, 2016. The Committee reiterated its commitment to maintaining a stable naira exchange rate. The MPC took note of the level of activity in the autonomous foreign exchange market as well as the rising demand in the interbank market but observed that the data on demand for foreign exchange, was being overshadowed by speculative demand. However, the Committee charged the Bank to speed up reforms of the foreign exchange market to improve certainty and eliminate noise and opportunities for arbitrage.

### **The Committee's Considerations**

The Committee noted the weakening macroeconomic environment, reflected particularly in foreign exchange shortages, slowing GDP growth rate and rising inflation. Overall economic growth slowed significantly in 2015, particularly in Q4. Apparently, the conditions responsible for the slowdown – uncertainty around fiscal policy, adverse external environment, security challenges in some parts of the country affecting production and distribution of agricultural produce, low electricity supply, fuel shortages, and sluggish growth in credit to the private sector – have continued in the first quarter of 2016.

On the monetary side, contrary to the notion of liquidity overhang in the financial system, the wider economy appears starved of the needed liquidity to spur growth and employment. Recent performance of the monetary aggregates lends credence to this fact. With the exception of credit to government, growth in all the monetary aggregates remained largely below their indicative benchmarks, yet; headline inflation spiked to 11.38 per cent in February 2016, substantially breaching the policy reference band of 6 - 9 per cent. Apart from liquidity, the increase in inflation was driven by structural factors such as fuel scarcity, increased electricity tariff, persistent insecurity, exchange rate pass through and seasonality of agricultural produce. The conflicting signals from slowing growth and rising inflation present a difficult policy challenge. Though mindful of the limitations of monetary policy in influencing the drivers of the current price spiral, the Committee stressed the need to urgently address the key sources of the pressures. In this regard, the Committee reaffirmed its commitment to closely monitor the development while encouraging relevant authorities to address the structural bottlenecks.

From the monetary data, the Committee noted that the excess liquidity in the banking system was contributing to the current pressure in the foreign exchange market with a strong pass-through to consumer prices. The Committee further noted that previous efforts to reflate the economy in order to spur growth did not elicit the required response from DMBs, hence; the surfeit of liquidity in the interbank market. Obviously, the attendant low rates at that market have not transmitted to the term structure of interest rates. Concerned about the need for low interest rates to support growth and employment, the Committee urged the CBN to explore innovative ways of ensuring the unhindered flow of credit at low cost to key growth sectors even as monetary policy has to, under the circumstance, address the liquidity surfeit in the banking system as well as the pressure on exchange rate and consumer prices. The Committee hopes that fiscal and other structural policies would soon be deployed to strengthen the overall response of macroeconomic policy to the shocks.

The Committee was also concerned that with headline inflation at 11.38 per cent, noting that the policy rate had become negative in real terms. This development has the potential of keeping both foreign and domestic investments on hold. As part of measures to address the supply constraint in the foreign exchange market, yields on domestic instruments have to be competitive to attract the much

needed foreign inflows. On the administrative side, this will have to be complemented by a comprehensive reform of the foreign exchange market which is currently being undertaken. For the avoidance of doubt, the Bank would continue to allow domiciliary account holders unfettered access to funds in their accounts.

The Committee also urged speedy passage of the 2016 Budget in order to halt the depressing effect of the uncertainty that engulfs the waiting period, hoping that the implementation of the budget would go a long way in boosting business confidence, and reinvigorating the financial markets. In the circumstance, the Committee urged the Bank to continue to upscale its surveillance of the financial system with the aim of promptly detecting and managing vulnerabilities to ensure sustained stability.

Finally, the Committee remains committed to price stability across the range of consumer prices, exchange rate and interest rate, which is fundamental to reviving economic growth and employment generation. In the meantime, the Bank would continue to leverage its development finance policy to support critical sectors of the economy. The MPC also stressed the need to sustain, deepen and speed up reforms designed to ensure focused coordination of monetary and fiscal policies.

### **The Committee's Decisions**

The Committee, in its assessment of relevant internal and external indices, came to the conclusion that the balance of risks is tilted against price stability. The MPC therefore, voted to tighten the stance of monetary policy. One member voted to retain the CRR at 20.00 per cent while another member voted to retain the current width of the asymmetric corridor.

In summary, the MPC voted to:

Raise MPR by 100 basis points from 11.00 per cent to 12.00 per cent;

Raise CRR by 250 basis points from 20.00 to 22.50 per cent;

Retain Liquidity Ratio at 30.00 per cent; and Narrow the asymmetric corridor from +200 and -700 basis points to +200 and -500 basis points

Thank you for listening.

**Godwin I. Emefiele**

**Governor, Central Bank of Nigeria**

**22nd March 2016**



## **CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 105 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY AND TUESDAY, JANUARY 25 AND 26, 2016**

The Monetary Policy Committee met on 25<sup>th</sup> and 26<sup>th</sup> January, 2016 against the backdrop of weakening global economic prospects as well as increased risks in the domestic economic environment. In attendance at the meeting were 10 out of the 12 members. The Committee reviewed the ensuing international and domestic economic and financial environments in 2015 as well as the outlook for the first half of 2016.

On the global front, uncertainties and geopolitical tensions have increased in the Middle East, leading to a major standoff between two major oil producers; Saudi Arabia and Iran, in the face of improving relations between the United States (US) and Iran. In the global oil market, both Iran and the US are emerging as new suppliers while OPEC appears to have shifted from protecting price to defending market share. These developments underscore the conclusion that the current global oil prices would remain for a much longer period. Widespread stock market weaknesses and worsening macroeconomic conditions in China have further exacerbated the already stifling global economic challenges. These uncertainties have blended well with domestic vulnerabilities to affect the monetary policy environment in Nigeria.

### **International Economic Developments**

The Committee noted the considerable divergence in global output recovery in 2015, as growth picked-up in the most advanced countries compared with slowdown in majority of emerging and developing economies. Following the slowdown in the emerging market economies, the IMF in its January 2016 World Economic Outlook (WEO), revised its global growth estimate from 3.4 to 3.1 per cent and 3.4 per cent in 2015 and 2016, respectively.

In the United States, growth has remained relatively firm with 2015 third quarter growth rate revised to 2.1 per cent from an earlier estimate of 1.5 per cent. The

country's overall growth in 2015 is expected to be the strongest since the postcrisis recovery began in 2010. Likewise, 2016 growth rate has been projected at 2.6 per cent. The major drivers of this growth remained improvements in consumption spending supported by a robust labor market recovery; low inflation stemming from soft global crude oil prices; massive and dynamic investments in the non-oil private sector, improved foreign investment demand due to the recent normalization of monetary policy by the Fed, as well as housing market recovery.

Japan's recovery in 2015 remained fragile despite the continuous policy stimulus by the Bank of Japan. The Bank's asset purchase program injects ¥6.7 trillion (\$56.71 billion) monthly into the economy, with the possibility of expansion. However, this has done little to restart growth which is estimated at 0.8 per cent in 2015. Private consumption and investment spending remained modest in 2015, worsened by rising skill shortages. Japan's outlook for 2016 remains dampened by the feeble response of the economy to monetary and fiscal stimuli.

In the Euro area, weakening fiscal consolidation and improving labor market conditions generated 1.5 per cent growth in 2015 with prospects for achieving 1.7 per cent in 2016. The European Central Bank (ECB) further eased its monetary policy stance in December 2015, despite the Bank's continuous monthly asset purchase of €60 billion (\$64.8 billion), as both inflation and wage growth remained subdued. In the same vein, the Bank of England continued its accommodative monetary policy through its £375 billion (\$540 billion) asset purchase program, even as it announced a decision to reinvest another £6.3 billion (\$9.07 billion), being the proceeds of redemption of the December 2015 gilt (government securities) held in the Asset Purchase Program. The Bank also maintained its core rate at 0.5 per cent in an attempt to herd inflation towards its target rate.

Growth in the emerging markets and developing economies (EMDEs) decelerated to 4.0 per cent in 2015, the lowest since 2009, as both external and domestic challenges continued; owing to low commodity prices, financial market volatility, slowing productivity, policy uncertainty and eroding policy buffers as well as weak global trade. The slowdown in the majority of EMDEs has also been attributed to spillovers from weaknesses in major emerging economies, diminishing capital inflows, rising borrowing costs and other geopolitical factors.

The stance of monetary policy in the advanced economies is expected to remain largely accommodative in 2016, except for the United States where monetary policy normalization has commenced. Against the background of suppressed commodity prices and slow recovery, global inflation is expected to remain moderate through 2016.

## **Domestic Economic and Financial Developments**

### **Output**

Domestic output growth in 2015 remained moderate. According to the National Bureau of Statistics (NBS), real GDP grew by 2.84 per cent in the third quarter of 2015, almost half a percentage point higher than the 2.35 per cent recorded in the second quarter. However, third quarter expansion remained substantially below the 3.96 and 6.23 per cent in the first quarter of 2015 and corresponding period of 2014, respectively. The major impetus to growth continued to come from the non-oil sector which grew by 3.05 per cent compared with the growth of 3.46 per cent posted in the preceding quarter. The major drivers of expansion in the non-oil sector were Services, Agriculture and Trade; contributing 1.42, 1.03 and 0.79 percentage points, respectively. The outlook for the fourth quarter of 2015, based on staff estimates, suggests further improvements over the third quarter growth level.

The economy is expected to continue on its growth path in the first quarter 2016, albeit less robust than in the corresponding period of 2015. This expectation is predicated on the current low global oil price trend which is projected to hold low over the medium-to long term, and with attendant implications for government revenue and foreign exchange earnings. Other downside risks to growth in 2016 include: capital flow reversal, high lending rates, sluggish credit to private sector and bearish trends in the equities market.

However, the Committee remains optimistic about a gradual recovery in economic activity due to notable improvements in power and supply of refined petroleum products, improved policy recalibration aimed at improving the flow of financing resources to the real sector and suppression of internal insurgencies, which will boost general agricultural activity.

## **Prices**

The Committee noted the slight uptick in year-on-year headline inflation to 9.6 per cent in December, from 9.4 per cent in November and 9.2 per cent in October, 2015. The increase in headline inflation in November 2015 reflected an increase in the food component, even though the core component remained unchanged at 8.70 per cent. Core inflation declined for the third consecutive month to 8.70 per cent in November and December from 8.74 per cent in October 2015, while food inflation inched up to 10.32 per cent from 10.13 and 10.2 per cent over the same period. Consistent with its primary mandate, the Committee would continue to monitor consumer price developments with a view to formulating policies that will keep inflation in check.

## **Monetary, Credit and Financial Markets Developments**

Broad money supply (M2) rose by 5.90 per cent in December 2015, over the level at end-December 2014, although below the growth benchmark of 15.24 per cent for 2015. Net domestic credit (NDC) grew by 12.13 per cent in the same period, but remained below the provisional benchmark of 29.30 per cent for 2015. Growth in aggregate credit reflected mainly growth in credit to the Federal Government by 151.56 per cent in December 2015 compared with 145.74 per cent in the corresponding period of 2014. The renewed increase in credit to government may be partly attributable to increased government borrowing to implement the 2015 supplementary budget.

During the period under review, money market interest rates generally reflected the level of liquidity in the banking system. Average inter-bank call and OBB rates, which stood at 1.00 and 1.50 per cent on 25 November 2015, closed at 4.75 and 4.50 per cent, respectively, on January 21, 2016. Between the November 2015 and end-December 2015, interbank call and OBB rates averaged 0.81 and 0.98 per cent, respectively.

The Committee noted the bearish movement in the equities segment of the capital market during the review period. The All-Share Index (ASI) decreased by 13.15 per cent from 27,435.56 on November 30, 2015 to 23,826.50 on January 22, 2016. Similarly, Market Capitalization (MC) fell by 13.06 per cent from N9.42 trillion to N8.19 trillion during the same period. However, relative to end December 2014, the indices declined by 31.25 per cent and 28.66 per cent, respectively. This



development reflected capital flow reversals accentuated by soft commodity prices and monetary policy normalization in the United States.

### **External Sector Developments**

The Committee noted the ongoing activities in the informal segment of the foreign exchange market, which led to the stoppage of dollar sales to BDCs, even as the average naira exchange rate remained relatively stable at the inter-bank segment during the review period. The exchange rate at the interbank market opened at N197.00/US\$ and closed at N197.00, with a daily average of N196.99/US\$ between November 23 and January 11, 2015. The Committee underscored the necessity of improving the supply of foreign exchange to the market, especially from autonomous sources. It also reiterated its commitment to maintaining stability in the naira exchange rate.

### **Committee's Considerations**

The Committee observed that the last episode of low oil prices in 2005 lasted for a maximum period of 8 months. However, the current episode of lower oil prices is projected to remain over a very long period. Consequently, it is imperative to brace up for a longer period of low government revenues from oil sources, which would necessitate hard and uncomfortable choices as the economy transits to more sustainable sources of revenue, consistent with the economic realities and strategic objectives of the country. In the circumstance, certain tradeoffs must be envisaged and duly accommodated.

In view of the foregoing, the imperative for consistently sound and coordinated macroeconomic policy has become inevitable. In the medium term within which monetary policy is cast, the need to allow policy to produce the desired outcomes becomes a key consideration in the policy mix. Consequently, the Bank is finetuning the framework for foreign exchange management with a view to ensuring a more effective and liquid foreign exchange market, taking into account Nigeria's strategic development priorities; with the policies being designed within an environment of regularly ensuring consistency with monetary and fiscal policies.

The Committee noted that at its November 2015 meeting, it eased monetary policy with a view to increasing the liquidity of the banking system. This was aimed

at moderating domestic interest rates so as to encourage indigenous businesses to borrow. While the objective of stabilizing the financial system in the aftermath of the Treasury Single Account (TSA) withdrawals and J. P. Morgan delisting of Nigeria have been largely achieved, the goal of increasing lending to key sectors of the economy is yet to be achieved as the Bank continues to adopt moral suasion to encourage the DMBs to support targeted lending to the real sector including agriculture, solid minerals and SMEs sub-sectors of the Nigerian economy.

Despite current challenges, the Committee remains guided by evidence underpinned by credible data in its holistic evaluation of the emerging scenario and in its assessment of policy choices. Consequently, the Committee believes that given sound and properly coordinated monetary, fiscal, and external sector policies, there is wide room for optimism about the medium to long term macroeconomic prospects for the Nigerian economy, especially, given the clarity in the policy direction of the administration, the various interventions in the real sector; gradual improvement in the power sector, and the reinvigorated fight against corruption. The Committee also believes that the effect of the softer monetary policy stance adopted at the last MPC, should start crystalizing soon through expansion of credit to critical sectors of the economy. In addition, the unveiling of the Federal budget, oriented towards socio-economic and infrastructural development is expected to provide the necessary impetus for growth.

The Committee acknowledged the continuous liquidity surfeit in the system stemming partly from the recent growth-stimulating monetary policy measures, as well as the tendency of the banks to invest excess reserves in government securities, rather than extend credit to the needed sectors of the economy. To this end, the Committee once again urged the deposit money banks to improve lending to the real sector, as part of their patriotic obligations to the country and enjoined the Management of the Bank to continue to explore ways of incentivizing lending to employment- and growth-generating sectors, particularly SMEs.

The MPC also emphasized the necessity of coordination between monetary and fiscal policies as a prerequisite for resolving the nation's economic problems, particularly, steering the economy away from oil dependency. In particular, the Committee stressed the need for the fiscal authorities to compliment the Bank's low interest rate policy orientation by properly coordinating its borrowing activities (and rates) with the Bank in order to push the common objective of stimulating

banking system credit delivery at low interest rates to the key sectors of the Nigerian economy. It noted that given the current economic reality of dwindling oil revenue and the rather unclear outlook for commodity prices, there would be need for a recalibration of the fiscal strategy to increasingly explore opportunities in non-oil tax revenue.

Finally, the Committee reiterated its unyielding commitment towards achieving a stable exchange rate regime to ensure more flexibility for sustainable inclusive economic growth in the medium to long term.

### **The Committee's Decisions**

The Committee, in consideration of the headwinds in the domestic economy and the uncertainties in the global environment decided by a unanimous vote to retain the Monetary Policy Rate (MPR), Cash Reserve Requirement (CRR), Liquidity Ratio (LR) and the asymmetric corridor of +2/-7 around the MPR.

In summary, the MPC voted to retain:

the CRR at 20.0 per cent;

MPR at 11.0 per cent;

Liquidity Ratio at 30 per cent;

(iii) The asymmetric corridor at +200 basis points and -700 basis points.

Thank you for listening.

**Godwin I. Emefiele**

**Governor, Central Bank of Nigeria**

**26th January 2016**

**SECTION J**  
**OTHER FINANCIAL INSTITUTIONS CIRCULARS, POLICIES AND GUIDELINES**



**CENTRAL BANK OF NIGERIA**  
 Other Financial Institutions Supervision Department  
 33, Tafawa Balewa Way,  
 Central Business District  
 F. M. B. 0187  
 Garki, Abuja.

01-465-32433  
 info@cbn.gov.ng

OFIDIR

20<sup>th</sup> December, 2018

**LETTER TO ALL BUREAUX DE CHANGE (BDCs) ON SUBMISSION OF AUDITED FINANCIAL STATEMENTS**

Section 13 of the Revised Operational Guidelines for BDCs in Nigeria issued in November 2015 provides that every licensed BDC shall submit its audited financial statements to the Director, Other Financial Institutions Supervision Department of the CBN for approval, not later than three (3) months after the end of its accounting year. It also provides that no BDC shall publish its audited accounts in a newspaper without the prior approval in writing of the CBN.

It has however, been observed that many BDCs have not been submitting their annual audited accounts contrary to the above regulatory requirement. We also observed that in some instances, the accounts were incomplete and inaccurate and that some of the accounts were not endorsed or stamped by the external auditors thus casting doubts on their integrity and reliability.

The audited financial statements to be submitted to the CBN **SHALL** be prepared in accordance with applicable accounting standards and shall comprise the following:

Based on NGAAP	Based on IFRS
Auditor's Report	Report
Statement of Accounting Policies	Statement of Profit or Loss & Other Comprehensive Income
Balance Sheet	Statement of Financial Position
	Statement of Changes in Equity
	Statement of Cash Flows
Notes to the Accounts	
5-year Financial Summary	

Consequently, all BDCs are hereby reminded to strictly comply with the above regulatory requirement by submitting complete and accurate annual audited accounts duly stamped by and bearing the professional seal of a qualified audit firm and signed by the directors as required.

In addition  
Accounts:

- I. Tot
- II. Tot
- III. Tot

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Director, C



**CENTRAL BANK OF NIGERIA**  
 Other Financial Institutions Supervision Department  
 33, Tafawa Balewa Way,  
 Central Business District  
 P. M. B. 0187  
 Garki, Abuja.

09-1-2438  
 cbr.gov.ng

2<sup>nd</sup> March, 2018

OFI DIR/DOC GEN 18 314

Yours faithfully,

Officers,  
 Consequently, all applications for ap  
 and HODs) without evidence of the  
 examinations administered by the Ch  
 declined forthwith. Please note that c  
 finance related disciplines are exemp  
 comply.  
 In addition, all incumbent manager  
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 examinations. Officers that fail to o  
 top management positions in microfi  
 All Relationship Managers have bee  
 Examiners would subsequently crea  
 the routine examination of all MFIs.  
 Director, Other Financial Institutions  
 These examinations are accordingl



Tel: 09-462-35439  
Email: ofis@cbn.gov.ng

**CENTRAL BANK OF NIGERIA**  
Other Financial Institutions Supervision Department  
33, Tafawa Balewa Way,  
Central Business District  
P. M. B. 0187  
Garki, Abuja.

**Ref: OFI/DIR/DOC/GEN/018/271**

**February 12, 2018**

**LETTER TO ALL OTHER FINANCIAL INSTITUTIONS ON FOREIGN BORROWING**

The CBN has observed the high rate of foreign currency borrowings of some Other Financial Institutions (OFIs). As most OFIs do not create foreign currency assets, their foreign borrowings are not matched with equivalent assets to hedge against foreign currency risks. Exchange rate fluctuations in the first half of 2017, and the recent past, therefore, exposed the sub-sector to high foreign currency risk, which culminated in losses in several instances. The currency mismatch also exposed the sub-sector to liquidity risk, as OFIs were unable to meet foreign obligations due to non-availability of foreign currency.

As part of efforts to mitigate foreign exchange and other attendant risks, all OFIs are required to adhere to the following:

1. All OFIs seeking foreign currency borrowings and other foreign obligations must obtain the prior approval of the CBN.
2. The aggregate foreign currency borrowing of an OFI (excluding borrowings from the parent) should not exceed 125% of shareholders' funds unimpaired by losses.
3. All borrowings should be hedged using financial market instruments acceptable to the CBN.
4. Prepayments should be allowable only at the instance of the OFI, and subject to the approval of the CBN in writing.
5. The Net Open Position of the overall foreign currency assets and liabilities, taking into cognizance both on and off-balance sheet items should not exceed 1% of shareholders' funds unimpaired by losses.

All OFIs with foreign currency borrowings and other foreign obligations are required to report the details of all outstanding transactions to the CBN on a monthly basis using the attached template:

Tokunbo Martins (Mrs.)

**DIRECTOR, OTHER FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT**





Tel: 09-462-35439  
E-mail: ofid@ccbank.org

**CENTRAL BANK OF NIGERIA**  
Other Financial Institutions Supervision Department  
33, Tafawa Balewa Way,  
Central Business District  
P. M. B. 01117  
Garki, Abuja.

**OTHER FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT**

REF: OFISD/DIR/CIR/GEN/018/217

January 2, 2018

**LETTER TO OTHER FINANCIAL INSTITUTIONS (OFIs)**

**THE BANK VERIFICATION NUMBER (BVN) ENROLLMENT FOR OFIs' CUSTOMERS –  
DIRECTIVE TO PLACE ACCOUNTS WITHOUT BVN ON 'POST NO DEBIT'**

Following the expiration of the extended deadline of 31<sup>st</sup> December, 2017 for your customers to enroll and/or submit their BVN details to your institutions, you are required to place all accounts without BVN on a 'post no debit' status. However, credit lodgments inclusive of deposits and inward transfers, may be received into such accounts.

You are required to continue to enroll customers of such accounts and only remove the 'post no debit' restriction when a valid BVN has been obtained and submitted by the customer or the customer has been duly enrolled by your institution.

Our earlier directive on the conspicuous display of notices sensitizing customers on BVN in the banking hall and the submission of a monthly progress report on BVN enrollment should still to be adhered to.

Please note that this directive takes effect immediately and the Central Bank of Nigeria will continue to monitor compliance. Non-compliance will be met with appropriate sanctions.

**ADEDEJI J. APESMOYE**  
FOR: DIRECTOR, OTHER FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT



**CENTRAL BANK OF NIGERIA**  
Other Financial Institutions Supervision Dept.  
P. M. B. 12194,  
Tinubu Square, Lagos.  
Website: www.cbn.gov.ng

Tel: \_\_\_\_\_

Fax: \_\_\_\_\_  
Ref: OF/DIR/CIR/GEN/18/011

August 1, 2017

**LETTER TO OTHER FINANCIAL INSTITUTIONS (OFIs)**

**THE BANK VERIFICATION NUMBER (BVN) ENROLLMENT FOR OFI CUSTOMERS – EXTENSION OF TIMELINE TO DECEMBER 31, 2017**

Your attention is drawn to our letter on the above subject referenced: OF/DIR/CIR/GEN/17/139 dated April 21, 2017 in which all OFIs were required to undertake the following:

- a. Enroll their customers on or before July 31, 2017;
- b. Conspicuously display notices sensitizing customers on BVN in the banking hall;
- c. Ensure that all new customers have BVN; and
- d. Forward to Director, Other Financial Institutions Supervision Department the schedule of customers' accounts with BVN on August 7, 2017.

The letter also stated that effective from August 1, 2017, all customers without BVN linked to their account should not be allowed to make withdrawal from those accounts.

As you are aware, the deadline expired yesterday, 31<sup>st</sup> July 2017 and consequently several OFIs are in breach of this regulatory directive. However, due to the conscientious efforts aimed, the CBN is disposed to acceding to the appeals received from the Financial Inclusion Secretariat, the National Association of Microfinance Banks (NAMB) and members of Mortgage Bankers' Association of Nigeria (MIBAN) soliciting for a shift in the deadline to support better compliance and avoid further financial exclusion. The various challenges encountered in the early stage of deployment of the joint CBN/NIBSS support to members of NAMB have also informed Management's decision.

In this regard, Management has approved an extension of the timeline to December 31, 2017, to enable all OFIs continue with the BVN enrolment exercise and report progress. As earlier directed, OFIs are therefore required to:

1. Ensure that all customers are enrolled on the BVN platform utilizing appropriate KYC requirement.

- ii. Continue with the submission of progress reports on BVN enrolment on a monthly basis.
- iii. Continue with the display of notices in the banking hall to further sensitise customers on BVN amongst other channels and
- iv. With effect from January 1<sup>st</sup> 2018, all customers without BVN linked to their account should no longer be entitled to debit operations.

Please note that the Central Bank of Nigeria will continue to monitor compliance with the requirements of this circular, and defaulters will be sanctioned accordingly.



.....  
Tokunbo Martins (Mrs)

Director, Other Financial Institutions Supervision Department



Tel: 09462-35439  
Email: oif@cbn.gov.ng

**CENTRAL BANK OF NIGERIA**  
Other Financial Institutions Supervision Department  
11 Tafawa Balewa Way  
Central Business District  
P. M. B. 01017  
Garki, Abuja

June 14, 2017

**Ref: OFI/DIR/GEN/CIR/17/204**


**LETTER TO ALL OTHER FINANCIAL INSTITUTIONS**

**DESIGNATION OF MARK JOHN TAYLOR, EL SHAFFEE ELSHEIK, ANJEM CHOUDARY, SAMI BOURAS AND SHANE CRAWFORD AS SPECIALLY DESIGNATED GLOBAL TERRORIST (SDGT)**

The Central Bank of Nigeria (CBN) is in receipt of a letter dated May 11, 2017 from the Ministry of Foreign Affairs in reference to a Note Verbale from the Embassy of the United States of America in Abuja informing the Government of Nigeria of the designation of **Mark John Taylor, El Shafee Elsheik, Anjem Choudary, Sami Bouras** and **Shane Crawford** as Specially Designated Global Terrorists (SDGT).

This is for your information and necessary action.

Please be guided accordingly.

  
**Tokunbo Martins (Mrs.)**  
Director, Other Financial Institutions Supervision Department



Ref: OFI/DIR/CIR/GEN/17/151

May 10, 2017

**LETTER TO ALL OTHER FINANCIAL INSTITUTIONS (OFIs)**

**RE: DATA EXCHANGE AGREEMENTS WITH AT LEAST TWO LICENCED CREDIT BUREAUX IN NIGERIA**

The attention of the Central Bank of Nigeria has been drawn to Other Financial Institutions (OFIs) non-compliance with the provisions of our circular ref. BSD/DIR/GEN/CIR/04/014 dated April 30, 2010, which requires all OFIs to establish Data Exchange Agreements with Credit Bureaux, obtain credit report before granting any facility and, periodically, determine each borrowers' current exposure to the financial system.

It was also observed that, contrary to the provisions of circular ref. BSD/DIR/GEN/LAB/06/051 dated November 14, 2013, some OFIs do not submit credit information on some categories of customers, especially staff and directors, to Credit Bureaux, while Compliance Officers who disclose such information are victimised.

Consequently, while the victimization of compliance officers' for disclosing insider related facilities would attract appropriate administrative sanctions, all OFIs are once more reminded to comply with the provisions of the above circulars as failure to comply would henceforth attract the following penalties:

- a. The sum of ₦100,000.00 ₦250,000.00 and ₦500,000.00 respectively shall be imposed on Unit, State and National licenced Microfinance Banks for each infraction.
- b. The sum of ₦250,000.00, ₦500,000.00 and ₦750,000.00 respectively shall be imposed on Finance Companies, State and National licenced Primary Mortgage Banks (PMBs) for each infraction.
- c. The sum of ₦1,000,000.00 shall be imposed on Development Finance Institutions (DFIs) for each infraction.

In addition, in view of the need to obtain customers' consent before disclosing their information to Credit Bureaux, all OFIs are advised to insert a disclosure clause in the Terms and Conditions section of account opening packs for continuous credit information sharing without further recourse to customers.

Please note that the Central Bank of Nigeria will monitor compliance with the requirements of this circular, and defaulters will be sanctioned accordingly.

Tokunbo Martins (Mrs)

**Director, Other Financial Institutions Supervision Department  
Central Bank of Nigeria**



☎ 09-462-75439  
✉ ofid@cbn.gov.ng

CENTRAL BANK OF NIGERIA  
Other Financial Institutions Supervision Department  
33, Tafawa Balewa Way,  
Central Business District,  
P. M. B. 0187,  
Abuja, Nigeria

May 2, 2017

REF: OFISO/DIR/CIR/GEN/17/128

**LETTER TO ALL OTHER FINANCIAL INSTITUTIONS (OFIs) ON RENDITION OF RETURNS ON ANTI-MONEY LAUNDERING AND COMBATTING FINANCING OF TERRORISM (AML/CFT)**

The Central Bank of Nigeria has observed with concern the general low level of rendition of AML/CFT returns by OFIs, contrary to regulatory requirement. This has hampered supervisory efforts to effectively assess and mitigate money laundering risks in the industry.

It will be recalled that the CBN had issued a circular Ref: FPR/DIR/CON/BOF/01/036 dated 12<sup>th</sup> August, 2012 requiring all banks and other financial institutions under its purview to render various AML/CFT returns in prescribed formats and at appropriate periods in line with extant AML/CFT laws and regulations.

For the avoidance of doubt, it must be reiterated that the relevant provisions of the Money Laundering Prohibition Act 2011 (as amended) and CBN AML/CFT Regulations, 2013, require Banks and Other Financial Institutions (OFIs) to render various returns to the CBN and Nigeria Financial Intelligence Unit (NFIU). These returns include:

S/N	Type of Return	Rendered To	Time/Frequency
1	Currency Transaction Reports (CTRs)	NFIU	Within 7 days
2	Suspicious Transaction Reports (STRs)	NFIU	Within 24 Hours
3	Foreign Currency Transaction Reports (FTRs)	CBN and NFIU	Within 7 days
4	Risk Assessment Report	CBN	Monthly
5	Politically Exposed Persons (PEPs)	CBN and NFIU	Monthly
6	Annual Employee Education and Training Program	CBN and NFIU	Annually

7	Compliance with Employee Training Program	CBN and NFIU	Quarterly
8	Monitoring of Employee Conduct	CBN	Semi-annually (June and December every year)
9	Three Tiered KYC	CBN and NFIU	Quarterly
10	Testing for the Adequacy of AML/CFT Compliance	CBN and NFIU	Annually

All OFIs are therefore required to render regular returns as highlighted above in the attached forms. Explanatory Notes have also been attached to facilitate understanding and ease completion and rendition of the returns.

The returns should be submitted electronically to the following e-mail addresses on or before the 14<sup>th</sup> day after the end of every reporting month:

S/N	E-MAIL ADDRESS	OFI TYPE
1	<a href="mailto:mfbamireturns@cbn.gov.ng">mfbamireturns@cbn.gov.ng</a>	Microfinance Banks (MFBs)
2	<a href="mailto:pmfbamireturns@cbn.gov.ng">pmfbamireturns@cbn.gov.ng</a>	Primary Mortgage Banks (PMBs)
3	<a href="mailto:dffamireturns@cbn.gov.ng">dffamireturns@cbn.gov.ng</a>	Development Finance Institutions (DFIs)
4	<a href="mailto:fcamireturns@cbn.gov.ng">fcamireturns@cbn.gov.ng</a>	Finance Companies (FCs)
5	<a href="mailto:bdcamireturns@cbn.gov.ng">bdcamireturns@cbn.gov.ng</a>	Bureaux De Change (BDCs)

Where there is no report to be filed in a given reporting period, a NIL return shall be rendered.

Please note that failure to render statutory returns and comply with regulatory directives will attract appropriate sanctions including the revocation of operating licence.

For inquiries or further clarifications, please contact **Mr. Haruna Bala Mustafa** at [hbmustafa@cbn.gov.ng](mailto:hbmustafa@cbn.gov.ng) or **Ahmed Shehu** at [sahmed5@cbn.gov.ng](mailto:sahmed5@cbn.gov.ng).

Please be guided accordingly.



.....  
**Tokunbo Martins (Mrs.)**  
**Director, Other Financial Institutions Supervision Department**



**CENTRAL BANK OF NIGERIA**  
Other Financial Institutions Supervision Dept  
P. M. B. 12194,  
Tinubu Square, Lagos.  
Website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

Tel: 09-462-35439

Fax:

Ref: OFI/IR/CIR/GEN/17/139

April 21, 2017

**LETTER TO ALL OTHER FINANCIAL INSTITUTIONS (OFIs)**

**BANK VERIFICATION NUMBER (BVN) ENROLLMENT FOR CUSTOMERS**

The absence of a unique identifier in the Nigerian banking industry has been a major challenge inhibiting the effectiveness of the Know Your Customer (KYC) principle. To address this challenge and complement the existing means of identification of customers, which include: the Driver's License; the International Passport; the National Identity Card; and the Permanent Voter's Card, the CBN, in collaboration with the Bankers' Committee, launched the Bank Verification Number (BVN) Project in February 2014. The BVN is expected to also minimize the incidence of fraud and money laundering in the financial system, as well as enhance financial inclusion.

The implementation of the BVN initiative, which started with the customers of Deposit Money Banks (DMBs), has been very successful. However, to avoid a broken identification link in the banking system, it has become necessary to extend the BVN enrollment to the customers of Other Financial Institutions especially as some OFIs are located in the rural areas of the country, and have customers that may not have enrolled with the DMBs.

The BVN enrollment will support the achievement of the zero default credit targets set for the Participating Financial Institutions (PFIs) in the Micro Small and Medium Enterprises Development Fund (MSMEDF). It will also open opportunities for credit to millions of Nigerians without a standard means of identification.

In view of the foregoing, all OFIs are required to:

- a. Enroll their customers (in or before July 31, 2017)
- b. Conspicuously display notices sensitizing customers on BVN in the banking hall
- c. Ensure that all new customers have BVN; and
- d. Forward to the Director, Other Financial Institutions Supervision Department schedule of customer accounts with BVN on August 7, 2017.

Effective August 1, 2017, all customers without BVN linked to their account shall not be allowed to make withdrawals from those accounts.



Please note that the Central Bank of Nigeria will monitor compliance with the requirements of this circular, and defaulters will be appropriately sanctioned.

Please be guided accordingly.



**Tokunbo Martins (Mrs)**  
**Director, Other Financial Institutions Supervision Department**



☎ 09-462-35439  
✉ ofis@centbank.org

**CENTRAL BANK OF NIGERIA**  
Other Financial Institutions Supervision Department  
33, Tafawa Balewa Way,  
Central Business District  
P. M. B. 0387  
Garki, Abuja.

Ref: OFI/DIR/CIR/GEN/17/070

March 1, 2017

**LETTER TO ALL OTHER FINANCIAL INSTITUTIONS (OFIs)**

**IMMEDIATE ADOPTION OF EXAMINERS' RECOMMENDED PROVISION AND AUDIT ADJUSTMENTS BY THE OFIs**

Upon the receipt of the Routine Examination Report from the Central bank of Nigeria (CBN) or the Nigeria Deposit Insurance Corporation (NDIC) by the OFI, it is required that the board of each OFI deliberates upon the Report and give an undertaking that the recommendations therein will be implemented. A similar treatment is expected for audit adjustments emanating from annual audit exercise following consideration and approval of the Audited Accounts by the Board.

We have, however, observed that most of the OFIs neither adopt the Examiners' recommended provision for loan losses and other known losses nor pass the audit adjustments in their books, thus causing a discrepancy between the provision in the Examination Report, the Monthly/Quarterly Returns rendered to the CBN and the Audited Accounts.

The major effect of this practice is that data is distorted as the shareholders' funds unimpaired by losses in the Returns are consequently higher than the computed figure in the Examination Report and the approved Audited Accounts giving a misleading impression of the true state of affairs of the OFI.

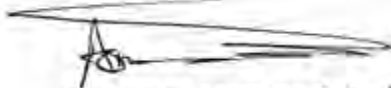
Furthermore, reliance on this inaccurate data inhibits the ability of the Central Bank in effective policy formulation and decision making for the OFI sector.

To address this unwholesome practice, all OFIs are directed to:

1. Immediately pass all necessary entries i.e. audit adjustments and/or Examiners' recommended provision in the latest Examination Report. These entries should be passed into their ledgers and should also be reflected in the next monthly returns to be sent to the CBN.
2. Ensure that subsequent audit adjustments (if any) and Examiners' recommended provisions in future Examination Reports are adopted immediately the Reports are received and deliberated upon by the board of the OFI and reflected in the next Returns after the receipt of the Report.

Note that failure to comply with the above directives will attract appropriate sanction as applicable to the type of the OFI.

Please be guided accordingly.



***Tokunbo Martins (Mrs.)***

*Director, Other Financial Institutions Supervision Dept.  
Central Bank of Nigeria, Abuja*



☎ 09-462-35439  
✉ ofid@cbnbank.org

**CENTRAL BANK OF NIGERIA**  
Other Financial Institutions Supervision Department  
33, Tafawa Balewa Way,  
Central Business District,  
P. M. B. 0187  
Garki, Abuja.

**OFID/DIR/CIR/GEN/17/069**

**1<sup>st</sup> March, 2017**

**LETTER TO ALL DEVELOPMENT FINANCE INSTITUTIONS (DFIs),  
MICROFINANCE BANKS (MEBs) AND FINANCE COMPANIES (FCs)**

**ACCOUNTING TREATMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES  
DEVELOPMENT FUND (MSMEDF)**

This Letter serves to provide guidance to Other Financial Institutions (OFIs), which benefit from the Micro, Small and Medium Enterprises Development Fund (MSMEDF), in accounting for the funds in their books.

The funds are available through direct or indirect funding, and are to be treated in the books as follows:

**I. Direct Funding**

MSMED Funds received directly from the CBN for on-lending to borrowers shall be treated as On-Balance Sheet items as the OFIs bear the credit risk of default. The OFIs, in addition to adhering to the provisions of the Guidelines for the Operation of MSMEDF, shall ensure that:

- The assets and liabilities related to the Fund are stated as separate line items on the Balance Sheet with explanatory notes.
- There is a separate Credit Schedule for the on-lending facility.
- The on-lending facility is administered based on the provisions of the MSMEDF Guidelines/Memorandum of Understanding (MOU) with the CBN (especially the section on interest rates).
- Provision for loan losses is in line with the Prudential Guidelines.
- The funds due to the CBN as repayment of the facility are segregated into:
  - Funds repayable within 12 calendar months (this should form part of current liabilities in calculating liquidity ratio), and
  - Funds repayable after 12 calendar months.

#### **ii. Indirect Funding**

The MSMED funds received through State Governments/FCT for on-lending shall be treated as Off-Balance Sheet items where the State Governments/FCT act as the primary obligor to the CBN, and bear the risk of credit default. The OFIs, being secondary obligors, also carry some risk which may crystallize where they fail to adhere to the terms and conditions of the MOU with the State Government/FCT. Where the risks crystallize, the asset and liability should be reflected on the Balance Sheet. In cases where the State Government/FCT provides a list of beneficiaries of the MSMED funds, (such that the obligors are not as a result of the OFIs own risk assessment), in the event of default, the funds shall remain as Off-Balance Sheet items in the books of the OFI.

OFIs with Off-Balance Sheet engagements should, therefore, ensure that:

- The MOU with the State Government/FCT (the primary obligor) is duly signed by representatives of both the OFI and the State Government/FCT.
- The MOU clearly defines the terms and conditions of the engagement.
- There is full disclosure of the amounts received, disbursed and recovered, as well as the performance of the loans in the Audited Financial Statements and Management Accounts.

Please note for strict adherence.



**TOKUNBO MARTINS (MRS.)  
DIRECTOR, OTHER FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT**

# CENTRAL BANK OF NIGERIA



CBN website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

Ref: OFI/DIR/GEN/CTR/05/573

12<sup>th</sup> November, 2015

## **CIRCULAR**

***TO ALL CHAIRMEN, NON-EXECUTIVE DIRECTORS, MANAGING DIRECTORS, TOP MANAGEMENT STAFF, ALL OPERATORS AND EXTERNAL AUDITORS OF PRIMARY MORTGAGE BANKS AND DEVELOPMENT FINANCE INSTITUTIONS***

### **IMPLEMENTATION OF THE TREASURY SINGLE ACCOUNT FOR FGN/MDAs' DEPOSIT BALANCES**

Following the directive given by the Federal Government that all banks (including PMBs and DFIs) should transfer to the Central Bank of Nigeria all FGN/MDAs' deposit balances by 15<sup>th</sup> September, 2015, PMBs and DFIs were expected to have complied with the set deadline.

In the event that your institutions are still holding on to such deposits, you are required to immediately (from the date of this circular) transfer the balances to the Central Bank of Nigeria failing which severe penalties would be imposed for non-compliance.

A handwritten signature in black ink, appearing to read 'Ahmad Abdullahi'.

**AHMAD ABDULLAHI**

Director, Other Financial Institutions Supervision Department  
Central Bank of Nigeria, Abuja



Our Ref: OFI/DIR/DOC/GEN/05/500

September 1, 2015

**CIRCULAR TO ALL DEVELOPMENT FINANCE INSTITUTIONS (DFIs): LICENSING REQUIREMENT FOR EXISTING DFIs**

The attention of all DFIs is drawn to the provision of the Regulatory and Supervisory Guidelines for Development Finance Institutions in Nigeria (as amended) which requires that all existing DFIs whether established directly by an Act of the National Assembly, incorporated under CAMA or other law shall be required to obtain license from the CBN

Consequently, DFIs are hereby requested to specifically note and comply immediately with the provisions of sections 4.0 and 4.5 of the amended guidelines which state as follows:

**a.) 4.0 LICENSING PROCEDURE AND REQUIREMENTS**

The procedure and requirements for grant of license to promoter(s) of a new DFI shall be the same as specified for banks under BOFIA and any other regulations issued by the CBN. Under these Guidelines, existing DFIs whether established directly by an Act of the National Assembly, incorporated under CAMA or any other law shall be required to obtain license from the CBN.

**b.) 4.5 LICENSING REQUIREMENTS FOR EXISTING DFIs**

All existing DFIs shall comply with the underlisted requirements prior to issuance of license:

A non-refundable application fee of N100,000 (one hundred thousand Naira only) or any other amount as may be determined from time to time and payable to the CBN.

A detailed current business plan incorporating the following:

- i. The aims and objectives of the DFI (including the vision & mission statement);<sup>4</sup>
- ii. Enterprise-Wide Risk Management Framework;
- iii. The organizational structure of the DFI indicating the functions and responsibilities of the board and senior management;
- iv. The composition of the board of directors and interests represented;
- c. A certified true copy of MEMART, where applicable;
- d. Evidence of compliance with capital requirements in line with section 4.4 of this Guidelines.
- e. Audited Financial Statements for the last three years.
- f. Compliance with section 4.1(i) and 4.2 as applicable.

This is in addition to compliance with all other provisions of the guidelines.



**Director, Other Financial Institutions Supervision Department**



**REGULATORY AND SUPERVISORY GUIDELINES FOR FINANCIAL  
INSTITUTIONS IN NIGERIA**

**2015**

## **LIST OF ACRONYMS**

AIP	Approval-in-Principle
BOFIA	Banks and Other Financial Institutions Act
CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters Act
CBN	Central Bank of Nigeria
CIBN	Chartered Institute of Bankers of Nigeria
CTC	Certified True Copy
DFI	Development Finance Institution
DMB	Deposit Money Bank
FGN	Federal Government of Nigeria
FRC	Financial Reporting Council of Nigeria
GAAP	Generally Accepted Accounting Principles
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
LEs	Large Enterprises
MIS	Management Information System
NDIC	Nigeria Deposit Insurance Corporation
NIBSS	Nigeria Interbank Settlement System
NPL	Non-performing Loans
OFISD	Other Financial Institutions Supervision Department
PFI	Participating Financial Institution
RDFI	Retail Development Finance Institution
SEC	Securities and Exchange Commission
WDFI	Wholesale Development Finance Institution

## **Preface**

In a bid to accelerate the pace of development of the Nigerian economy and realization of the key roles of some critical sectors in the process, the Federal Government of Nigeria has over the years established development finance institutions (DFIs) to provide financial interventions in enterprises in the identified sectors to complement the efforts of banks and other financial institutions (OFIs). However, due to limited access to long-term and low-interest funds, in addition to other factors, the DFIs have recorded limited success. Consequently, the Federal Government in collaboration with development partners and international financial institutions (IFIs) decided to sponsor the establishment of a Wholesale DFI (WDFI) to bridge the gap and to increase the availability and access to finance, in particular, for micro, small and medium enterprises (MSMEs) being the engine of growth, without excluding Large Enterprises (LEs). The benefits of WDFIs are documented and acknowledged in both developed and emerging markets.

In support of this initiative, the Central Bank of Nigeria (CBN) has decided to develop this Regulatory and Supervisory Guidelines to provide a level playing field for participants in the Development Financing subsector and to further direct private capital to participating financial institutions (PFIs). This Guidelines will provide a framework for licensing, regulation and supervision of both WDFI and Retail DFI (RDFI). Rather than compete directly with RDFI at the retail market, WDFI shall mainly provide wholesale financial products (at least 80 percent of total credit) and facilitate technical assistance to eligible participating financial institutions (PFIs) throughout Nigeria.

As with all financial institutions regulated by the CBN, DFIs shall be subject to regulation and supervision by the CBN under the Banks and Other Financial Institutions Act, CAP B3, Laws of the Federation of Nigeria, 2010 (herein after referred to as "BOFIA"). While it is recognized that some DFIs were set up by specific Acts of the National Assembly, it should be noted that all DFIs have been brought under the CBN's regulatory purview by virtue of subsequent amendment to BOFIA in 1999. These guidelines are designed to be consistent with CBN's existing regulations for all licensed financial institutions and to ensure that DFIs operate in a safe and sound manner.

The guidelines are arranged in twelve sections, beginning with definitions and objectives of DFIs, followed by powers and duties of the CBN with respect to the

operations of DFIs. The third and fourth sections highlight the permissible and non-permissible activities, and the licensing procedure and requirements, respectively. The fifth section deals with corporate governance requirements, while section six focuses on sources of funds for DFIs. Section seven and eight provide for rendition of statutory returns and prudential requirements, respectively. Other regulatory approvals, on-site examination and off-site surveillance, and administrative sanctions and actions are covered under sections nine, ten and eleven, respectively. Section twelve itemizes the annexures to the guidelines.

## **1.0 Definitions and Objectives**

### **1.1 Definition of Development Finance Institution (DFI)**

A Development Finance Institution is a specialised financial institution established with specific mandate to develop and promote key sectors of the economy considered to be of strategic importance to the overall socio-economic development objectives of the country.

### **1.2 Definition of Wholesale Development Finance Institution (WDFI)**

A WDFI is a development finance institution devoted principally to providing wholesale funds to Participating Financial Institutions (PFIs) for on-lending to enterprises in identified sectors.

### **1.3 Definition of Retail Development Finance Institution (RDFI)**

A RDFI is a development finance institution devoted principally to lending directly to enterprises/organisations in identified sectors.

### **1.4 Definition of Participating Financial Institution (PFI)**

A PFI is a financial institution licensed and/or regulated by the Central Bank of Nigeria and is involved in lending directly to end user clients in identified sectors.

### **1.5 Objectives**

The objectives of DFIs are to:

- Fund MSMEs and LEs for economic development.
- Foster growth in sustainable businesses.
- Create jobs.
- Reduce poverty and improve quality of lives.

## **2.0 Powers and Duties of the Central Bank of Nigeria**

In line with the relevant provisions of BOFIA and CBN Act, Laws of the Federation of Nigeria (LFN) 2010 (hereinafter referred to as the CBN Act), the CBN shall exercise the following powers with respect to DFIs:

Granting and revocation of licence.

- Determination of the minimum capital requirements.
- Approval of the appointment of board members and senior management staff (Assistant General Manager and above).
- Removal of board members and senior management staff (Assistant General Manager and above).
- Regulation and supervision, which include:
  - i. Determining capital adequacy, minimum liquidity and other prudential requirements
  - ii. Prescribing minimum criteria upon which credits may be extended.
  - iii. Prescribing permissible activities.
  - iv. Prescribing eligible assets or portfolio of eligible assets.
- Conducting on-site and off-site supervision.
- Imposing sanctions for infractions.
- Investments in DFIs.
- Any other power that may be exercised in line with the BOFIA and/or the CBN Act.

## **3.0 Permissible and Non-Permissible Activities**

### **3.1 Permissible Activities**

A DFI may engage in any of the following activities:

- Provide finance and credit facilities to eligible borrowers
- Refinance MSMEs and LEs loans.
- Invest in government securities.
- Issue guarantees in line with permissible activities.
- Issue bonds and notes to fund its operations.
- Provide technical assistance to borrowers (PFIs and MSMEs) on credit and business development related activities to increase pool of development expertise.

- Equity investment in start-up businesses of which the aggregate amount shall NOT exceed 10 percent of shareholders fund unimpaired by losses of the DFI and subject to a maximum of 25 percent holding in any enterprise.
- Other activities as may be prescribed or approved by the CBN from time to time.

### **3.2 Non-Permissible Activities**

A DFI shall NOT engage in the following activities:

- Acceptance of demand, savings and time deposits, or any type of deposits.
- Taking proprietary positions in real estate other than for its own business.
- Management of pension funds/schemes.
- Project management for clients.
- Providing fund/asset management services.
- Establishment of subsidiaries.
- Foreign exchange, commodity and equity trading.
- Financing capital market operations.
- Granting of retail loans beyond allowable percentage as in the case of a WDFI
- All other activities NOT expressly permitted by the CBN.

### **4.0 Licensing Procedure and Requirements**

The procedure and requirements for grant of licence to promoter(s) of a new DFI shall be the same as specified for banks under BOFIA and any other regulations issued by the CBN. Under these Guidelines, existing DFIs whether established directly by an Act of the National Assembly, incorporated under CAMA or any other law shall be required to obtain licence from the CBN.

#### **4.1 Requirements for Grant of Approval-In-Principle**

Any promoter(s) seeking a licence to operate a DFI in Nigeria shall apply in writing to the Governor of the Central Bank of Nigeria. The application shall indicate the class of DFI (RDFI or WDFI) and be accompanied by the following documents:

- A non-refundable application fee of N100,000 [one hundred thousand naira only] or any other amount as may be determined from time to time and payable to the CBN.
- Evidence of proposed name reservation with CAC
- A detailed feasibility report containing information that **shall** include:

The aims and objectives of the proposed DFI (including the vision & mission statement);

The strategy for achieving the aims and objectives ;

The branch expansion program [if any] within the first 5 years;

The proposed training programs for staff and management, as well as succession plan;

A three-year financial projection for the operation of the DFI, indicating expected growth and profitability;

Details of the assumptions which form the basis of the financial projection;

Enterprise-Wide Risk Management Framework;

The organizational structure of the DFI indicating the functions and responsibilities of the board and senior management;

The composition of the board of directors and interests represented;

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

A copy of the Memorandum and Articles of Association (MEMART);

A list (in tabular form) showing the names of the promoters, amounts subscribed, their business and residential addresses, the names and addresses of their bankers and evidence of payment, with bank statement of account attached.

Curriculum vitae of promoters or their nominees, in the case of corporate investor(s);

The business profile of corporate investor(s), if any;

Evidence of payment of capital requirements in line with section 4.4 of this Guidelines. The mode of payment may be through NIBSS or any other acceptable payment channel, being minimum capital deposit which will be refunded with interest after the proposed institution obtains its final licence. Provided that, in the case of a WDFI, where the capital requirement is not paid in full, a satisfactory capital plan for the balance; and

Manual of Operations containing:

i. **Credit Policy** that describes the eligibility requirements for its borrowers, the products to be offered by the DFI, including the policies, procedures, terms and conditions for issuing loans and guarantees, and sets forth the standards to be used by the DFI to manage its credit risk. The Credit Policy should specify, at a minimum:

1. that the DFI shall only engage in the extension of credit to borrowers in line with its credit policy.

2. procedures, limits of authority, and the criteria for evaluating loan applications, credit lines and guarantees.
3. the criteria for collateral cover, valuation and the discounts to be applied..
4. the timing and criteria for assessing the creditworthiness of PFIs, obligors and other counterparties for the establishment of credit limits.
5. all fees chargeable..
6. the criteria for pricing DFI products, including any differential pricing of loans and guarantees.

**Asset/Liability Management (ALM) Policy** that highlights the DFI's permissible assets and liabilities in line with permissible activities in this Guidelines, sets the standards for managing interest rate and liquidity risks and delineates the composition, duties, and operational procedures for the DFI's Asset/Liability Management Committee.

**Financial Management Policy** that highlights the DFI's financial management policies and procedures, and system of internal controls. The Policy should include, at a minimum:

Accounting policies and principles.

Roles and responsibilities of the senior management.

Treasury management, payroll and procurement.

Record keeping and reporting.

Auditing and periodic review of internal controls.

**Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) Policy.**

**Code of Ethics and Business Conduct** that specifies high standards for honesty, integrity, and impartiality for the DFI's employees and directors and provides guidance on avoiding conflicts of interest, self-dealing, and other types of impropriety as specified by the CBN and other appropriate authorities.

Every director and officer of the DFI shall be required to sign Code of Ethics and Business Conduct. Among its provisions, the Code shall establish the maximum amounts of allowable borrowings from, and share-holding in all licensed financial institutions. The Code shall also require that any contact relating to the business of the DFI between a director and an officer of the DFI and a member of a political body or an official of a Government institution should be reported to its Ethics



Committee DFI directors and officers shall disclose to the Ethics Committee, at least annually, any outstanding loans from, and shareholding in all licensed financial institutions, and DFI directors and officers shall inform the Ethics Committee, and receive its consent, before acquiring any significant shareholding in licensed financial institutions.

Following the receipt of an application with complete and satisfactory documentation, the CBN shall communicate its decision to the applicant within 90 days. Where the CBN is satisfied with the application, it shall issue an approval-in-principle (AIP) to the applicant.

No proposed DFI shall incorporate/register its name with the Corporate Affairs Commission (CAC) until an AIP has been obtained from the CBN, in writing, a copy of which shall be presented to the CAC for registration.

4.1.1 After incorporation and opening a corporate account, the proposed DFI may apply for and may be paid 20% of its capital deposit to enable it meet its pre-operational expenses.

## **4.2 Requirements for Grant of Final Licence**

The promoters of a DFI shall submit the following documents to the CBN before such company is considered for the grant of a final licence and thereafter, permitted to commence operations:

Evidence of payment of a non-refundable licensing fee of N500,000.00 [five hundred thousand Naira only] for RDFI or N1,000,000.00 (one million Naira only) for WDFI, or any other amount as may be determined by the CBN.

A copy of the shareholders' register in which the equity interest of each shareholder is properly reflected [original to be sighted during pre-licensing inspection].

A copy of the share certificate issued to each shareholder.

Certified true copies of Form CAC 2 (Statement of Share Capital and Return on Allotment), Form CAC 3 (Notice of Situation/Change of Registered Address) and Form CAC 7 (Particulars of Directors and changes therein). (v) An undertaking stating that:

1. the board of directors approved by the CBN has been inaugurated.

2. it shall not engage in capital reduction without the prior written approval of the CBN.
3. the quorum for its board meetings shall be 2/3 of members.
4. it shall not change the board composition, external auditor or engage a management staff without the prior written approval of the CBN.
5. the directors shall comply with the code of conduct for directors of banks in Nigeria.
6. A certified true copy (CTC) of the MEMART filed with the Corporate Affairs Commission.
7. A CTC of the certificate of incorporation of the company [original to be sighted during pre-licensing inspection].
8. A list of the proposed management team, attaching the signed and dated curriculum vitae (CV) of each person with photocopies of acceptable means of identification such as driver's licence, National identity cards, or international passports.
9. The proposed firm of external auditors, attaching a profile of the firm and its partners.
10. An application for the refund of its capital deposit or the balance where it has received 20 per cent of the capital deposit post-AIP, giving its bank account details.
11. Evidence of acquisition of a conducive office space and equipment, which shall be subject to the CBN's inspection prior to the grant of final licence.

### **4.3 Conditions Precedent to Commencement of Operations**

4.3.1 A DFI granted a final licence shall submit the following documents prior to commencement of business:

- A copy of the letters of offer and acceptance of employment by the senior management staff and evidence that the management team approved by the CBN has been engaged.

- The opening statement of affairs audited by a firm of accountants, signed by accountants registered with the Financial Reporting Council (FRC) of Nigeria.
- A letter to the CBN, stating the proposed date for commencement of business.

4.3.2 The CBN may, at any time, vary or review any condition of a licence or impose additional conditions.

4.3.3 Where a licence is granted subject to conditions, the DFI shall comply with those conditions to the satisfaction of the CBN within such period as the CBN may deem appropriate in the circumstance. Failure to comply with the conditions of a licence shall be a ground for revocation of the licence.

#### 4.4 Financial Requirements

The financial requirements for DFIs are as follows:

**Minimum capital (WDFI): - N100,000,000,000.00** payable over a maximum period of four (4) years, out of which a minimum of N20 billion **SHALL** be paid before grant of AIP.

<b>Minimum capital (RDFI): -</b>	<b>N10,000,000,000.00</b>
<b>Non-refundable application fee -</b>	<b>N100,000.00 for RDFI N250,000.00 for WDFI</b>

<b>Non-refundable licensing fee -</b>	<b>N500,000.00 for RDFI N1,000,000.00 for WDFI</b>
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<b>Change of name fee -</b>	<b>N50,000.00</b>
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These requirements may be varied by the CBN from time to time as it deems necessary.

#### 4.5 Licensing Requirements for Existing DFIS

All existing DFIs shall comply with the underlisted requirements prior to issuance of licence:

A non-refundable application fee of N100,000 [one hundred thousand Naira only] or any other amount as may be determined from time to time and payable to the CBN.

A detailed current business plan incorporating the following:

The aims and objectives of the DFI (including the vision & mission statement);

- Enterprise-Wide Risk Management Framework;
- The organizational structure of the DFI indicating the functions and responsibilities of the board and senior management;
- The composition of the board of directors and interests represented;
- A certified true copy of MEMART, where applicable;
- Evidence of compliance with capital requirements in line with section 4.4 of this Guidelines.
- Audited Financial Statements for the last three years.
- Compliance with section 4.1 (i) and 4.2 as applicable.

## **5.0 Corporate Governance Requirements**

### **5.1.0 Board of Directors**

5.1.1 The ultimate responsibility for the management of a DFI shall be vested in its board of directors.

5.1.2 The number of directors on the board of a DFI shall be a minimum of seven [7] and a maximum of eleven [11] or as may be specified by the CBN from time to time. The number of non-executive directors shall exceed that of executive directors at any point in time.

5.1.3 The CBN shall approve the appointment of each director who shall meet the qualifications and requirements for directors of licensed banks as may be specified from time to time.

5.1.4 Executive directors of a DFI shall hold office for a fixed term of not more than 5 years and such term may be renewed only once, while non-executive directors shall serve for a fixed term of not more than 4 years and such term may be renewed only twice. The maximum tenure of an executive director shall not exceed a total of 10 years while a nonexecutive director shall not serve for periods exceeding 12 years in total.

5.1.5 Any executive director who has served two 5-year terms may equally serve as Managing Director, if so appointed, for the maximum of two 5-year terms (a combined maximum of 20years).

5.1.6 Transmutation from executive to non-executive director shall not be allowed until after a period of 3 years following cessation of the executive appointment.

5.1.7 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.

5.1.8 DFIs shall comply with applicable CBN Code of Corporate Governance issued from time to time.

## 5.2 Minimum criteria for Board Membership/Senior Management

5.2.1 The minimum qualifications and experience for persons who may occupy the positions of Managing Director/Chief Executive, Executive/Non-executive directors and senior management shall be as prescribed in the Revised Assessment Criteria for Approved Persons Regime.

## 5.3 Functions of the Board of Directors

The board of directors shall:

5.3.1 ensure that the DFI establishes and maintains an effective internal control system.

5.3.2 appoint annually, a firm approved by the CBN to be the DFI's auditor. The approved auditor shall meet the qualifications and have the duties, responsibilities, and authorities as specified in the BOFIA or by the CBN. No auditor shall serve continuously for a period of more than 10 years in a DFI. The same auditor shall not be re-engaged by the DFI until a period after 10 years from the date of last disengagement.

5.3.3 establish, document, and communicate an organizational structure for the DFI that clearly shows the lines of authority, provides for effective communication, and ensures that there are no gaps in the lines of authority.

5.3.4 review all delegations of authority to specific personnel or committees and require that such delegations state the extent of the authority and responsibilities delegated.

5.3.5 establish reporting requirements for senior management, including specifying the nature and frequency of the management reports it shall receive.

5.3.6 establish board committees to assist it in the discharge of its responsibilities, including audit, risk management and credit committees. The audit committee shall consist of at least three directors, at least one of whom shall have accounting or related financial management experience. The board of directors shall specify the scope of the committees' powers and responsibilities, processes and membership requirements.

5.3.7 establish appropriate risk management oversight over the operations and management of the DFI in line with the CBN Code of Corporate Governance

5.3.8 review, at least annually, the following DFI's plans and policies: Business Plan, Capital Plan, Credit Policy, ALM Policy, Financial Management Policy, and the Code of Ethics and Business Conduct.

5.3.9 prepare and submit to the CBN for consideration, the DFI's annual report, including its audited financial statements before publication.

5.3.10 approve annual budgets, capital expenditure, financial projections, and proposed dividends.

5.3.11 set criteria for PFIs qualification to access funds.

5.3.12 set standards and procedures for delivering technical assistance to PFIs and MSMEs.

5.3.13 ensure compliance with the Approved Persons Regime requirement (Annexure IV).

## **5.4 Duties of Directors**

5.4.1 In addition to the duties specified under CAMA, Directors shall;

- act in good faith, in a manner they believe to be in the DFI's best interests, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.
- administer the DFI's affairs fairly, impartially and without discrimination in favour of, or against, any shareholder or borrower.
- direct the DFI's operations in conformity with the requirements set forth in these regulations and other such requirements and directives as the CBN may issue from time to time.

### **5.5 Duties of Senior Management**

The board shall define the duties of senior management of DFIs to include but not limited to:

a) carrying out the directives of the board of directors and for conducting the day-to-day operations of the DFI in a safe and sound manner, including the establishment, implementation, and maintenance of the internal control system required by these guidelines.

b) ensuring that the employees of the DFI fully understand and comply with all policies, procedures, and legal requirements applicable to their positions and responsibilities, including adherence to approved risk tolerance and mitigation strategies.

c) ensuring that there is appropriate segregation of duties among employees and that those employees are not assigned to conflicting responsibilities.

d) ensuring that employees receive necessary and appropriate information and training.

e) developing and implementing operating procedures that translate the major business objectives, strategies, and policies established by the board of directors into effective operating standards.

f) ensuring adherence to the lines of authority and responsibility established by the board of directors.

g) overseeing the implementation and maintenance of management information and other operating systems.

h) establishing and implementing an effective system to track internal control weaknesses and the actions taken to correct them.

i) monitoring and reporting periodically to the board of directors and audit committee, on the achievement of the DFI's business objectives and effectiveness of the internal control system.

j) performing, at least annually, a risk assessment that identifies and evaluates all material risks that could adversely affect the achievement of the DFI's business and performance objectives and compliance requirements. The risk assessment report shall be reviewed promptly by the Board Risk Management Committee.

k) developing and implementing a robust enterprise-wide risk management policy and framework.

## **6.0 Sources of Funds**

6.1 The sources of funds for a DFI shall consist of any one or more of the following as may be approved by the CBN:

- Paid-up share capital.
- Reserves.
- Preference shares.
- Long term loans from International Financial Institutions (IFIs).
- Debentures
- Bonds.
- Loans from national and supra-national governments and other bodies.
- Funds from development partners.
- Gifts, grants and donations.
- Any other source as may be approved by the CBN from time to time.

## **7.0 Rendition of Statutory Returns**

### **7.1 Periodic Returns**

7.1.1 In compliance with the provisions of Section 25 of BOFIA, a DFI shall submit periodic returns to the CBN in the prescribed format which shall include:



Statements of financial position, comprehensive income and cash flow, capital compliance and leverage, investments, outstanding loans and advances, liabilities and other commitments, and shareholders' stock holdings.

Annual Audited Financial Statements produced in accordance with International Financial Reporting Standards (IFRS) including the auditor's management letter and a statement on the effectiveness of internal controls signed by DFI's board of directors for which a written consent of no objection shall be obtained from the CBN.

7.1.2 The periodic returns shall be submitted to the Director, Financial Policy and Regulation Department (FPRD), Director, Other Financial Institutions Supervision Department (OFISD) and any other Department as may be required by the CBN.

7.1.3 A DFI shall submit the following returns:

Quarterly - Not later than fourteen [14] days after the end of each quarter.

Annually – Not later than four [4] months after the end of its accounting year.

Any other returns as may be prescribed by the CBN from time to time.

## **7.2 Management Letter & Audit Opinion**

7.2.1 In accordance with Section 29(8) of BOFIA, the approved auditor is to forward to the CBN, a copy of the management letter on a DFI's activities, not later than 3 months after the end of its financial year. The management letter should contain a DFI's management responses to issues raised by the auditor.

7.2.2 Every audited financial statement of a DFI shall contain an opinion on the ability of such an institution to continue as a going concern and shall bear the auditors' signature, seal, stamp, FRC number and date.

7.2.3 Any auditor that fails to comply with the requirement of this section shall be blacklisted by the CBN.

## **7.3 Publication of Audited Financial Statements**

In accordance with the provisions of section 27(1) of BOFIA,

A DFI shall submit its audited financial statements which should be consistent with IFRS and the abridged version to the Director of Other Financial Institutions Supervision Department for consideration before publication.

A DFI shall, subject to a written letter of no objection by the CBN:

Publish its audited financial statements in a daily newspaper printed and circulating in Nigeria; and

Display its audited Financial Statements, which includes the Abridged Statement of Financial Position, Abridged Statement of Comprehensive Income and the Auditor's Report thereon, in a conspicuous position in each of its offices and branches in Nigeria.

Every published financial statements of a DFI shall disclose in detail, penalties paid as a result of contravention of the provisions of BOFIA, policies, circulars and guidelines in force during the financial year in question and the auditor's report shall reflect such contravention(s).

A copy of the newspaper in which the audited financial statement is published shall be forwarded to the Director, Other Financial Institutions Supervision Department, CBN.

The financial statements submitted for the CBN's consideration must be accompanied with the abridged version.

#### **7.4 Internal Audit Report**

The audited financial statements of a DFI shall include a statement on the effectiveness of the internal control signed off by the board of directors.

Every DFI shall include in its annual financial report an assessment of the adequacy of its risk management policies, procedures and practices. The assessment shall cover operational, market, liquidity, credit and any other significant risks a DFI is exposed to.

A DFI shall make a statement on the risks faced by the entity and the controls implemented to mitigate the identified risks as part of its directors' report.

## **8.0 Prudential Requirements**

### **8.1 Capital Adequacy Requirements**

8.1.1 A DFI shall commence operations with, and maintain at all times, a minimum paid-up capital as may be prescribed by the CBN.

8.1.2 A DFI shall maintain at all times a Capital Adequacy Ratio (CAR) of not less than 10 percent.

8.1.3 A DFI shall maintain at all times a minimum ratio of Tier I capital to total assets (Tier I leverage ratio) of 5 percent.

8.1.4 Tier I, includes only permanent shareholders' equity (issued and fully paid ordinary shares/common stock and perpetual non-cumulative preference shares) and disclosed reserves (created or increased by appropriations of retained earnings and eligible other surpluses).

In the case of consolidated accounts, this also includes minority interests in the equity of subsidiaries which are not wholly owned.

8.1.5 Tier II capital which comprises the DFI's qualifying loan capital shall NOT exceed 100% of Tier I capital.

8.1.6 All asset risk weights used for this computation shall be as prescribed by the CBN for licensed banks (Annexure II).

8.1.7 Capital requirements for off-balance sheet exposures shall be computed in accordance with the CBN procedures applicable to licensed banks.

### **8.2 Liquidity Requirements**

8.2.1 A DFI shall maintain at all times sufficient liquid assets to meet its maturing obligations in amounts that comply with a minimum liquidity ratio of 10% or as may be specified by the CBN.

8.2.2 A DFI shall adopt and implement sound and prudent liquidity management framework, which shall describe in detail its ALM Policy and be overseen by its Asset/Liability Management Committee.

8.2.3 DFI's liquidity management framework shall include:

Techniques that effectively identify, measure and manage its liquidity risk.

Periodic analyses of net funding requirements under alternative scenarios.

Contingency liquidity plan.

## **8.3 Credit Extension and Collateral Policy**

### **8.3.1 Credit Extension**

8.3.1.1 A minimum of 80 percent of a WDFI's credit portfolio shall be extended to eligible PFIs

8.3.1.2 A minimum of 80 percent of a RDFI's credit portfolio shall be extended to end users

8.3.1.3 A DFI shall only extend credit to PFIs that are in good standing and, at a minimum, meet the following eligibility requirements:

Hold a valid CBN licence.

Be compliant with all applicable laws and CBN regulations.

Demonstrate, within the three most recent financial years, two years of profitable lending operations, with effective risk management procedures, controls and acceptable levels of loan portfolio quality and performance, as prescribed in DFI's Credit Policy.

Be compliant with the minimum standards of financial consumer protection and sustainable banking principles.

Be compliant with all other eligibility standard as prescribed in DFI's Credit Policy.

8.3.1.4 A PFI shall be deemed **not** to be in good standing if that PFI: is under CBN's holding action, or receives a qualified audit opinion on its most recent audited financial statements, or is unprofitable for four consecutive quarters at any time following the start-up period which shall be three [3] years from the date of commencement of business, or fails to meet its capital adequacy requirements as at the most recent examination and the PFI fails to inject additional capital to meet the regulatory threshold, or is a borrower for which a DFI has received a written notice from the CBN expressing material concerns about the PFI's financial

condition or business operations resulting from its most recent supervisory inspection.

8.3.1.5 A DFI's credit extensions shall be as prescribed in its Credit Policy.

8.3.1.6 A DFI's credit extensions, except for products that expressly allow for the sharing of credit risk, shall be secured according to the DFI's Collateral Policies

8.3.1.7 A DFI's loans and guarantees shall be extended on clearly disclosed, non-preferential terms and conditions and at prices that reflect the DFI's costs and credit risks.

8.3.1.8 A DFI shall not extend credit facility to any one borrower or group of related entities which exceeds 20 percent of its shareholders' fund unimpaired y losses.

8.3.1.9 A DFI shall not extend credit facility to any one PFI or group of related entities which exceeds 50 percent of the value of that PFI's shareholder's fund unimpaired by losses as determined by the CBN.

8.3.1.10 Exposures to insiders shall be in line with the provisions of the prudential guidelines issued by the CBN from time to time.

### **8.3.2 Non-Performing Loans [NPL]**

8.3.2.1. The limit of the DFI's NPL shall be as prescribed in the prudential guidelines for banks in Nigeria.

### **8.3.3 Collateral Policy**

8.3.3.1 A DFI's Credit Policy shall clearly state the conditions under which credit extensions, guarantees or other products are to be secured by PFI collateral, the types and amounts of any qualifying collateral, and the discounts, if any, that are to be applied in computing their lending values.

8.3.3.2 A DFI's Credit Policy shall clearly state the conditions under which PFI-originated loans are to be collateralized to be eligible for DFI financing or refinancing, and the types and amounts of any such required collateral.

## **8.4 Management of Market Risk**

8.4.1 A DFI is required to match its long-term loans to borrowers with liabilities of similar characteristics and duration so as to maintain minimal risk exposure to

fluctuations in market interest rates after allowing for the effect of any hedging instruments held by the DFI.

8.4.2 A DFI shall employ appropriate risk management tools to assess and report to the CBN each quarter its market risk exposure.

## **8.5 Permissible Investments and Restrictions**

8.5.1 The following assets shall be permissible investments by DFI:

Debt obligations issued, insured, or guaranteed by the Federal Republic of Nigeria or any agency thereof.

- Demand deposits, term deposits, or certificates of deposit in licensed banks.
- Deposits and reserves held with the CBN.
- Other investments specifically permitted by the CBN.

8.5.2 At no time, except in the first two years of DFI's operation, shall permissible investments exceed 40 percent of DFI's total assets, unless otherwise stipulated by the CBN in considering the DFI's liquidity needs and its borrowers' demands for loanable funds.

8.5.3 At no time shall a DFI use financial derivatives except as hedging instruments.

## **8.6 Foreign Currency Borrowing**

8.6.1 The aggregate foreign currency borrowing of a DFI shall not exceed 75% of its shareholders' funds unimpaired by losses or as may be specified by the CBN from time to time.

8.6.2 DFIs shall borrow and lend in the same currency (natural hedging) to avoid currency mismatch associated with foreign currency risk.

8.6.3 The basis of the interest rate for borrowing shall be the same as that of lending i.e. there shall be no mismatch in floating and fixed interest rates, to mitigate basis risk associated with foreign borrowing interest rate risk.

8.6.4 With respect to Eurobonds, any clause of early redemption shall be at the instance of the issuer and approval obtained from the CBN in this regard, even if the bond does not qualify as tier 2 capital.

## **8.7 Other Known Losses (OKL)**

All assets for which the net realizable value has fallen below the historical cost shall have the difference in value recognized and charged to the income account as “other known losses”.

## **8.8 Maintenance of Statutory Reserves**

Every DFI shall maintain a reserve fund and shall out of its net profit after taxation and before any dividend is declared, transfer to the statutory reserves as follows:

- Where the reserve fund is less than the paid-up share capital, a minimum of 30.0 per cent of the net profits; or
- Where the reserve fund is equal to or in excess of the paid-up share capital, a minimum of 15.0 per cent of net profit;
- No transfer to the reserve fund shall be made until all identifiable losses have been made good.

A WDFI shall plough back all its profit after tax to reserve unless it has met the regulatory minimum capital of N100 billion or such other amount as the CBN may specify from time to time.

## **9.0 Appointment and Duties of External Auditors and other Regulatory Approvals**

### **9.1 Appointment and Duties of External Auditors**

Every DFI shall appoint an Audit Firm approved by the CBN.

No auditor shall serve continuously for a period of more than 10 years in a DFI. The same auditor shall not be re-engaged by the DFI until a period after 10 years from the date of last dis-engagement.

The duties of the approved auditor shall include the issuance of a report to the shareholders on the financial statements of a DFI and such report shall contain statements as to the matters and such other information that may be prescribed from time to time by CBN.

The report of the approved auditor shall be read together with the report of the directors at the Annual General Meeting (AGM) of the shareholders of a DFI.

The approved auditor shall be an auditor who satisfies the following requirements:

- I. Membership of a recognized professional accountancy body in Nigeria;
- II. Registered with the FRC;
- III. Resident in Nigeria;
- IV. Carrying on in Nigeria a professional practice as an accountant and/or auditor.

No firm shall be appointed as the auditor of the DFI if any of the partners: has any interest whatsoever, in the DFI is a director, officer or agent of the DFI or the firm is one in which a director of the DFI has an interest.

Any auditor who, after appointment, is subsequently affected by section 9.1 f[i-iii] shall immediately cease to continue as an auditor of the DFI.

If an approved auditor in the course of its duties as an auditor of a DFI is satisfied that:

- I. There has been a contravention of the BOFIA or that an offence under any other law, guidelines, circulars, etc. has been committed by the DFI or any of its officers; or
- II. Losses have been incurred by the DFI which substantially reduce its capital funds; or
- III. Any irregularity which jeopardizes the interest of creditors of the DFI or any other irregularity has occurred; or
- IV. It is unable to confirm that the claims of creditors are covered by the assets of the DFI.

The firm shall immediately report the matter to the CBN.

The approved auditor shall also forward to the CBN, a copy of his management letter on the activities of the DFI not later than three [3] months after the end of its financial year.

The approved auditor shall have the right of access at all times to all books, accounts and vouchers of the DFI and shall be entitled to require from the directors, managers and officers of the DFI all information and explanations that he considers necessary for the performance of the audit.



If the DFI fails to appoint or fill a vacancy for an auditor, the CBN shall appoint a suitable person for that position and shall fix the remuneration to be paid by the DFI to such auditor.

The appointment of an approved auditor shall not be determined without prior written approval of the CBN.

Any approved auditor who contravenes, omits, neglects or refuses to comply with the relevant provisions of this section shall be blacklisted by the CBN and may be reported to the appropriate regulatory authority.

## **9.2 Branch Expansion, Relocation and Closure**

a. No DFI shall open, relocate or close a branch without the prior written approval of the CBN.

b. An application for the opening of a new branch shall be accompanied with the following documents:

An extract of Board resolution in support of the proposed branch

A detailed feasibility report on the proposed branch showing the:

- Rationale for the proposed branch.
- Initial capital outlay for the proposed branch.
- Projected income and expenditures for a 3-year period.
- Organisational structure of the proposed branch.
- Staffing requirements.
- Assumptions for the financial projection in the report.

c. A DFI seeking approval for the opening of a new branch must have a track record of good financial performance, regularity in the rendition of returns, compliance with laws, rules and regulations.

d. An application for the closure of a branch shall be accompanied with the following:

- (i) An extract of the Board's resolution authorizing the closure.
- (ii) Reasons for the closure with relevant evidence.
- (iii) Arrangement put in place to cater for the customers of the affected branch.

### **9.3 Changes in the Ownership Structure**

Except with the prior written consent of the CBN, no DFI shall enter into an agreement or arrangement:

- which results in a change in the control or ownership of the DFI
- for sale, disposal or transfer of the whole or any part of the business of the DFI
- for the amalgamation or merger of the DFI with any other entity
- for the reconstruction of the DFI
- to employ a management agent or to transfer its business to any such agent.

## **10.0 ON-SITE EXAMINATION AND OFF-SITE SURVEILLANCE**

### **10.1 On-Site Examination**

10.1.1 The DFI shall be subject to the same procedures and protocols that the CBN uses in examining licensed banks.

10.1.2 The DFI shall make its books and records readily available for inspection and other supervisory purposes within a reasonable period of time upon request by the CBN.

### **10.2 Off-Site Surveillance**

10.2.1 Every DFI shall be subject to the CBN's off-site surveillance and shall make periodic reports in accordance with the forms, instructions and schedules specified by the CBN, including:

Periodic call reports, including statements of financial position, statement of comprehensive income and capital compliance and leverage.

Quarterly call reports, including statements of cash flow, capital, investments, outstanding loans and advances, liabilities and other commitments, and shareholders' stock holdings.

Annual audited financial statements produced in accordance with International Financial Reporting Standards (IFRS) and including the management letter and a statement on the effectiveness of internal controls signed by the Board of Directors.

Annual projections of its business plan, statements of financial position, comprehensive income and cash flow.

10.2.2 Every DFI shall submit its periodic reports as specified at the end of each reporting period.

10.2.3 Every DFI shall submit and publish its annual financial statements and financial projections not later than 4 months after the end of each accounting year.

## **11.0 ADMINISTRATIVE SANCTIONS AND ACTIONS**

11.1 Without prejudice to the other penalties and actions prescribed by the BOFIA, the CBN may impose one or more of the following sanctions where any of the provisions of these guidelines and other regulations are contravened:

- Monetary penalties on the DFI, its directors, officers or employees found responsible for non-compliance in such amounts as may be determined by the CBN.
- Prohibition from declaring or paying dividends.
- Suspension of access to the credit facilities of the CBN.
- Suspension of lending and investment operations, capital expenditure, and/or debt issuance.
- Suspension or removal from office of the offending director, officer or employee.
- Disqualification from holding any position or office in any licensed bank, DFI or other financial institution in the Federal Republic of Nigeria.
- Revocation of licence.
- The CBN may also issue a cease and desist order on the DFI, or on any director or officer, that the CBN believes is engaging in, has engaged in, or the CBN has probable cause to believe is about to engage in an unsafe and unsound practice in conducting the DFI's business, or in any conduct that violates any provision of these guidelines or any other applicable laws and CBN directives.

The attached are details of offences and their appropriate penalties, risk weight for assets, and questionnaire for major stakeholders, appointees to board and management positions (Annexures I, II & III).

## 12.0 ANNEXURES

### 12.1 Annexure I

#### PENALTIES FOR VARIOUS OFFENCES

S/N	OFFENCES	PENALTIES
1	Operating without a valid licence	Outright closure of the institution and prosecution of its promoters.
2	Engaging in activities outside the approved business.	A fine of N100,000 for each day of the default subject to a maximum of N2,000,000. In addition, the institution shall forfeit the estimated profit
3	Failure to obtain the approval of the CBN for the appointment of new Directors and senior management staff	A fine of N100,000 payable, by the institution, for each of the Directors or senior management staff so appointed. In addition, the appointee should cease to function in that position.
4	Late /non rendition of returns	A fine of N10,000 for each day of the default. Failure to render statutory quarterly returns for a continuous period of six (6) months or for a cumulative period of six (6) in a financial year shall constitute a ground for the revocation of licence.
5	Late submission of audited financial statements.	A fine of N10,000 for each day during which the offence continues.

6	<p>a.) Failure to convene a special meeting of the board of directors for the presentation of an Examination Report within four weeks.</p> <p>b.) Failure to convey the reaction of the directors to the CBN within two weeks.</p>	A fine of N200,000 for each week during which the offence continues.
7	Submission of false/Inaccurate information to regulators.	For the Institution, a fine of N2,000,000. For individuals, a minimum fine of N100,000 and any other sanction that may be prescribed.
8	Failure to publish annual accounts.	A fine of N500,000 each month for non-publication and thereafter publish in a newspaper.
9	Failure to disclose contraventions and penalties in the audited financial statements.	A fine of N2,000,000 for non-disclosure and thereafter publish again, disclosing the contraventions.
10	Failure to maintain proper books of accounts and records.	A fine of N100,000 for each director and N50,000 each for the officers involved
11	Failure to provide any information required by the CBN in the prescribed manner and as at when required.	<p>In the case of the institution, a fine not more than N500,000.</p> <p>In the case of individuals, a fine not more than N50,000 in addition to other disciplinary action deemed necessary by the CBN.</p>
12	Failure to report dismissed DFI staff on grounds of fraudulent acts to the CBN	A minimum fine of N100,000 payable by the institution.
13	Failure to report fraud and forgeries to CBN.	A fine of N500,000 payable by the institution.

14	(a) Opening or relocation of branch without the approval of the CBN. (b) Closing of branch without the approval of the CBN.	A fine of N500,000 for each branch and the closure of such branch. A fine of N500,000 for each branch and in addition the branch should be reopened.
15	Revaluation of fixed assets without CBN approval.	Reversal to the previous value and issuance of a warning letter.
16	Change in ownership, take over or amalgamation without CBN approval.	A fine of N2million and application for regularization.
17	Contravention of the single obligor limit as prescribed in section 8.3.1.8 without CBN approval.	A fine of not less than N500,000 for the institution and N100,000 together with a warning letter for the approving officer(s).
18	Change of name without the approval of the CBN.	A fine of N500,000 and an application for regularization.
19	Non-display of operating licence and the interest rate in a conspicuous location in the Head-Office/Branches, where applicable.	A fine of N100,000 and the immediate display of the licence/interest rate.
20	Failure to implement the recommendations contained in the examination report	A fine of N5,000 for each day of the default and a warning letter to management and board.
21	Change of External Auditors without the approval of the CBN.	A fine of N500,000 and a warning letter to the board. Application for regularization.
22	Failure to report director-related credits to the CBN.	A fine of N500,000 and in addition, the appropriate officer shall be sanctioned
23	Failure by directors to complete the code of conduct forms.	A warning letter to the directors and execution of the code of conduct form
24	Non-compliance with the code of conduct by directors	Warning letter to the director and execution of the code of conduct form. Repeated non-compliance after cautions will attract removal of the director from Office

25	Holding AGM/EGM without CBN approval	A fine of N2,000,000 and warning letter to the MD/CEO in addition to other administrative sanctions.
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## 12.2 Annexure II:

### RISK WEIGHTS FOR ASSETS

To compute its risk-based capital requirements, DFI's balance sheet assets and off-balance-sheet items shall be risk-weighted as shown below. Account definitions shall conform to International Financial Reporting Standard (IFRS). The value of the DFI's total risk-weighted assets shall be the summation of the products from multiplying the value of each asset, or group of assets, times its corresponding risk weighting factor.

Cash and Federal Government securities, including:

- Vault cash and balances at the Central Bank of Nigeria.
- All other obligations of the Federal Government of Nigeria and any agency thereof.
- Risk weighting for these assets shall be 0 per cent.

Other liquid assets and investments, including:

- Term deposits or certificates of deposit maturing in less than 12 months in commercial banks licensed by the Central Bank of Nigeria.
- Any other investments qualifying as liquid assets under BOFIA and any relevant CBN guidelines and circulars.
- Demand deposits in commercial banks licensed by the Central Bank of Nigeria.
- Risk weighting for these assets shall be 20 per cent.

Advances, purchased member mortgage assets and other defined investments:

- Advances.
- Purchased member mortgage assets.
- All other bank deposits maturing in five years or less.

- All other deposits or investments that qualify as liquid assets under BOFIA, CBN guidelines and circulars.
- Risk weighting for these assets shall be 50 per cent.

The risk weighting for all other assets and items shall be 100 per cent.

**12.3 Annexure III**

**CENTRAL BANK OF NIGERIA QUESTIONNAIRE FOR MAJOR SHAREHOLDERS AND APPOINTEES TO BOARD AND MANAGEMENT POSITION IN BANKS AND OTHER FINANCIAL INSTITUTIONS IN NIGERIA**

This questionnaire is designed to elicit information which would enable the CBN ascertain your propriety as a shareholder or member of the board/senior management in the institution. You are, therefore, required to answer every question that relates to you honestly and where applicable, provide evidence to support your answer. Please note that the CBN would periodically request you to attend a performance review interview.

**A. BIODATA**

Name of Institution .....

Name of the appointee/major shareholder .....

Any relationship with the institution .....

Current employment .....

Occupation .....

Date of Birth.....

Place of Birth .....

Nationality (foreigners).....

Entry/resident permit (foreigners).....

Parental history.....

.....

.....



**B. Competence and capability**

Give details of educational institutions attended, academic and professional qualifications obtained with dates, in a resume format.

Give in a resume format, your:

Employment history

Type(s) of business(es)

Title(s) and duties attached to it

Date(s) of employment

Name(s) of employer(s), date(s) and place(s) of the employment(s)

Reason for leaving, position attained and two referees from former employer(s).

**C. Honesty, integrity, and reputation**

Have you at any time been charged or convicted of any offence (civil/criminal) or otherwise found liable by a tribunal whether in Nigeria or elsewhere? If so, please, give details of the charge and if convicted, the date(s) of conviction(s), particulars of the offence and the penalty(ies) imposed.

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.....

Have you ever been required to give evidence in any trial or proceedings involving fraud, dishonesty or similar matters, whether in Nigeria or elsewhere other than as an expert witness? If yes, please give details.

.....  
.....  
.....

Has any suit ever been brought against you in your personal capacity or against anybody corporate, partnership, society or any other business undertaking to which you are connected as a shareholder, partner, director or manager? If yes, please give details of the circumstances and, if not pending, how it was resolved?

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.....  
.....

Have you ever been denied membership of any professional body or entry to any profession or vocation whether in Nigeria or elsewhere? If yes, please give details:

.....  
.....  
.....

Have you ever been dismissed, requested or advised to resign or suspended from any office or employment whether in Nigeria or elsewhere? If yes, please give details:

.....  
.....  
.....

Has there been any civil action in court or petition by any body against you to any regulator in pursuance of personal debts or other obligations whether in Nigeria or elsewhere? If yes, please give details:

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.....

Give the name(s) and address(es) of all your bankers, including the names and numbers of personal and business accounts maintained over the past six years:

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.....

Have you any immediate relative who holds a senior management position (AGM and above) or significant shares (5% and above) in the institution to which this questionnaire relates or with any entity affiliated to it? If so, please give details:

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.....  
.....

Has any loan or credit facility (or part thereof) extended to you by any financial institution/lending agency been restructured, renegotiated, provisioned against or been a subject of write-off or forgiveness for reasons of non-payment by you? If so, please, provide full details of the debts, the circumstances surrounding the action and the current status:

.....  
.....  
.....

Please list below and give details of all the societies, clubs, associations and groups (organized or unorganized) either in school or thereafter, which you are or have been a member:

.....  
.....  
.....

Have you ever been accused, convicted or been a subject of an investigation panel set up for the purpose of examination malpractice, unethical practices, money laundering or other moral misconduct? If yes, please, provide the details:

.....  
.....  
.....

Provide any other information (if any), that would be of relevance to the CBN in determining your suitability or otherwise, for the appointment/position:

.....

.....  
.....

**D. Financial soundness and /or solvency**

You are please required to:

Forward to the CBN, a statement of your networth comprising assets at current values and total liabilities as at the date of appointment, which must be accompanied by a sworn affidavit.

Forward to the CBN, your bankers' declaration that you are not in any way indebted to them. If you are, the outstanding amount of the debts should be stated clearly indicating the performance status of the debt (whether performing of non-performing) and if it is adequately secured or not as well as the nature and type of security(ies) offered.

Submit to the CBN a report from at least, two Credit Bureaus registered in Nigeria in respect of you.

Submit to the CBN, a copy of your tax clearance certificate for the last three years.

Forward to the CBN any other information that could assist it in determining your financial stability.

**E. Miscellaneous**

Is any member of your family in any relationship with the institution to which this questionnaire relates? If so, please state the nature of relationship.

.....  
.....  
.....

Are you a serving Non-Executive Director? If yes, when were you first appointed?

.....  
.....

.....

Please state the number of board meetings you have attended since your appointment in the following format:

Year	Number of meetings
.....	.....
.....	.....

What percentage of the financial institution's shares do you directly and/or indirectly own?

.....

Have you been employed by an audit firm that assigned you to work on this institution's financial statements during the last two years? If so, please state the name of the audit firm:

.....  
.....

Declaration by the appointee

I.....hereby declare that the answers to the above questions are true and that I am fully aware that any concealment, provision of false or misleading information aimed at influencing the approval of my appointment will constitute a breach of Section 60 of BOFIA, 1991, as amended.

I therefore, affirm that the information supplied above (including the attachment) are to the best of my knowledge, true and where any of it is discovered to be false, I shall be disqualified from the appointment being sought and subsequent appointments by any financial institution under the purview of the CBN.

Signature of Appointee/Significant Shareholder:

.....

Date .....

In the presence of (Managing Director of requesting institution):

.....  
.....  
.....

Date .....

**CENTRAL BANK OF NIGERIA ABUJA.**  
**FEBRUARY 2015.**

# CENTRAL BANK OF NIGERIA



CBN website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

Ref: OFI/DIR/GEN/CIR/01/010

8<sup>th</sup> October, 2014

## **CIRCULAR**

**TO ALL MANAGING DIRECTORS AND TOP MANAGEMENT STAFF OF MICROFINANCE BANKS (MFBs)**

### **GIS MAPPING OF NIGERIAN FINANCIAL INSTITUTIONS**

Please be informed that Brand Fusions Ltd, a research company, with funding from Bill & Melinda Gates Foundation, has been contracted to conduct an update on GIS mapping of all financial access points within Nigeria to map the location of financial services in relation to population density.

This is to enable them capture and document all financial access point and identify the financial landscape for the provision of financial services to the underserved population by financial institutions. The data capture exercise entails that staff of Brand Fusions would physically 'tag' the location of your microfinance bank.

To aid planning for the exercise, kindly forward details of your bank's Head Office address (and branches, if any) and Off-site ATM location(s) to Olayinka Peter; [opeter@cbn.gov.ng](mailto:opeter@cbn.gov.ng) or Sophia Abu; [soabu@cbn.gov.ng](mailto:soabu@cbn.gov.ng) both of the CBN's Development Finance Department, on or before Tuesday 14<sup>th</sup> October, 2014 for collation and analysis.

Furthermore, you are required to cooperate with the researcher from the company who would need to collect background information as well as take pictures at each location to enable them accomplish the task.

  
**AHMAD ABDULKAFI**

Director, Other Financial Institutions Supervision Department

# CENTRAL BANK OF NIGERIA

CBN website [www.cbm.gov.ng](http://www.cbm.gov.ng)

Ref: OFI/DIR/GEN/CIR/01/009

25th August, 2014

## CIRCULAR

*TO ALL CHAIRMEN, NON-EXECUTIVE DIRECTORS, MANAGING DIRECTORS, TOP MANAGEMENT STAFF, OPERATORS AND EXTERNAL AUDITORS OF PRIMARY MORTGAGE BANKS (PMBs)*

### **MAINTENANCE OF CASH RESERVE REQUIREMENTS (CRR) ON DEPOSITS**

As part of the Prudential Requirements, Section 5.1(a) of the Revised Guidelines for PMBs requires that all PMBs maintain a reserve account with the CBN, wherein 2% of their adjusted deposit liabilities would be warehoused as cash reserve requirement on monthly basis. Also recently, it was agreed that 75% CRR be deducted on all public sector deposits held by PMBs in line with MPC decision.

To operationalize the maintenance of the CRR, all licensed PMBs are hereby required to open current accounts with the CBN Office in the state where their registered offices are domiciled. A separate reserve (CRR) account would subsequently be opened and maintained by the CBN for respective PMBs in the CBN Head Office for the purpose of passing entries based on the monthly CRR computations.

In the interim, all PMBs are hereby required to provide their correspondence bank account details (name of the account, name of the correspondence bank, account number and sort code). This information should reach the Director, Other Financial Institutions Supervision Department, 4th Floor Wing A, CBN Corporate Office, Central Business District, Abuja, FCT on or before Monday September 8, 2014.

**AHMAD ABIYOLLAHI**  
Director, Other Financial Institutions Supervision Department





**CENTRAL BANK OF NIGERIA**

**REVISED GUIDELINES FOR FINANCE COMPANIES IN NIGERIA**

**APRIL 2014**

## Glossary of Terms

Acronym	Definition
ALM	Asset and Liability Management
BA	Banker's Acceptance
BOFIA	Banks and Other Financial Institutions Act
CAC	Corporate Affairs Commission
CBN	Central Bank of Nigeria
CEO	Chief Executive Officer
CP	Commercial Paper
CRAR	Capital to Risk Assets Ratio
CV	Curriculum Vitae
ELAN	Equipment Leasing Association of Nigeria
FC	Finance Company
FSI	Financial Services Industry
FHAN	Finance Houses Association of Nigeria
KYC	Know Your Customer
LPO	Local Purchase Order
MSME	Micro, Small and Medium Enterprises
NPL	Non-Performing Loans
OFISD	Other Financial Institutions Supervision Department
SHF	Shareholders' Funds
SME	Small and Medium Enterprises

## **1 Introduction**

The Finance Company sub-sector was envisioned to operate within the middle tier of the financial system, with a focus on the Micro, Small and Medium Enterprises (MSMEs) segment. The sub-sector was to play complementary roles to banks, bridging financing gaps and meeting the financial needs of its target customers. However, Finance Companies have not demonstrated the necessary capability to thrive in this space which has resulted in a largely underperforming sub-sector - a situation of concern to the Central Bank of Nigeria [hereinafter referred to as “the CBN” or “the Bank”] and other key industry stakeholders.

As part of the initiatives to establish financial stability within the Financial Services Industry and the Finance Company sub-sector in particular, the CBN undertook a review of the Guidelines for Finance Companies. These Revised Guidelines are issued by the CBN in exercise of the powers conferred on it by the Central Bank of

Nigeria Act of 2007 [hereinafter referred to as “the CBN Act”] and the Banks and Other Financial Institutions Act of 2004 [hereinafter referred to Act “the BOFIA”]. The Revised Guidelines are to regulate the establishment, operations and other activities of Finance Companies.

The Revised Guidelines replace the existing Guidelines for Finance Companies and should be read in conjunction with the provisions of the CBN Act, the BOFIA, as well as written directives, notices, circulars and guidelines that the CBN may issue from time to time.

## **2 Scope of Permissible Activities for Finance Companies**

A Finance Company unless otherwise stated, means a company licensed to carry on Finance Company business. Finance Company Business means the business of providing financial services to individual consumers and to industrial, commercial, or agricultural enterprises.

Operators of a Finance Company shall be permitted to perform, amongst others, the following activities:

Permissible Services	Description
<input type="checkbox"/> <b>Consumer Loans</b>	<input type="checkbox"/> This includes the provision of consumer and business loans to individuals and the Micro, Small and Medium Enterprises (MSMEs).
<input type="checkbox"/> <b>Funds Management</b>	<input type="checkbox"/> This entails the management of funds on behalf of customers/ clients based on agreed tenor and rate.
<input type="checkbox"/> <b>Asset Finance</b> Finance Lease Hire Purchase	Finance lease is a lease agreement with the option of purchase by the lessee at the end of the lease period.  Hire purchase involves the acquisition of goods through instalment payments over a given time frame.
<input type="checkbox"/> <b>Project Finance</b>	The financing of infrastructure/ industrial projects via a loan structure that relies primarily on the project's cash flow for repayment.  This covers the provision of finance for such projects promoted by small scale ventures, public/ private partnerships and concessions.
<input type="checkbox"/> <b>Local and International Trade Finance</b> LPO Finance Import and Export Finance	Local trade finance/ supply finance provides contractors and vendors with the financial support to execute local purchase orders (LPOs) and work orders for their client companies.  International trade finance is designed to facilitate the export and import of goods.
<input type="checkbox"/> <b>Debt Factoring</b>	<input type="checkbox"/> The business of purchasing debts/ receivables from clients at a discount and making a profit from their collection.

Permissible Services	Description
<input type="checkbox"/> <b>Debt Securitization</b>	<input type="checkbox"/> A process by which identified pools of contractual debt/ receivables are transformed into marketable securities e.g. bonds through suitable repackaging of cash-flows that they generate.
<input type="checkbox"/> <b>Debt Administration</b>	<input type="checkbox"/> Provision of debt/ loan restructuring services to clients facing cash flow problems. This involves the alteration of the terms of the debt agreement to restore liquidity to the client's business.
<input type="checkbox"/> <b>Financial Consultancy</b>	<input type="checkbox"/> Financial consultancy involves offering financial advisory services to clients for a fee and/or commission.
<input type="checkbox"/> <b>Loan Syndication</b>	<input type="checkbox"/> A practice in which a Finance Company in conjunction with other finance companies and/or other financial institutions each lend a specified amount of money to a borrower at the same time and for the same purpose. The entities participating in the loan syndication cooperate with each other for the duration of the project, as individual FCs may not be able to afford the huge funds involved.
<input type="checkbox"/> <b>Warehouse Receipt Finance</b>	<input type="checkbox"/> This involves a guarantee that a seller will deliver specified quantity and quality of a commodity to a certain warehouse for storage.
<input type="checkbox"/> <b>Covered Bonds</b>	<input type="checkbox"/> Covered Bonds are similar in many ways to asset-backed securities created in securitization, but covered bond assets remain on the issuer's consolidated balance sheet.
<input type="checkbox"/> <b>Issuing of vouchers, coupons, cards and token stamps</b>	<input type="checkbox"/> This covers services related to payments system.

The scope of services for Finance Companies will include these and other businesses as the CBN may, from time to time, designate.

### **Non-Permissible Activities**

Finance Companies shall not be permitted to carry out the following business activities:

- i. Deposit Taking;
- ii. Non-financial activities such as trading, construction and project management;
- iii. Other financial services such as stock broking, issuing house business, registrars services, e.t.c;
- iv. Foreign Exchange transactions except through their correspondent banks/ authorised dealers
- v. Every company desiring to be licensed as a Finance Company shall be on a "stand alone" basis and thus be strictly limited to solely engaging in Finance Company business as defined above.

### **2.1 Regulation of Leasing Business in Nigeria**

A leasing company is defined as any company or financial institution carrying on, as its principal business, the financing of physical assets supporting productive/ economic activity.

"Leasing" means the business of letting or sub- letting movable property on hire for the purpose of the use of such property by the hirer or any other person in any business whatsoever and where the lessor is the owner of the property regardless of whether the letting is with or without an option to purchase the property (Banks and Other Financial Institutions Act of 2004).

Finance lease is a lease involving rental payment over an obligatory period sufficient in total to amortise the capital outlay of the equipment and also give the lessor some benefits. The lessee also has the option of purchasing the leased equipment at the expiration of the lease agreement.

CBN shall regulate the operations of Finance Companies that render finance and operating lease services to their clients in as much as the finance lease operations

could be separated from the operating lease engagement but CBN will not regulate the operations of financial or corporate institutions which render only operating lease services.

Leasing companies outside the financial system that engage in finance lease shall be expected to apply for Finance Company licence and be subjected to the prudential/ regulatory requirements for Finance Companies as defined by the CBN.

A Leasing Company with a valid Finance Company licence shall not be precluded from offering other permissible services defined under the scope of operations for Finance Companies.

Self Regulatory Organisations such as the Finance Houses Association of Nigeria (FHAN) and the Equipment Leasing Association of Nigeria (ELAN) shall collaborate with the CBN to identify companies to be licensed and supervise

### **3 Licensing Requirements**

#### **3.1 Requirements for the grant of licence**

Any company seeking a licence for a Finance Company business in Nigeria shall apply in writing to the Governor of the Central Bank of Nigeria. Such application shall be accompanied by the following:

A non-refundable application fee of N100,000 (One hundred thousand naira only) in bank draft, payable to the Central Bank of Nigeria.

Deposit of the minimum capital of N100 million (One hundred million naira only) in bank draft made payable to the Central Bank of Nigeria. The capital thus deposited together with the accrued interest will be released to the promoters on the grant of the final licence.

Satisfactory, verifiable and acceptable evidence of payment by the proposed shareholders of the minimum capital of N100 million.

Detailed business plan or feasibility study, including:

The objectives and aims of the proposed Finance Company.

The need for the services of the Finance Company.

The special services that the Finance Company intends to provide.

A five-year financial projection for the operation of the Finance Company, indicating its expected growth and profitability.

The branch expansion programme [if any] within the first five (5) years.

The proposed training programme for staff and management succession.

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

The organizational structure of the Finance Company, setting out in detail, the functions and responsibilities of the top management team.

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

A copy of the draft Memorandum and Articles of Association. The objectives of the Company as disclosed in its Memorandum and Articles of Association should agree with the services listed under the scope of permissible operations for Finance Companies.

A letter of intent to subscribe to the Finance Company, signed by each subscriber.

A copy of the list of proposed shareholders in tabular form, showing their business and residential addresses [not post office addresses] and the names and addresses of their bankers.

Names and curriculum vitae (CV) of each of the proposed members of the Board of directors including other directorships held. The CVs must be personally signed and dated. The promoters would also be required to submit the names and curriculum vitae of the proposed management team.

Thereafter, the Governor of the CBN may grant a licence to a Finance Company. The Bank may at any time vary or revoke any condition of a licence or impose additional conditions.

Where a licence is granted subject to additional conditions, the Finance Company shall comply with those conditions to the satisfaction of the CBN within such period as the CBN may deem appropriate in the circumstances. Any Finance Company that fails to comply with such conditions shall be guilty of an offence under BOFIA, 1991 [as amended].

No proposed Finance Company shall incorporate/register its name with the Corporate Affairs Commission until a written approval has been communicated to



the promoters by the CBN, a copy of which shall be presented to the Corporate Affairs Commission.

Licences shall be renewed within the first quarter of each year at a nonrefundable fee to be stipulated by the Bank from time to time, subject to the operations of the Finance Company being satisfactory to the Bank. Failure to renew a licence would attract severe sanctions, including revocation.

### **3.2 Other financial requirements**

The other financial requirements, which may be varied whenever the Central Bank of Nigeria considers them necessary, are as follows:

Non-refundable Licensing fee	-	N250,000
Non-refundable Annual Licensing Renewal fee	-	N20,000
(Payable within the first quarter of each calendar year)		
Change of Name fee	-	N20,000

### **3.3 Conditions Precedent to the Commencement of Operations**

The promoters of a Finance Company shall submit the following documents to the Central Bank of Nigeria before such Finance Company is permitted to commence operations:

- i. A copy of the shareholders' register in which the equity interest of each shareholder is properly reflected [together with the original for sighting].
- ii. A copy of the share certificate issued to each shareholder.
- iii. A certified true copy of Form C02 [Return of Allotments] filed with the Corporate Affairs Commission.
- iv. A certified true copy of Form C07 [Particulars of Directors], and written confirmation that the Board of Directors approved by the Central Bank of Nigeria has been installed.
- v. A certified true copy of the Memorandum and Articles of Association filed with the Corporate Affairs Commission.
- vi. The opening statement of affairs audited by an approved firm of accountants practising in Nigeria.

- vii. A certified true copy of the certificate of incorporation of the company [together with the original for sighting purposes only].
- viii. A copy each of the letters of offer and acceptance of employment by management staff and a written confirmation that the Management team approved by the Central Bank of Nigeria has been put in place.
- ix. A letter of undertaking to comply with all the rules and regulations guiding the operations of Finance Companies.
- x. Evidence of registration with the Finance Company's association umbrella body.
- xi. The Finance Company shall inform the Central Bank of Nigeria of the location and address of its Head Office.
- xii. The Finance Company shall be informed in writing by the Central Bank of Nigeria that it may commence business after physical inspection of its premises.
- xiii. The Finance Company shall inform the Central Bank of Nigeria in writing of the date of commencement of business

#### **4 Sources of Funds**

The sources of funds of a Finance Company shall consist of the following:

- i. Shareholders' Funds
- ii. Borrowings:
  - Borrowings from members of the public
  - Inter-corporate borrowings
  - Borrowings from banks and other financial institutions
- iii. Securities Commercial papers Debentures / investment notes
- iv. SME Funds:
  - Finance Companies can access SME funds subject to compliance with minimum prudential norms, as defined by the CBN
  - Finance Companies may assist clients access SME funds through vehicles such as the SME Credit Guarantee Scheme, MSME

Development Fund and the Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) funds (for clients in the Agric value-chain business)

- In addition to the specific requirements defined for the SME funds, these funds may only be accessed for asset finance, working capital and export finance transactions

v. Foreign funding arrangements:

- o FCs shall be allowed to raise funds from foreign investors or parties subject to CBN approval

## **5 Rendition of Returns**

### **5.1 Periodic Returns (Quarterly)**

In compliance with the provisions of section 58[2]b of BOFIA 25, 1991 [as amended] the following quarterly returns are to be submitted by every Finance Company:

- i. Statement of Financial Position
- ii. Schedule of Other Assets
- iii. Schedule of Other Liabilities
- iv. Statement of Profit or Loss
- v. Schedule of Investments
- vi. Schedule of balances held with banks
- vii. Returns on Borrowings from other Finance Companies
- viii. Returns on Borrowings from other financial institutions
- ix. Returns on Borrowings from individuals and non-financial institutions
- x. Returns on credits to other Finance Companies
- xi. Returns on credits to other financial institutions
- xii. Returns on credits to individuals/non-financial institutions

- xiii. Returns on other credits
- xiv. Returns on credits to affiliates
- xv. Returns on non-performing credits
- xvi. Returns on off-balance sheet engagements
- xvii. Returns on non-performing other assets
- xviii. Returns on credits, off-balance sheet engagements, assets and liabilities along the defined scope of services
- xix. Other returns as may be specified by the Central Bank of Nigeria

All quarterly returns must reach the Director of Other Financial Institutions Supervision Department (OFISD) not later than the 14th day of the month immediately following the end of the quarter. The Managing Director/Chief Executive Officer and the Chief Accountant [or its equivalent] of the Finance Company shall sign and attach to every return made to the Central Bank of Nigeria a declaration of authenticity of its contents.

## **5.2 Submission and publication of Audited Financial Statements**

Every Finance Company shall submit its audited financial statements and the abridged version of the accounts to the Director of Other Financial Institutions Supervision Department for approval not later than four (4) months after the end of the company's financial year.

The Report on the Accounts from the External Auditors should be forwarded to the Director, Other Financial Institutions Supervision Department (OFISD) not later than three months after the end of the accounting year. After approval, the Finance Company shall publish the accounts in at least one national daily newspaper. Every published account shall disclose in detail the penalties paid as a result of the contravention of BOFIA 25, 1991 [as amended] and any policy guidelines in force during the year in question and the auditor's report shall reflect such contraventions.

Any company that fails to comply with any of the above requirements will be liable to a fine of N5,000 per day.

### **5.3 Penalties for late or false/ inaccurate returns or other information**

For lateness in submitting a return/furnishing any information required, the penalty, shall be a fine of N5,000 for each day during which such failure occurs. Persistent failure/refusal to render returns in the prescribed form may be a ground for the revocation of a Finance Company's licence.

Where the Bank considers it necessary, it may appoint a firm of qualified accountants to prepare proper books of account or render accurate returns, as the case may be, for the Finance Company concerned and the cost of preparing the account or rendering the returns shall be borne by the Finance Company.

If any Director or Officer of a Finance Company fails to take all reasonable steps to ensure that proper books of accounts are kept with respect to all transactions by the company at its Head Office and/or at its branches, the Central Bank of Nigeria may impose on him a fine not exceeding N20,000. If any default in this respect is caused by the wilful act of any Director or Officer of the Finance Company, the Central Bank of Nigeria may impose on him a fine not exceeding N100,000 or cause the removal of such Director or Officer in order to protect the integrity of the financial system. In addition, the Bank may impose on the Finance Company such other penalties as are deemed appropriate.

## **6 0 Prudential Requirements**

### **6.1 Capital Funds Adequacy**

The minimum Capital/Risk Weighted Assets Ratio for each Finance Company shall be 12.5%. Furthermore, a Finance Company is expected to maintain a ratio of not more than 1:10 between its capital funds and net credits. When the above ratio falls below the prescribed level, the Finance Company may not do any or all of the following until the required ratio is restored:

- i. Grant credits and make investment.
- ii. Pay dividend to shareholders.
- iii. Borrow from the investing public.

In addition, the Finance Company may be required to submit within a specified period, a recapitalization plan acceptable to the Central Bank of Nigeria. Failure

to comply with the above may constitute a ground for the revocation of the licence of the Finance Company or such other penalties as may be deemed appropriate.

Finance Companies are enjoined to ensure that their shareholders' funds do not fall below the required minimum paid-up capital.

## **6.2 Maintenance of capital funds**

Transfer to Statutory Reserve from profit after tax shall be at a minimum of 15% until the Reserve Fund equals the Paid-up Capital and a minimum of 10% thereafter. The Central Bank of Nigeria may vary from time to time the proportion of net profit transferable to Statutory Reserves. No accretion shall be made to the reserve fund until:

- i. All preliminary and pre-operational expenses have been written off;
- ii. Adequate provision has been made for loan loss/assets deterioration;
- iii. All identifiable losses have been fully provided for.

## **6.3 Payment of dividend**

No dividend shall be paid until after:

- i. All accumulated losses have been fully absorbed and written off.
- ii. All preliminary and pre-operational expenses have been written off.
- iii. Capital Adequacy ratio has been met.
- iv. All matured obligations have been met.

## **6.4 Limit of lending to a single borrower**

The maximum loan by a Finance Company to any person or corporate organization or maximum investment in any venture by a Finance Company shall be 20% of the Finance Company's shareholders' funds unimpaired by losses.

Any contravention will attract a penalty of N100,000 on the Finance Company and a fine of N10,000 on the directors/managers who failed to comply.

## **6.5 Borrowing limits**

The minimum amount which a Finance Company can borrow from any one person, is N50,000, and shall be N2,000,000 for corporate borrowings (subject to a maximum limit for all outstanding borrowings which should not be more than 10

times the shareholders' funds unimpaired by losses). For contravention of this requirement, the Governor may impose relevant penalties on the Finance Company.

#### **6.6 Provision for classified assets**

Each Finance Company shall review at least once every quarter its loans and advances and other investments and make appropriate provisions for loan losses or assets deterioration in accordance with the Central Bank of Nigeria Prudential Guidelines for Licensed Banks. Every Finance Company must send to the Other Financial Institutions Supervision Department every quarter a schedule of loans/investments showing the provisions made for losses or deterioration in the quality of the loans/investments.

#### **6.7 Ratio of non-performing loans to total gross loans**

The maximum ratio of non-performing loans to total gross loans for Finance Companies shall not at any point in time exceed 10%. This ratio may be reviewed by the CBN from time to time.

#### **6.8 Contingent items**

The concept, use and treatment of Bankers Acceptances [BAs] and Commercial Papers [CPs] as specified in Circular BSD/PA/4/97 dated 12/8/97 to banks and discount houses shall apply to Finance Companies.

#### **6.9 Limit of investment in fixed assets**

The maximum amount which a Finance Company can invest in fixed assets is 20% of its shareholders' funds unimpaired by losses. In the same vein, the financial assets of a Finance Company shall not be less than 75% of total assets. Also, at least 75% of income shall come from the principal activities of a Finance Company. Any contravention, will attract a penalty not exceeding N200,000 or suspension of any licence issued.

#### **6.10 Revaluation of fixed assets**

Prior approval of the Central Bank of Nigeria must be obtained by any Finance Company before the recognition of the revaluation surplus on fixed assets in its books, taking into consideration the following:

The basis of the underlying fixed assets valuations must be stated, and the valuation made by qualified professional valuers whose identity and qualifications are stated.

The difference between the market and the historic values of the eligible fixed assets being revalued is to be discounted by 55%; iii. Revaluation of fixed assets is applicable only to assets. [own premises only].

iv. The revaluation of Fixed Assets (owned premises only) is permissible within a minimum period of 5 years after the date of the purchase of the asset or the last revaluation.

### **6.11 Requirements for increase in share capital**

All increases in share capital in any form must be approved by the Central Bank of Nigeria. Application in respect of this must be supported by the following:

Evidence of payment of stamp duty.

Board Resolution authorizing the increase.

Corporate Affairs Commission [CAC] registration of the increase. iv. Form C02 showing the additional capital.

Share certificate issued to shareholders.

Photocopy of share register showing the entries of allotment.

Evidence of payment for the new allotment of shares by the shareholders [photocopies of cheques lodged should be attached]. No cash payment is allowed.

Statements of accounts from banks reflecting the cheque lodged and cleared.

Vouchers showing evidence of internal transfer or payment for the right issues allotted.

Letters to shareholders conveying allotment of shares.

Any other information that may be required or stipulated by the Central Bank of Nigeria.



## **7 Risk Management**

### **7.1 Enterprise Risk Management**

All Finance Companies shall be required to develop an Enterprise Risk Management Framework which will serve as a guide in the identification of risks and articulation of control measures to mitigate/ eliminate the risks identified. The Enterprise Risk Management Framework should be approved by the Board of Directors and should cover the different forms of risks to which a Finance Company may be exposed.

Such risks include:

- i. Credit Risk;
- ii. Operational Risk;
- iii. Market Risk; and
- iv. Compliance Risk.

A credit administration manual shall be developed as part of the Enterprise Risk Management Framework to guide the assessment and processing of loan requests. The policy should, inter alia cover loan administration, disbursement and appropriate monitoring mechanisms. The credit administration policies should be reviewed at least every three years.

### **7.2 Internal Controls**

Every Finance Company shall have an Internal Audit Unit which shall ensure that the operations of the company conform with the law as well as to its internal rules and regulations. Every fraud or attempted fraud must be promptly reported to the Director, Other Financial Institutions Supervision Department. Also a quarterly report on Frauds and Forgeries affecting the company and any default in meeting any obligation to lenders or investors shall be submitted to the Director, Other Financial Institutions Supervision Department. Where no frauds/ forgeries and defaults occurred during the quarter, a Nil return shall be forwarded. The report shall be made along with the quarterly returns on assets and liabilities. Failure to comply with this requirement will attract a fine of N25,000 per quarter.

### **7.2.1 Appointment of Auditor**

Every Finance Company shall appoint an auditor to be approved by the Bank whose duties shall be to make to the shareholders a report on the annual financial statements of the company and every such report shall contain true and fair statements as to the matters and such other information as may be prescribed from time to time by the Central Bank of Nigeria.

### **7.3 Basic Information on Borrowers**

Finance Companies shall take reasonable steps to verify the customers' financial situation and verify that their customers maintain sound financial practices:

Finance Companies may request for the customer's statement of accounts and any other information to ascertain the customers' financial position.

Finance Companies shall consult at least two (2) licensed credit bureaux to obtain credit information on borrowers.

Finance Companies shall maintain a database of their customers and generate quarterly risk management reports to be submitted to the CBN

### **7.4 Disclosure of interest by Directors and Officers of Finance Companies**

Every Director and officer of a Finance Company, who has any personal interest, whether directly or indirectly, in an advance, loan or credit facility or proposed advance, loan or credit facility from the Finance Company in which he is serving, shall promptly declare the nature of his interest to the Board of Directors of the Finance Company and the declaration shall be circulated to all the directors.

Every Director or officer of a Finance Company who holds any office or possesses any property whereby, whether directly or indirectly, duties or interests might be created in conflict with his duties or interest as a Director or Officer of the Finance Company, shall declare at a meeting of the Board of Directors of the Finance Company, the fact and the nature, character and extent of such interests. Any Director or Officer who contravenes either of these regulations shall be liable to a fine of N100,000 or removal from office.

## **8 Supervision and Compliance**

The CBN shall conduct periodic on-site and off-site supervision of Finance Companies:

On-site supervision: Finance Companies shall be inspected comprehensively on an annual basis. Risk and compliance based supervision will be adopted in the examination of Finance Companies.

Off-site supervision: Quarterly computerized off-site surveillance through the review of statutory returns filed by Finance Companies.

Failure of any Finance Company to submit statutory returns after six (6) months shall lead to a revocation of its license.

## **9 Corporate Governance**

### **9.1 Compliance with the provisions of the Code of Corporate Governance and the Approved Persons Regime**

Finance Companies must demonstrate compliance with the CBN Code of Corporate Governance and show evidence of a competent, independent, unimpaired and uncompromised Board as stipulated in:

The CBN Prudential Guidelines for Licensed Banks (2010) – Section 4 (Corporate Governance); and The CBN Circular on Approved Persons' Regime for Financial Institutions (2011).

Finance Companies shall be required to disclose the following information on its public website, in its annual and periodic reports, and in returns to the CBN:

Process for ensuring the integrity of its financial and non-financial reports.

Policy for handling related-party transactions.

- Process for nominating board members and key executives.
- Capacity building/ trainings conducted for Directors.

Policy for ensuring that the audit committee possesses skills and expert knowledge in modern financial reporting, accounting and auditing.

Policy on potential conflicts of interest.

Policy on internal lending to officers, employees directors or controlling shareholders.

The Chairman and the Chief Executive Officer shall attest to the corporate governance report on behalf of the board.

## **9.2 Structure of the Board of Directors of Finance Companies**

The structure of the Board of Directors of Finance Companies shall be as follows:

- i The Board shall have a minimum of five and maximum of nine directors, with more than fifty percent of the board of directors comprising of non-executive directors.
- ii The Board shall have a minimum of one (1) and a maximum of two (2) independent directors.
- iii The maximum tenure of two terms of four (4) years each for independent directors.
- iv The tenure of the CEO and directors of Finance Companies shall be limited to a maximum of two (2) terms of five (5) years each. However, the CBN recognises the need for proper transition and shall define proper transition guidelines and timelines for implementation.
- v The Board shall lay down a code of conduct for all Board members and senior management staff.
- vi All Board members and senior management personnel shall affirm compliance with the code on an annual basis.
- vii To qualify for the position of a director in a Finance Company, it is required that the person(s) must not be current employees or directors of banks or other financial institutions, except the Finance Company is promoted by the banks or other financial institutions and are representing the interest of such institutions.

viii However, in circumstances where current directors or employees of banks or other financial institutions are proposed for the position of director, the consent of their employers must be given in writing to the CBN.

ix The appointment of new directors must be preceded by CBN's approval.

### **9.3 Management requirements**

The following minimum qualifications and experience are mandatory for officers who may occupy the top management positions in the Finance Company:

Managing Director/Chief Executive:

- i A minimum of first degree or its equivalent in any discipline (additional qualification in any business related discipline may be an advantage); and
- ii A minimum of 8 years post-qualification experience out of which, at least, 5 must have been in the financial services industry and at least, 3 at the senior management level.

Departmental Head:

- i A minimum of first degree or its equivalent in any discipline (additional qualification in any business related discipline may be an advantage); and
- ii A minimum of 5 years post-qualification experience out of which, at least, 4 must have been in the financial services industry and at least, 2 at the senior management level.

Support staff - shall be qualified and be of proven ability.

A person with any other qualifications or experience that may be considered adequate by the Central Bank of Nigeria can hold any of positions [i], [ii] and [iii] above within the organization.

### **9.4 Appointment or replacement of Principal Officers**

The appointment or replacement of the Chief Executive Officer or any of the Principal Officers of any Finance Company must be cleared with the Central Bank of Nigeria before such appointments are made. Where the turnover of principal and senior officers is considered to be unduly high or where the reason

for leaving by an officer suggests an attempt to cover up a fraud or other illegal activity, or punish the officer for attempting to prevent illegal activities, the Central Bank of Nigeria shall cause an investigation to be conducted into the matter and other affairs of the Finance Company as may be considered necessary. The report of such investigation or special examination shall determine the penalty to be imposed on the Finance Company concerned.

## **10 Other Regulatory Requirements**

### **10.1 Opening/ closing of branches of Finance Companies**

Prior approval of the Central Bank of Nigeria is required for the opening and closing of branches. If in contravention, the Finance Company shall be made to pay a fine not exceeding N200,000 and the closing/reopening of the branch as the case may be and in addition, a fine of N10,000 for each day during which the offence continues.

### **10.2 Restructuring and Reorganization of Finance Companies**

Except with the prior consent of the Governor, no Finance Company shall enter into an agreement or arrangement:

- i. which results in a change in the control of the Finance Company;
- ii. for the sale, disposal or transfer of the whole or any part of the business of the Finance Company;
- iii. for the amalgamation or merger of the Finance Company with any other company. for the reconstruction of the Finance Company; to employ a management agent or to transfer its business to any such agent.

### **10.3 Schemes of Arrangement**

No Finance Company shall enter into any "Scheme of Arrangement" with its creditors/ investors without obtaining the prior approval of the Central Bank of Nigeria. Any Finance Company that is unable to meet its obligations to its creditors or investors must submit its proposals to restore liquidity or viability and for eventual settlement of its outstanding obligations to the Director, Other Financial Institutions Supervision Department for consideration and approval. Failure to comply with this will attract a penalty of N2,500 for each day during which the contravention exists.

#### **10.4 Display of Licence**

A copy of a Finance Company's licence shall be displayed in a conspicuous position at its Head Office as well as in the branches. In contravention, the Finance Company shall be penalized in line with Section 60[i] of BOFIA as amended.

#### **10.5 Display of Interest Rates**

Every Finance Company shall display on a daily basis in a conspicuous place at its Head Office and branches, its rates of interest. Interest rates shall be quoted on a monthly basis.

#### **10.6 Conditions for revocation of Licence**

The grounds for revoking a licence granted to a Finance Company may be any or all of the following:

- i) Submission of false information/data during and/or after the processing of the application for licence.
- ii) Engaging in functions/ activities outside the scope of its licence as specified in Section 1 of these Revised Guidelines.
- iii) Persistent failure to comply with request for information/data in the form required/ specified by Central Bank of Nigeria.
- iv). Engaging in activities prejudicial to the Nigerian economy.
- v) Failure to redeem matured obligations to customers.
- vi) Unauthorized shop closure.
- vii) Failure to comply with any directive issued by Central Bank of Nigeria.
- viii) Failure to renew operating licence within the stipulated period.
- ix. Any other act[s] which in the opinion of Central Bank of Nigeria constitute[s] a violation or a serious default.

## **10.7 Know Your Customer (KYC) and Anti-Money Laundering Measures**

All Finance Companies shall be required to comply with the principles and procedures of “Know Your Customer” and other relevant circulars and guidelines as issued by the CBN. Finance Companies shall also be required to comply with the Anti-money Laundering and Counter-Financing of Terrorism Act and relevant circulars as issued by the CBN.

Finance Companies shall define KYC policies incorporating the following key elements of:

- i. Customer Acceptance Policy
- ii. Customer Identification Procedures
- iii. Risk profiling and transaction monitoring data
- iv. Finance Companies shall submit KYC returns to the CBN on a quarterly basis.

## **10.8 Other prohibitions**

In addition to other non-permissible activities, no Finance Company shall:

- i. Give any credit facility or enter into any other transaction against the security of its own shares or the shares of its holding company;
- ii. Pay any dividend on its shares without Central Bank of Nigeria's prior approval in writing;
- iii. Engage in any business other than those for which it was licensed;
- iv. Remit either in whole or in part the debts owed to it by its directors/officers or waive interest thereon without the prior approval of the Central Bank of Nigeria, in writing.

## **10.9 Competition, Consumer Protection and Operational Rules**

Finance Companies shall be required to have a Code of ethical conduct, which shall:

- i. Establish standards for the appropriate treatment of customers to promote transparent pricing;



- ii. Establish guidelines for ethical staff behaviour, mechanisms for redress of grievances and measures to ensure the privacy of client data; and
- iii. To ensure the protection of customers, aggrieved parties shall complain to the Consumer and Financial Protection Department of the CBN for adequate issues handling/ resolution.

## **11 Industry Support Initiatives**

### **11.1 Access to SME Funds**

- i. Finance Companies shall be permitted to participate in accessing and disbursing funds to SMEs via the relevant vehicles/ intervention funds set up by the CBN, Government or other relevant bodies/ agencies e.g. SME Credit Guarantee Scheme, MSME Development Fund, and the Nigerian IncentiveBased Risk Sharing System for Agricultural Lending (NIRSAL) funds e.t.c.
- ii. To help SMEs access these intervention funds, Finance Companies need to build capacity to assist SMEs through financial consultancy to enable the customers meet the required criteria set by the managing agent(s) for such funds.
- v. Finance Companies shall serve as intermediaries to the fund and may assist with monitoring and collection.

### **11.2 Capacity Building Programmes**

- I. The CBN shall continue to provide support towards capacity building in the Finance Company sub-sector.
- II. A report shall be prepared and submitted to the CBN on an annual basis, detailing the utilisation of funds provided by the CBN to support capacity building within the Finance Company sub-sector.
- III. Finance Companies shall have annual budgets for staff capacity building as part of their yearly budgets.
- IV. Implementation of the capacity building budget shall be monitored by the CBN on a periodic basis.

## 12 Transitional Provisions

The deadline for compliance with the provisions of the Revised Guidelines shall be 30<sup>th</sup> September 2015. The list of valid licences shall be published by the Central Bank of Nigeria from time to time.

### **PENALTIES FOR VARIOUS OFFENCES**

S/N	OFFENCES	PENALTIES
1	Operating without a valid licence	Outright closure of the institution and prosecution of the individuals behind the institution.
2	Engaging in activities outside the approved business.	A fine of N10,000 for each day of the default with a maximum of N1 million .In addition , the institution should forfeit the estimated profit
3	Failure to attain the prescribed minimum paid-up share capital within the time allowed	Revocation of licence
4	Failure to obtain the approval of the CBN for the appointment of new Directors and top management staff	A fine of N20,000 payable, by the institution, for each of the Directors or top management staff so appointed. In addition, the appointee should cease to function in that position.
5	Late rendition of prudential returns	A fine of N5,000 for each day of the default
6	Late submission of audited annual accounts	A fine of N5,000 for each day during which default occurs
7	Non-submission of audited annual accounts to CBN after 12 months of end year	A fine of N1,500,000 for the accounting year concerned.
8	Submission of false/ Inaccurate information to the CBN/NDIC	For the Institution, a fine of N500,000. For individuals, a fine not exceeding N100,000. All the Officers involved should be

		sanctioned
9	Non-remittance of regulatory returns for more than 6 quarters consecutively	Revocation of licence.
10	Failure to publish annual accounts.	A fine of N100,000 for non publication and thereafter published in a newspaper
11	Failure to disclose contraventions and penalties in the audited annual accounts	A fine of N100,000 for non-disclosure and thereafter publish in a newspaper disclosing the contraventions
12	Failure to maintain proper books of accounts and records.	A fine of N50,000 for each Director and N20,000 each for the officers involved
13	Failure to provide any information required by the CBN in the prescribed manner	In the case of the institution, a fine not more than N100,000. In the case of individuals, a fine not more than N50,000 in addition to other disciplinary action deemed necessary by the CBN
14	Failure to report dismissed staff to the CBN/NDIC	A fine of N25,000 payable by the institution.
15	Failure to report fraud and forgeries to CBN/NDIC.	A fine of N100,000 payable by the institution.
16	(a) Opening of branch without the approval of the CBN. (b) Closing of branch without the approval of the CBN.	A fine of N 200,000 and the closure of such branch A fine of N200,000 and in addition the branch should be re-opened
17	Investment of more than 20% of shareholders' fund in fixed assets	A fine not exceeding N200,000 in addition to an immediate injection of funds by the shareholders to reduce the percentage of investment in fixed assets to a maximum 20%.

18	Revaluation of fixed assets without CBN approval.	Reversal to the previous value and letter of warning.
19	Change in ownership, take over or amalgamation without CBN approval.	A fine of not less than N500,000.
20	Contravention of the single obligor limit without CBN approval	A fine of not less than N100,000 for the institution and a fine of N10,000 for the approving officer
21	Failure to pay annual licence renewal fees within 12 months	Revocation of licence
22	Late payment of annual licence renewal fees	A fine of 25% of the renewal fee.
23	Change of name without the approval of the CBN.	A fine of N100,000 and an immediate reversal to the formal name.
24	Non-display of operating licence and the interest rate in a conspicuous location in the Head-Office/Branches/Cash centres	A fine of N20,000 and the immediate display of the licence/interest rate.

25	<p>Persistent failure/refusal to render the required returns in the prescribed form for a period of twelvemonths. Persistent failure to comply with any other requirement of the monetary policy guidelines, provisions of the Banks and Other financial Institutions Act (BOFIA) 1991 as amended, as well as other circulars issued by the CBN for a period of twelve months. Engaging in activities prejudicial to the Nigerian economy. Any other act which in the opinion of the CBN constitutes a serious offence.</p>	<p>Revocation of licence.  Revocation of licence  Revocation of licence  Revocation of licence</p>
26	<p>Failure to convene a special meeting of the Board of Directors for the presentation of an Examination Report within four weeks and failure to convey the reaction of the Directors to the CBN within two weeks of the presentation</p>	<p>A fine of N25,000 for each week during which the offence continues.</p>
27	<p>Failure to implement the recommendations contained in the examination report</p>	<p>A fine of N1000 for each day of the default</p>

28	Change of External Auditors without the approval of the CBN	A warning letter to the Board. In addition the External Auditor should be re-instated
29	Failure to report Director related credits to the CBN/NDIC	A fine of N50,000
30	Granting unsecured credits above N100,000	A fine of N10,000 and in addition the approving officers should be sanctioned
31	Failure by Directors to complete the code of conduct forms	Removal of the Director from Office
32	Non-compliance with the code of conduct by the Directors	Removal of the Director from Office
33	Holding AGM without approved accounts	A fine of N500,000.
34	Failure to service credit facility granted to Directors and their relations	A fine of N10,000 for the Director, repayment of the facility plus the accrued interest and suspension of the Director from the membership of the Board until the payment is finally redeemed

## Other Financial Institutions Department

April, 2014

## CENTRAL BANK OF NIGERIA



CBN website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

Ref: OFI/DIR/CIR/GEN/01/012

15<sup>th</sup> November, 2013

### **CIRCULAR LETTER**

#### **TO ALL DIRECTORS AND SHAREHOLDERS OF MICROFINANCE BANKS**

#### **AMENDMENT OF THE REVISED REGULATORY AND SUPERVISORY GUIDELINES FOR MICROFINANCE BANKS (MFBs) IN NIGERIA TO ALLOW UNIT MFBs TO HAVE ONE BRANCH IN THE SAME LOCAL GOVERNMENT AREA**

The Management of the Central Bank of Nigeria (CBN) has approved an amendment to the Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria to allow Unit MFBs open/have one (1) branch or cash centre within the same local government area (LGA). Specifically, the Management of the CBN approved as follows:

That Unit MFBs be allowed to open/have one (1) branch outside the Head Office, within the same LGA, subject to availability of Free Funds of at least N20 million and maintenance of the prescribed minimum prudential requirements. Free Funds is calculated as the Shareholders' Funds unimpaired by losses minus the value of all fixed assets and investments (including cost of establishing the new outlet);

That all unauthorized branches/cash centres or outlets, opened without prior approval of the CBN, should be closed down and all depositors settled before 31<sup>st</sup> December, 2013;

That where there are existing CBN-approved branches/cash centres, under the former policy framework, the following should apply, depending on the number and location of the branches/cash centres:

Where there is only one (1) approved branch/cash centre outside the Head Office in the same LGA, the MFB should have Free Funds of at least N20 million and

maintain the prescribed prudential requirements, in order to retain the branch/cash centre.

Where there is more than one branch/cash centre outside the Head Office in the same LGA, the remaining branches/cash centres should be rationalized and closed down before 31<sup>st</sup> December 2013, subject to CBN approval, adequate notice and settlement of existing customers. Alternatively, such MFBs can raise additional capital to meet the minimum requirement of N100 million for upgrade to a State MFB.

Where the Unit MFB has approved branches outside the same LGA as the Head Office, or in more than one LGA, the MFB should shore up its capital base or Shareholders' Funds unimpaired by losses to N100 million and upgrade to a State MFB; or establish new Unit MFB(s) for the branch(es) outside the LGA; or rationalize the branch(es) in other LGAs and close them down before 31<sup>st</sup> December, 2013, subject to CBN approval, adequate notice and settlement of existing customers.

That MFBs which emerged as a result of the consolidation of two or more erstwhile Community Banks (CBs), prior to 31<sup>st</sup> December, 2007 in order to meet the capital requirement for conversion to an MFB be allowed to de-consolidate, subject to each separate Unit MFB meeting the prescribed minimum Shareholders' Funds unimpaired by losses of N20 million and the required Free Funds, if it would subsequently open a branch within the same LGA.

That any of these options should be exercised, subject to CBN approval, on or before the extended deadline of 31<sup>st</sup> December, 2013.

The relevant sections of the Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria have been amended to reflect the changes.



**Olufemi Fabamwo**

Director, Other Financial Institutions Supervision Dept. Central Bank of Nigeria, Abuja.

OFISD, CBN.



# CENTRAL BANK OF NIGERIA



CBN Website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

09N015124X01106

October 11, 2013

## CIRCULAR LETTER TO ALL OTHER FINANCIAL INSTITUTIONS (OFIs)

### PRUDENTIAL ADJUSTMENTS TO FINANCIAL STATEMENTS OF OTHER FINANCIAL INSTITUTIONS

Following the adoption of the International Financial Reporting Standards (IFRS) in line with the national roadmap timelines, it has become necessary to reiterate, for the attention of all OFIs, the need to exercise due care and caution in financial reporting in order that financial statements present a true and fair view of their operating results and financial positions.

The Central Bank of Nigeria (CBN), on its part, remains committed to the strict adherence by all OFIs, to the extant prudential requirements which have been drawn up for the sustained resilience of the financial system. While Provisions for loans recognized in the profit and loss account should be determined based on the requirements of IFRS, it is mandatory for all OFIs to insert a "Statement of Prudential Adjustments" in their financial statements, in the "Notes to the Financial Statements". The statement will compare impairment losses under IFRS with losses determined under the prudential guidelines with differences adjusted under the Statement of Changes in Equity through the Non-distributable Regulatory Reserve as follows:

- a) Where Prudential Provisions is greater than IFRS provisions; transfer the difference from the general reserve to a Non-distributable Regulatory Reserve.
- b) Prudential Provisions is less than IFRS provisions; the excess charges resulting should be transferred from the Regulatory Reserve Account to the General Reserve to the extent of the Non-distributable Reserve previously recognized.

A handwritten signature in blue ink, appearing to read 'Otufemi A. Fabianwo'.

**Otufemi A. Fabianwo**  
Director, Other Financial Institutions Supervision Department

## CENTRAL BANK OF NIGERIA



CBN website: [www.cbrn.gov.ng](http://www.cbrn.gov.ng)

Ref: OF/DIR/CIR/GEN/01/107

October 11, 2013

### CIRCULAR LETTER

#### TO ALL DIRECTORS OF PRIMARY MORTGAGE BANKS IN NIGERIA

#### RECOGNITION OF INVESTMENT PROPERTIES/REAL ESTATE DEVELOPMENTS IN THE FINANCIAL STATEMENTS OF PRIMARY MORTGAGE BANKS IN NIGERIA

The attention of the directors of Primary Mortgage Banks (PMBs) is by this Circular drawn to Sections 1.2 and 1.3 of the Guidelines for PMBs in Nigeria which list Real Estate Development as a non-permissible activity.

In compliance with the provision, all PMBs should commence the disposal of all Real Estate Developments in their books and ensure that the sales are conducted in arm's length.

In view of the above, all PMBs are required to classify existing *Real Estate Developments* in their books as *Non-Current Assets Held for Sale* and recognize them in accordance with IFRS 5.

Please be guided accordingly.

A handwritten signature in blue ink, appearing to read 'Olufemi Fabunwa'.

**Olufemi Fabunwa**

Director, (Chief Financial Institutions Supervision Department)  
Central Bank of Nigeria, Abuja

**CENTRAL BANK OF NIGERIA**



CBN website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

Ref: OFI/DIR/CIR/GEN/01/010

20<sup>th</sup> March, 2013

**CIRCULAR LETTER**

**TO ALL DIRECTORS AND SHAREHOLDERS OF MICROFINANCE BANKS**

**EXTENSION OF THE DEADLINE FOR COMPLIANCE WITH THE  
REVISED MICROFINANCE POLICY REGULATORY AND SUPERVISORY  
FRAMEWORK FOR NIGERIA**

Further to the CBN Circulars Ref: OFI/DIR/GEN/CIR/01/06 of 11<sup>th</sup> August, 2011 and OFI/DIR/GEN/CIR/01/09 of 17<sup>th</sup> December, 2012 titled "Revised Microfinance Policy Regulatory and Supervisory Framework for Nigeria", this is to convey the decision of the Management of the Central Bank of Nigeria to extend the deadline for compliance by microfinance banks (MFBs) with the Revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria from 31<sup>st</sup> December, 2012 to **31<sup>st</sup> December, 2013**.

This is to allow more time for capital raising and business combination options towards meeting the capital requirements for each category of MFB and for rationalizing the existing branches/cash centres, etc., where necessary.

All directors and shareholders of MFBs are therefore strongly advised to ensure compliance on or before the new deadline of 31<sup>st</sup> December, 2013.

**Olufemi Fabamwo**

Director, Other Financial Institutions Supervision Dept.  
Central Bank of Nigeria, Abuja.

**CENTRAL BANK OF NIGERIA**



CBN website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

Ref: OFI/DIR/CIR/GEN/01/09

17<sup>th</sup> December, 2012

**CIRCULAR LETTER**

**TO ALL DIRECTORS AND SHAREHOLDERS OF MICROFINANCE BANKS**

**RE: CIRCULAR ON THE REVISED MICROFINANCE POLICY**

**REGULATORY AND SUPERVISORY FRAMEWORK FOR NIGERIA**

Further to the CBN Circular Ref: OFI/DIR/GEN/CIR/01/06 dated 11<sup>th</sup> August, 2011 and titled "Revised Microfinance Policy Regulatory and Supervisory Framework for Nigeria", this is a reminder to all directors and shareholders of all microfinance banks (MFBs) on the deadline of 31<sup>st</sup> December, 2012 for compliance with the Revised Microfinance Policy Framework, particularly in respect of the capital requirements for each category of MFB and existing branches/cash centres, etc.

As you are well aware, all MFBs that have elected to remain Unit MFBs, as indicated in the compliance plans earlier submitted to the Central Bank of Nigeria (CBN), are required to close any existing branches/cash centres, etc, subject to prior approval of the CBN in writing and adequate notification to existing customers, who should be advised to migrate their accounts to the MFB's Head Office, while dissenting customers should be settled.

For the avoidance of doubt, all 'customer interaction centres', 'meeting points' and 'customer service centres', or similar outlets, once located outside the registered business premises of a Unit MFB shall be regarded as unauthorized/unapproved branches/cash centres. All previous approvals for such outlets for Unit MFBs have become null and void from the date of approval of the Revised Policy Framework by the Board of Directors of the CBN.

It is also pertinent to remind you that the penalty for operating a branch/cash centre without prior approval of the CBN as stipulated in Section 13.1(b) of the Revised Guidelines for MFBs is ₦250,000 per branch for a Unit MFB, ₦500,000 per branch for a State MFB and ₦1,000,000 per branch for a National MFB. In addition, such unapproved branched/cash centres shall be closed within thirty (30) days. Failure to close an unapproved branch or cash centre, shall attract a fine of ₦5,000 for each day of default, irrespective of the category of MFB. Moreover, failure to comply with any directive issued by the CBN, as stipulated in Section 19(i) of the Revised Guidelines for MFBs, is a ground for revocation of licence.

Please note that appeals for a waiver, or reduction of penalty, or extension of compliance deadline will NOT be entertained.

**O.A. Fabamwo**

Director, Other Financial Institutions Supervision Dept.  
Central Bank of Nigeria, Abuja.

**CENTRAL BANK OF NIGERIA**



CBN website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

Ref: OFI/DIR/CIR/GEN/01/08

14<sup>th</sup> December, 2012

**CIRCULAR LETTER**

**TO ALL DIRECTORS AND SHAREHOLDERS OF PRIMARY MORTGAGE BANKS**

**RE: CIRCULAR ON COMPLIANCE WITH THE REVISED**

**GUIDELINES FOR PRIMARY MORTGAGE BANKS**

Further to the CBN Circular Ref: FPR/DIR/CIR/GEN/01/021 dated 15<sup>th</sup> February, 2012 and titled "Circular to Primary Mortgage Banks on the Revised Guidelines for Primary Mortgage Banks", this serves as a reminder to all directors and shareholders of all primary mortgage banks (PMBs) on the impending deadline of 30<sup>th</sup> April, 2013 for compliance with the Revised Guidelines for PMBs and provides additional information and guidance to all affected PMBs.

Specifically, this is to remind all affected PMBs of the available options to meet the prescribed capital requirements of ₦5.0 billion for National PMBs and ₦2.5 billion for State PMBs and the documentation requirements to obtain regulatory approval for each option.

**Options**

Capital Raising

- Rights issue
- Private placement
- Public offer

Business Combination

- Mergers and acquisition
- Takeover
- Downscaling

In choosing or implementing any of the options, PMBs are advised to conduct due diligence and seek professional legal and financial advice.

### Capital Raising

PMBs that may choose to undertake rights issue, private placement, or public offer, are advised to complete the process and submit the documentary requirements as listed in Appendix I for verification on or before 31<sup>st</sup> March, 2013. This is to allow enough time for the capital verification exercise and subsequent correction of any discrepancy and/or submission of any additional evidence that may be required, to ensure that the capital is verified, confirmed and approved before the stipulated deadline of 30<sup>th</sup> April, 2013. Please note, however, that it is practically impossible, at this time, to complete the process for a public offer, given the remaining timeline, unless the process had commenced earlier and is at an advanced stage.

### Business Combination

PMBs that may choose the business combination option will have to comply with the requirements of the Banks and Other financial Institutions Act (BOFIA), 1991 (as amended), Companies and Allied Matters Act (CAMA), 1990 (as amended) and the Investment and Securities Act (ISA), 2007 and obtain regulatory approvals of the Securities and Exchange Commission (SEC) and the Central Bank of Nigeria (CBN), hold statutorily required meetings and obtain orders of the courts, where necessary.

In order to allow sufficient time for the necessary approvals and processes and to monitor progress through the various stages, the following stages and timelines, as well as documentary requirements as listed in Appendix II to VI are required by the CBN:

<u>Stages</u>		<u>Recommended Timelines</u>
Pre-merger Consent	-	January 15, 2013
Approval in Principle	-	February 28, 2013 Final
Approval	-	March 31, 2013

These timelines are for guidance only. PMBs are strongly advised to conclude the processes even before the recommended timelines.

## Downscaling

PMBs that may be unable to scale-up to the new capital requirements for PMBs may choose the downscaling option. Such PMBs will be required to surrender the existing PMB licence, meet the capital and other regulatory requirements and conform with the business model of the intended category of financial institution.

## Responsibility of Directors

All directors, particularly the Managing Directors/CEOs of all PMBs are hereby sternly warned against any unauthorized disposal of the assets of PMBs, as they will be held jointly and severally liable for any asset stripping. This is also a reminder that prior approval of the CBN is required for asset disposal.

All correspondence should be titled "COMPLIANCE WITH THE REVISED GUIDELINES FOR PRIMARY MORTGAGE BANKS" and addressed to :

Director,  
Other Financial Institutions Supervision Department  
Central Bank of Nigeria Central  
Business District, Abuja.

## OR

Director,  
Other Financial Institutions Supervision Department  
Central Bank of Nigeria  
Tinubu Square, Lagos.

**For the avoidance of doubt, all processes must be concluded on or before 30<sup>th</sup> April, 2013, as there will be no extension of time.**

## **O.A. Fabamwo**

Director, Other Financial Institutions Supervision Dept.  
Central Bank of Nigeria, Abuja.



## **APPENDIX I**

### **DOCUMENTARY REQUIREMENT FOR NEW CAPITAL INJECTION**

Where there is fresh injection of capital, by way of rights, private placement, or public offer, the following shall be required:

A formal application by the PMB addressed to the Director, Other Financial Institutions Supervision Department, Central Bank of Nigeria and signed by the Chairmen and Managing Director of the PMB accompanied with the following:

- i) Schedule of shareholders/investors showing names of all the subscribers or investors(existing and new) that injected fresh capital;
- ii) Copies of instruments used in the capital injection;
- iii) Copies of letters of intents written by each subscriber/investor indicating his/her intention to invest in the shares of the institution, or, where applicable, copies of duly completed subscription forms to the rights, private placement, or public offer;
- iv) Statements of the PMB's accounts with its correspondent banks where payments for the shares were made;
- v) Evidence of increase in authorized share capital (where applicable); and
- vi) Copies of letters of allotment of shares issued to the subscribers/ investors.

## **APPENDIX II**

### **DOCUMENTARY REQUIREMENTS FOR PRE-MERGER CONSENT**

A formal application by the merging PMBs addressed to the Director, Other Financial Institutions Supervision Department, Central Bank of Nigeria and signed by the Chairmen and Managing Directors of each of the merging PMBs accompanied with the following:

The proposed name of the successor PMB (where a new entity will be formed).

Memorandum of Understanding between the merging PMBs.

Current Memorandum and Articles of Association (MEMARTS) of each of the merging PMBs.

Resolution by each of the boards of the merging PMBs approving the merger.

List of Directors, designation and the interest they represent in the merging PMBs.

## **APPENDIX III**

### **DOCUMENTARY REQUIREMENTS FOR APPROVAL-IN-PRINCIPLE**

#### **UNDER A MERGER**

A formal application by the merging PMBs addressed to the Director, Other Financial Institutions Supervision Department, Central Bank of Nigeria and signed by the Chairmen and Managing Directors of each of the merging PMBs, accompanied with the following:

- I. Draft Memorandum and Articles of Association (MEMARTS) of the new PMB or MEMARTS of the surviving PMBs (with proposed amendments if any).
- II. List of significant shareholders of the existing PMBs (i.e. shareholding of 5% and above) showing their names, business and residential addresses (not P.O. Box)
- III. Proposed organizational structure, showing functional units, reporting relationships and grade (status) of heads of departments/units of the successor PMB.
- IV. List of proposed Directors, their curriculum vitae, designation and interest they represent in the successor PMB.
- V. List of the proposed top management team (AGM to GM), designation and their detailed curriculum vitae.
- VI. Method of valuation agreed to by the PMBs.
- VII. Draft Scheme of Merger.
- VIII. Due diligence report on each of the merging PMBs.

## **APPENDIX IV**

### **DOCUMENTARY REQUIREMENTS FOR APPROVAL-IN-PRINCIPLE UNDER AN ACQUISITION OR TAKEOVER**

A formal takeover application (stating clearly that the acquired PMB(s) will cease to exist) by the acquiring PMB addressed to the Director, Other Financial Institutions Supervision Department, Central Bank of Nigeria and signed by the Chairman and Managing Director of the acquiring PMB, accompanied with the following.

The Valuation Report(s) on the target PMB(s)

Due Diligence Report(s) on the PMB(s) to be taken over

Memorandum of information/understanding. iv) Memorandum and Articles of Association (MEMARTS) of the acquiring PMB.

Resolution of the board of directors of the acquiring and acquired PMBs approving the takeover.

Certificate of Incorporation of the acquiring PMB.

List of significant shareholders of the acquiring PMB (i.e. shareholding of 5% and above) showing their names, business and residential addresses (not P. O. Box).

Proposed organizational structure of the acquiring PMB post takeover, showing functional units, reporting relationships and grade (status) of heads of departments/units. ix) List of proposed Directors, their curriculum vitae, designation and interest they represent.

x) List of the proposed top management team post take-over (AGM to GM), designation and their detailed curriculum vitae.

## **APPENDIX V**

### **DOCUMENTARY REQUIREMENTS FOR FINAL APPROVAL OF A MERGER**

A formal application by the merging PMBs addressed to the Director, Other Financial Institutions Supervision Department, Central Bank of Nigeria and signed by the Chairmen and Managing Directors of each of the merging PMBs, accompanied with the following:

List of significant shareholders of the successor PMB (i.e. shareholding of 5% and above) showing their names, business and residential addresses (not P.O. Box)

Resolution of the Shareholders of each of the merging PMBs approving the merger at the court-ordered meeting.

Business/Strategic plan of the successor PMBs for the next five years showing how the integration process will be managed, future goals and operations, branch expansion/rationalization, treatment of surplus staff and staff to be retained, etc.

Certificate of Incorporation of the successor PMB (where a new entity is formed).

SEC final approval of the scheme of merger.

Evidence of stamp duties paid to Federal Inland Revenue Service on the new/surviving entity's new authorized share capital.

## **APPENDIX VI**

### **DOCUMENTARY REQUIREMENTS FOR FINAL APPROVAL OF AN ACQUISITION OR TAKEOVER**

A formal takeover application by the acquiring PMB addressed to the Director, Other Financial Institutions Supervision Department, Central Bank of Nigeria and signed by the Chairman and Managing Director of the acquiring PMB, accompanied with the following.

CTC of CAC form 2.5 - return of allotment

CTC of CAC form 2.3 - particulars of directors

CTC of form CAC 6 - location of principal place of business. iv) Evidence of voluntary liquidation/winding up of the acquired PMB(s).

Original banking licence(s) of the acquired PMB(s)

Evidence of stamp duties paid to Federal Inland Revenue Service on the new authorized share capital.

Opening Statement of Affairs showing the details of the acquiring PMB's capital base.

Schedule of staff to be disengaged, including the total severance package and mode of settlement.

Business/Strategic plan of the acquiring PMB for the next five years showing how the integration process will be managed, future goals and operations, branch expansion/rationalization, treatment of surplus staff and staff to be retained etc.

Evidence of registration of the Takeover bid with SEC.

Other Financial Institutions Department,  
Central Bank of Nigeria.

# CENTRAL BANK OF NIGERIA



CBN website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

Ref: OFI/DIR/GEN/CIR/01/06

11<sup>th</sup> August, 2011

## **CIRCULAR LETTER**

***TO ALL DIRECTORS AND SHAREHOLDERS OF MICROFINANCE BANKS***

### **REVISED MICROFINANCE POLICY REGULATORY AND SUPERVISORY FRAMEWORK FOR NIGERIA**

The Board of Directors of the CBN has approved the Revised Microfinance Policy Supervisory and Regulatory Framework for Nigeria. The revised policy provides for three categories of microfinance banks (MFBs) and stipulated minimum capital requirements for each category, viz:

- i) *Category 1: Unit Microfinance Banks* are those authorized to operate in one (1) location, with a minimum paid-up capital of ₦20 million and are prohibited from having branches/cash centres.
- ii) *Category 2: State Microfinance Bank* are those authorized to operate within one state or the Federal Capital Territory (FCT), with a minimum paid-up capital of ₦100 million and are allowed to open branches/cash centres within the same state, subject to prior approval of the CBN in writing.
- iii) *Category 3: National Microfinance Bank* are those authorized to operate in more than one state, including the FCT with a minimum paid-up capital of ₦2 billion and are allowed to have branches in any part of the country, subject to prior approval of the CBN in writing.

#### ***Implication for new and existing MFBs***

In implementing the Revised Microfinance Policy Framework, therefore, new (*de novo*) MFBs coming on board will naturally be required to meet the stipulated

minimum capital requirement. However, for existing MFBs, the interpretation of the minimum capital requirement shall be Shareholders' Fund unimpaired by losses.

In addition, existing MFBs will require some time to raise additional capital, where necessary, or to restructure their operations to conform to the revised Microfinance Policy Framework. This is because many of the MFBs that currently operate as *Unit* MFBs under the former Microfinance Policy Framework also have existing approved branches and cash centres, which would require that they either transform to State MFBs under the Revised Microfinance Policy Framework, or rationalize those branches, subject to CBN approval.

Indeed, existing MFBs have the following options to comply with the revised Microfinance Policy Framework:

- i) Raise fresh capital to bring the capital base to the stipulated minimum of ₦100 million shareholders' funds unimpaired by losses, to become a State MFB under the revised framework; or
- ii) Obtain regulatory approval of the CBN to close all existing branches and cash centres and remain a unit MFB with a minimum capital requirement of ₦20 million shareholders' funds unimpaired by losses; or
- iii) Enter into business combination in form of mergers and acquisition, such that the consolidated capital base of the combined institutions meets the stipulated capital requirement of a State MFB or National MFB, as the case may be.

For the avoidance of doubt, it is extremely important to emphasize that, 'customer interaction centres', 'meeting points', 'customer service centres' and all outlets, by whatever name called, once located outside the registered business premises of the MFB, will be regarded as branches/cash centres. MFBs with such outlets will therefore be required to meet the stipulated capital requirement for a State MFB, or close them, subject to prior approval of the CBN in writing.

Furthermore, an existing State MFB under the former Microfinance Policy Framework may choose to remain a State MFB in the new dispensation. In which case, it is not required to do anything. It may also decide to convert to a National MFB by raising additional capital to shore up its capital base to the stipulated minimum of ₦2.0 billion shareholders' funds unimpaired by losses for a National MFB.



**Timeline for Compliance**

In exercising any of these options, existing MFBs have been granted eighteen months ending 31<sup>st</sup> December, 2012 to comply with the Revised Microfinance Policy Framework. All MFBs are, therefore, required to ensure compliance within the stipulated timeline.

**Submission of Compliance Plan**

To facilitate monitoring and ensure compliance within the stipulated timeline, each existing MFB is required by this circular to submit to the Director, Other Financial Institutions Supervision Department, a Compliance Plan indicating which category of MFB it wishes to belong and its programme for raising additional capital and/or closing existing branches/cash centres, subject to prior approval of the CBN in writing. The Compliance Plan should be submitted on or before 31<sup>st</sup> December, 2011.

Failure to submit a Compliance Plan within the stipulated timeline, or to adhere to the plan, will be regarded as failure to comply with a directive issued by the CBN, which is a ground for revocation of licence, as stated in section 20.3 (h) of the Regulatory and Supervisory Guidelines for MFBs.



**O.A. Fabamwo**

Director, Other Financial Institutions Supervision Dept.  
Central Bank of Nigeria, Abuja.

# CENTRAL BANK OF NIGERIA



CBN website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

Ref: OFI/DIR/CIR/GEN/02/001

12<sup>th</sup> April, 2011

## CIRCULAR

### TO ALL MICROFINANCE BANKS

### MFB MONTHLY ONLINE RENDITION OF RETURNS TO CBN VIA FinA SYSTEM

We write to inform you that on line rendition of monthly returns by microfinance banks (MFBs) to the Central Bank of Nigeria (CBN) which commenced with the January 2011 returns via FinA has been sustained. Accordingly, all MFBs are required to render all subsequent monthly returns electronically. For the avoidance of doubt, the receipt of hard copy return would stop with the June 2011 returns, after which only electronic returns will be acceptable.

In view of this, each MFB is required to:

- i. Visit the CBN website [www.cbn.gov.ng](http://www.cbn.gov.ng) and download the MFB codes
- ii. Identify the code assigned to it
- iii. Use the code to rename its Master File using the naming convention (MFBXXXXmMMYYYY) given to you at the November 2010 workshop. Where;  
MFB = Microfinance Bank  
XXXX = Institutional Code  
m = Frequency of submission i.e. Monthly  
MM = Reporting Month  
YYYY = Year  
Example: The Master File name of Central Microfinance Bank with code 50001 rendering June 2011 monthly returns should be MFB50001m062011
- iv. Forward any outstanding first quarter returns by April 20, 2011
- v. Continue rendering monthly returns to the e-mail address [mfbreturns@cbn.gov.ng](mailto:mfbreturns@cbn.gov.ng)
- vi. Open an Institutional e-mail address starting with the MFB name. Example, Central MFB should be [centralfmfbank@yahoo.com](mailto:centralfmfbank@yahoo.com) or [centralfmfbank@gmail.com](mailto:centralfmfbank@gmail.com) or [centralfmfb@hotmail.com](mailto:centralfmfb@hotmail.com)
- vii. Forward your Institutions e-mail address to the Director, Other Financial Institutions Supervision Department on or before April 30, 2011.

You are required to comply strictly with this arrangement and ensure prompt and accurate rendition of monthly returns to **avoid sanctions**

**O. A. Fabamwo**  
Director, Other Financial Institutions Supervision Department

## CENTRAL BANK OF NIGERIA



CBN website: [www.cbn.gov.ng](http://www.cbn.gov.ng)

Ref: OFI/DIR/GEN/CIR/01/05

11<sup>th</sup> November, 2010

### **CIRCULAR**

### **TO ALL CHAIRMEN AND MANAGING DIRECTORS OF MICROFINANCE BANKS**

### **MEMBERSHIP AND ANNUAL SUBSCRIPTION TO THE NATIONAL ASSOCIATION OF MICROFINANCE BANKS (NAMB)**

Further to the CBN Circular No. OFI/DIR/GEN/CIR/01/04 dated 16<sup>th</sup> March, 2010 on the inauguration of the National Association of Microfinance Banks (NAMB), it has become necessary to reiterate that membership of the umbrella association is compulsory for all licensed microfinance banks (MFBs) operating in Nigeria.

Accordingly, in order to ensure its smooth functioning at the national, zonal and state levels and to enable the Association to effectively play its role of advocacy, information dissemination, capacity building, promotion of uniform standards, ethics and professionalism, all MFBs are required to register with the Association and pay the annual subscription prescribed by the Association, which falls due in January every year.

Consequently, all MFBs that are yet to pay their annual subscription for 2010 are required to do so on or before 31<sup>st</sup> December, 2010 to avoid any unsavoury consequence or sanction. For the avoidance of doubt, evidence of payment of the annual subscription for 2010 and 2011 will be checked during the Routine Examination of all MFBs commencing in January 2011 and defaulters will be appropriately sanctioned. It will also be a condition for issuance of new licences to the 121 MFBs recently granted provisional approvals.

All directors and staff of MFBs are also hereby enjoined to co-operate with the officials of the Association to foster a virile, self-regulating umbrella association that will represent the collective interest of all MFBs.



**O. A. Fabamwo**

Director, Other Financial Institutions Supervision Dept.

## CENTRAL BANK OF NIGERIA



CBN website: [www.cenbank.org](http://www.cenbank.org)

Ref: OFI/DIR/GEN/CIR/01/05

6<sup>th</sup> July, 2010

### **CIRCULAR**

#### **TO ALL MICROFINANCE BANKS AND PRIMARY MORTGAGE INSTITUTIONS**

The attention of the Central Bank of Nigeria has again been drawn to a series of illegal clearing and conversion/diversion of third party cheques and dividend warrants belonging to parastatals, agencies, corporate bodies and individuals by some Microfinance Banks (MFBs) and Primary Mortgage Institutions (PMIs). This fraudulent practice, which has resulted in the loss of huge revenues to the affected institutions and individuals, is also capable of destroying the credibility of the two sub-sectors and the financial system in general.

In view of the foregoing and further to our earlier circular NO: OFID/DO/GRC/VOL.387 of 29<sup>th</sup> April, 2004, it has become imperative again to warn all financial institutions, particularly, the MFBs to desist from this unwholesome practice as any institution or individual found to be involved would be appropriately and decisively dealt with in accordance with the law.

A handwritten signature in blue ink, appearing to read 'O. A. Fabamwo'.

**O. A. Fabamwo**

Ag. Director,  
Other Financial Institutions Supervision Dept.

Micro-Finance Bank Code .....  
 Micro-Finance Bank Name ABC Microfinance Bank Limited  
 Return Code : Form MMFBR 300  
 Return Name Monthly Statement of Assets and Liabilities  
 Reporting Date: 31/12/2009  
 State Name .....  
 State Code .....  
 Local Government Name .....  
 Local Government Code .....

Code	Item Description	Amount N'000	Amount N'000	Amount N'000
10000	<b>ASSETS</b>			
10100	<b>CASH:</b>			
10110	Notes			
10120	Coins			
10130	<b>Total Cash</b>			
10200	<b>DUE FROM:</b>			
10210	<b>Banks in Nigeria:</b>			
10220	Balances with Banks (Specify, MMFBR 221)			
10300	<b>Placements</b>			
10310	Secured with Treasury Bills (Specify, MMFBR 311)			
10320	Unsecured (Specify, MMFBR 321)			
10330	<b>Total Placement with Banks/Discount Houses</b>			
10400	<b>Total Due From</b>			
10500	<b>SHORT TERM INVESTMENTS:</b>			
10510	Treasury Bills			
10600	<b>LONG TERM INVESTMENTS:</b>			
10610	Quoted Companies			
10620	Unquoted Companies			
10630	Subsidiary Companies			
10640	Others (Specify, MMFBR 641)			
10650	<b>Total Long-Term Investments</b>			
10700	<b>LOANS AND ADVANCES/LEASES</b>			
10710	Micro Loans (Specify, MMFBR 711)			
10720	Small and Medium Enterprises Loans			
10725	Bills Discounted			
10730	Hire Purchase			
10740	Advances Under Micro-Leases			
10745	Other Loans (Specify, MMFBR 746)			
10750	Staff Loans			
10760	<b>Total Loans and Advances/Leases</b>			
10770	Specific Loan/Lease Loss Provision (Specify, MMFBR 771)			
10780	General Loan/Lease Loss Provision			
10790	<b>Total Loan/Lease Loss Provision</b>			
10795	<b>Net Loans and Advances</b>			
10800	<b>OTHER ASSETS:</b>			
10810	Total Other Assets (Specify, MMFBR 811)			
10880	Provision for Losses on Other Assets			
10890	<b>Other Assets (Net)</b>			
10900	<b>FIXED ASSETS</b>			
10910	Freehold Land and Building			
10920	Leasehold Land and Building			
10930	Plant and Machinery			
10940	Furniture and Fixtures			
10950	Motor Vehicles			
10960	Office Equipment			
10970	<b>Total Fixed Assets</b>			
10980	Less Accumulated Depreciation			
10990	<b>Net Fixed Assets</b>			
11000	<b>TOTAL ASSETS</b>			

20100	<b>LIABILITIES</b>			
20100	<b>DEPOSITS:</b>			
20110	Demand Deposits			
20120	Mandatory Deposits			
20125	Voluntary Savings Deposits			
20130	Time/Term Deposits			
20140	Other Deposits (Specify, MMFBR 141)			
20200	<b>Total Deposits</b>			
20300	<b>TAKINGS FROM:</b>			
20310	Banks in Nigeria (Specify, MMFBR 312)			
20320	Other Institutions (Specify, MMFBR 322)			
20330	<b>Total Takings</b>			
20450	<b>Re-financing Facilities (Specify, MMFBR 451)</b>			
20500	<b>Other Liabilities (Specify 501)</b>			
20600	<b>BORROWINGS (On-lending):</b>			
20610	Federal Government			
20620	State Government			
20630	Local Government			
20640	Foreign Agencies (Specify, MMFBR642)			
20650	Others (Specify, MMFBR 651)			
20660	<b>Total Borrowings</b>			
20700	<b>DEBENTURE/LOAN STOCK:</b>			
20710	Redeemable Debenture			
20720	Irredeemable Debenture			
20750	<b>Total Debentures/Loans Stock</b>			
20800	<b>CAPITAL</b>			
20810	Authorised Share Capital			
20820	Issued & Fully Paid-up Capital:			
20830	Ordinary Shares			
20840	Preference Shares			
20860	<b>Total Capital</b>			
20900	<b>RESERVES:</b>			
20910	Statutory Reserve			
20920	Share Premium			
20930	General Reserve			
20932	Deferred Grants/Donations Reserves (Specify, MMFBR 933)			
20935	Bonus Reserves			
20940	Revaluation Reserves			
20950	Other Reserves (Specify, MMFBR 951)			
20960	Retained Profit/(Loss)			
20965	Unaudited Loss to date			
20970	<b>Total Reserves</b>			
20980	<b>TOTAL CAPITAL &amp; RESERVES</b>			
20990	<b>TOTAL LIABILITIES</b>			

10980	Less Accumulated Depreciation		-	
10990	<b>Net Fixed Assets</b>			-
11000	<b>TOTAL ASSETS</b>			-

<b>LIABILITIES</b>				
20100	<b>DEPOSITS:</b>			
20110	Demand Deposits			
20120	Mandatory Deposits			
20125	Voluntary Savings Deposits			
20130	Time/Term Deposits			
20140	Other Deposits (Specify, MMFBR 141)	-		
20200	<b>Total Deposits</b>		-	-
20300	<b>TAKINGS FROM:</b>			
20310	Banks in Nigeria (Specify, MMFBR 312)	-		
20320	Other Institutions (Specify, MMFBR 322)	-		
20330	<b>Total Takings</b>		-	-
20450	<b>Re-financing Facilities (Specify, MMFBR 451)</b>		-	-
20500	<b>Other Liabilities (Specify 501)</b>		-	-
20600	<b>BORROWINGS (On-lending):</b>			
20610	Federal Government			
20620	State Government			
20630	Local Government			
20640	Foreign Agencies (Specify, MMFBR642)	-		
20650	Others (Specify, MMFBR 651)	-		
20660	<b>Total Borrowings</b>		-	-
20700	<b>DEBENTURE/LOAN STOCK:</b>			
20710	Redeemable Debenture			
20720	Irredeemable Debenture			
20750	<b>Total Debentures/Loans Stock</b>		-	-
20800	<b>CAPITAL</b>			
20810	Authorised Share Capital		-	
20820	Issued & Fully Paid-up Capital:			
20830	Ordinary Shares	-		
20840	Preference Shares			
20860	<b>Total Capital</b>		-	
20900	<b>RESERVES:</b>			
20910	Statutory Reserve			
20920	Share Premium			
20930	General Reserve			
20932	Deferred Grants/Donations Reserves (Specify, MMFBR 933)	-		
20935	Bonus Reserves			
20940	Revaluation Reserves			
20950	Other Reserves (Specify, MMFBR 951)	-		
20960	Retained Profit/(Loss)			
20965	Unaudited Loss to date			
20970	<b>Total Reserves</b>		-	
20980	<b>TOTAL CAPITAL &amp; RESERVES</b>			-
20990	<b>TOTAL LIABILITIES</b>			-
20995	<b>Off-Balance Sheet Engagements (Specify, MMFBR 996)</b>			-

\_\_\_\_\_  
AUTHORISED SIGNATORY

\_\_\_\_\_  
AUTHORISED SIGNATORY

Name of MD/CEO .....

TEL./GSM NO. ....

Name of Compliance Officer .....

TEL./GSM NO. ....

Bank's E-Mail .....

## **CENTRAL BANK OF NIGERIA**



### **NOTICE TO ALL CLASS "B" BUREAUX DE CHANGE ON RENEWAL OF LICENCE FOR 2009**

THIS IS TO BRING TO THE NOTICE OF ALL CLASS "B" BUREAUX DE CHANGE (BDCs) OPERATORS IN NIGERIA THAT THE MANAGEMENT OF THE CENTRAL BANK OF NIGERIA HAS LIFTED THE SUSPENSION PLACED ON THE ANNUAL LICENCE RENEWAL. THEREFORE, ALL CLASS "B" BDCs THAT HAVE NOT RENEWED THEIR OPERATING LICENCE FOR 2009 SHOULD DO SO NOT LATER THAN 30<sup>TH</sup> SEPTEMBER, 2009.

PLEASE NOTE THAT CLASS "B" BDCs ARE ALSO REQUIRED TO MAKE A MANDATORY DEPOSIT OF \$20,000.00 (TWENTY THOUSAND DOLLARS ONLY) TO THE BDC MANDATORY DEPOSIT ACCOUNT OF THE CENTRAL BANK OF NIGERIA WITH JP MORGAN CHASE BANK, NEW YORK, U.S.A., AS A PRE-CONDITION FOR ACCESSING THE FOREIGN EXCHANGE DIRECT CASH SALES WINDOW OF THE CENTRAL BANK OF NIGERIA.

O. A. Fabamwo  
AG. Director, Other Financial Institutions Department  
AUGUST 12, 2009



## CENTRAL BANK OF NIGERIA



CBN website: [www.cenbank.org](http://www.cenbank.org)

Ref: OFI/DIR/GEN/ CIR/02/002

20<sup>th</sup> July, 2009

### **CIRCULAR**

### **TO ALL CHAIRMEN, NON-EXECUTIVE DIRECTORS, MANAGING DIRECTORS, TOP MANAGEMENT STAFF, ALL OPERATORS AND EXTERNAL AUDITORS OF ALL MICROFINANCE BANKS CLARIFICATION ON BRANCHES, CASH CENTRES AND MEETING POINTS AND LIMITS OF INVESTMENT IN FIXED ASSETS**

The Central Bank of Nigeria (CBN) has observed that there is a growing misconception among the operators of Microfinance Banks (MFBs) on the difference between a branch, cash centre and meeting point and has therefore found it necessary to provide the following clarifications and to remind operators of the limit of investment in fixed assets:

#### **Branch**

A business location outside the Head Office where full banking operations takes place and where the full range of banking products and services may be offered. It is managed by a Branch Manager and other officers/support staff. Infrastructure put in place shall include a banking hall, a strong-room and other operating equipment, furniture and IT infrastructure. All transactions can be processed in the location and customers' ledgers (manual or electronic) and accounting books and records are maintained.

#### **Cash Centre**

A location used only for receiving and collecting cash deposits from customers by a receiving cashier. A cash centre is manned by a Supervisor and the total number of staff shall not exceed 5 including support staff. Cash is usually evacuated to the Head Office or correspondent bank intermitently or at the end of daily transactions. Infrastructure required is a cashier's cubicle, strong fire-proof safe and

sparse furniture. All customers' accounts records are maintained and kept at the Head Office or affiliated branch and withdrawals can only be done at the Head Office or the affiliated branch.

### **Meeting Point or Customer Interaction Centre**

A meeting point is typically a location where customer mobilization through group formation and mentoring takes place. It is also a place for interaction with prospective or existing customers. It could be a small stall/shop in a market, under a tree in a village, e.t.c. It should be sparsely furnished. Only a desk and few chairs are required. No office equipment required. Customers' accounts records and cash should not be kept or maintained in a meeting point.

### **Approval**

Prior approval of the CBN is required for the opening, closing or relocation of branches or cash centres of MFBs, subject to meeting the prescribed prudential requirements and minimum free funds of ₦20 million. CBN approval is not required for the opening/closing of meeting points, provided they are within the definition and scope described above.

### **Limit of Investment in Fixed Assets**

All operators are also reminded that section 9.1(k) of the Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria prescribes that "the maximum amount which an MFB can invest in fixed assets is twenty per cent (20%) of its shareholders' funds, unimpaired by losses".

The objective of this is to prevent a high level of investment in non-earning fixed assets, as well as the use of depositors' funds for the acquisition of fixed assets or branch expansion, in the overriding interest of the sustainability of the MFBs.

### **Mismatch of Assets and Liabilities**

All MFBs are strongly advised, not only to ensure that they create good quality assets, but also to ensure that the assets (mainly loans/advances and investments) are properly matched with their liabilities (mainly savings and deposits) in terms of tenor and cost. This is to ensure that short-term funds are not tied down in long-

term assets, thereby jeopardizing the liquidity position as well as the safety and soundness of their institutions.

All operators are strongly advised to be properly guided.

O.A. Fabamwo

Ag. Director,

Other Financial Institutions Department.

## CENTRAL BANK OF NIGERIA



Tinubu Square

P.M.B. 12194

Lagos

CBN website: [www.cenbank.org](http://www.cenbank.org)

Our Ref: OFI/DIR/GEN/ CIR/02/003

20<sup>th</sup> July, 2009

Tel: 01-2662483

Fax: 01-2668667

**CIRCULAR TO ALL CHAIRMEN, DIRECTORS, MANAGING DIRECTORS AND STAFF OF ALL PRIMARY MORTGAGE INSTITUTIONS AND COMMUNITY BANKS/MICROFINANCE BANKS**

**WARNING TO ALL PRIMARY MORTGAGE INSTITUTIONS, MICROFINANCE BANKS AND FINANCE COMPANIES ON THE ISSUANCE OF FALSE/FORGED STATEMENTS OF ACCOUNTS.**

In spite of the earlier CBN Circular No.OFID/DIR/CIR/GEN/Vol.01/001 of 25<sup>th</sup> June, 2007 it has recently been observed that some primary mortgage institutions (PMIs) and microfinance banks (MFBs) continued to issue falsified or forged statements of accounts on behalf of their customers (and even non-customers), with a view to exaggerating or misrepresenting the financial standing of the affected persons.

In particular, our attention has been drawn to false/forged statements of accounts issued by some PMIs and MFBs for presentation to Embassies and High Commissions in support of applications for entry visa to the affected countries.

These immoral, unethical and illegal acts undermine the integrity of the financial system in general and the other financial institutions (OFIs) sub-sector in particular.

For the avoidance of doubt, any staff of any financial institution found to be engaged in this act shall be blacklisted and referred to the Police and the Economic and Financial Crimes Commission (EFCC) for further investigation and prosecution, while the affected institution shall be appropriately sanctioned.

Please bring this circular to the attention of all staff in your institution.

O. A. Fabamwo

Ag. Director, Other Financial Institutions Dept.

## CENTRAL BANK OF NIGERIA



CBN website: [www.cenbank.org](http://www.cenbank.org)

Ref: OFI/DIR/CIR/GEN/01/001

2<sup>nd</sup> March, 2009

### **CIRCULAR**

#### **TO ALL CHAIRMEN, NON-EXECUTIVE DIRECTORS, MANAGING DIRECTORS, TOP MANAGEMENT STAFF, ALL OPERATORS AND EXTERNAL AUDITORS OF ALL MICROFINANCE BANKS**

#### **INSIDER-RELATED CREDITS AND REPORTING REQUIREMENTS**

It has come to the attention of the Central Bank of Nigeria (CBN) that many microfinance banks (MFBs) are exposed to very high levels of insider-related credits. Indeed, it has become common practice for most MFBs to disburse insider-related credits far beyond the limits stipulated in the Banks and Other Financial Institutions Act (BOFIA), 1991 (as amended).

Consequently, it has become imperative to remind all directors, top management staff, operators and external auditors of all MFBs of the rules and regulations guiding insider-related credits as stipulated in BOFIA, 1991 (as amended), as well as the Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria and to prescribe sanctions for non-performing insider-related credits based on the outstanding amount and duration. It has also become necessary to introduce additional reporting requirements for effective monitoring of insider-related credits and other corporate governance issues affecting the institutions.

### **Individual limit**

#### **Unsecured facilities**

Section 20(2)(a) and (b) of BOFIA, 1991 (as amended) stipulates that a bank shall not, without prior approval in writing of the CBN:- (a) permit to be outstanding, unsecured advances, loans or unsecured credit facilities of an aggregate amount in excess of ₦50,000 to any of its directors; to any firm, partnership, private company in which any one of its directors is interested, or of which any of its directors is a guarantor; to any public or private company in which any one or more of its directors jointly or severally maintains shareholding of not less than five per cent either directly or indirectly;

(b) permit to be outstanding to its officers and employees, unsecured advances, loans or unsecured credit facilities, which in the aggregate for any one officer or employee, is an amount which exceeds one year's emolument to such officer or employee.

This individual unsecured credit limit is reiterated in section 9.2(a) of the Guidelines for Microfinance Banks.

#### **Secured facilities**

In addition to the unsecured lending limit stipulated in BOFIA, 1991 (as amended), advances, loans and credit facilities, which are secured by acceptable collaterals, to any director, officer, or employee; or to any firm, partnership, public or private company, in which they may be interested in, as described in (a) or (b) above, are, by this circular, fixed at an amount not exceeding one per cent of the Paid-up Capital of the MFB at any time.

#### **Aggregate Limit**

As clearly stated in Chapter 9, section 9.1(g) of the Guidelines for Microfinance Banks, 'aggregate insider-related lending shall not exceed five per cent of the Paid-up Capital of the MFB at any time'. This refers to both secured or unsecured lending, but excludes staff loans and advances.

Clearly, most MFBs are in breach of these provisions of BOFIA, 1991 (as amended) and the Guidelines for MFBs. Consequently, all insider-related facilities beyond the stipulated limits should be repaid within one month from the date of this circular, failing which appropriate sanctions shall be imposed on the affected directors and MFBs.

### **Non-Performing Director-Related Credits**

The following sanctions shall apply to non-performing director-related facilities:

#### **To the Affected Director**

Where any director-related facility had remained outstanding for more than 90 days after its expiry date, a letter of warning shall be issued by the board of directors to the affected director. Where the facility remained outstanding for more than 180 days:

The director shall vacate his seat on the board, or be removed by the CBN, in accordance with Section 33(2)(d)(i) and Section 44(2)(b) of BOFIA, 1991 (as amended) and subsequently blacklisted.

Sufficient number of shares out of the holding of the affected director shall be deducted and offered to other investors and the proceeds applied to repay the facility.

Where the director's holding is insufficient to repay the facility, the entire shareholding of the affected director shall first be offered to other investors and the proceeds applied to the outstanding facility, while the balance shall be demanded for immediate payment, failing which the director shall be handed over to the appropriate financial crime agency for full recovery of the outstanding balance.

#### **To the MFB**

Where the level of insider-related credits is higher than the stipulated limits in BOFIA, 1991 (as amended) and the Guidelines for MFBs, the MFB shall be prohibited from declaring dividends until the level of insider-related credits has been brought within the stipulated limit.



### **Interest Rate and Write-Off**

Under no circumstance should director-related credits be granted at concessionary interest rates. For the avoidance of doubt, all director-related credit must be granted at the normal lending rates of the MFB, without exception.

No insider-related credit, whether performing or non-performing can be written-off without the prior approval of the CBN in writing.

### **Reporting Requirement**

To facilitate close monitoring of the level of insider-related credits and other corporate governance issues, Heads of Internal Audit Departments of MFBs are required to submit an Internal Audit Report, on quarterly basis, not later than 14 days after the end of the quarter, beginning from the first quarter of 2009. The report shall specifically address the following issues:

i) Schedule on insider-related credits – name of the borrower, related director, when granted, amount outstanding and expiry date. ii) Schedule on non-performing credits (whether insider-related, or not)

Effectiveness of Credit Policies and Procedures.

Governance issues – effectiveness of the board and board committees, as well as management and staff.

Fraud and forgeries and attempted fraud.

Internal controls in place

Risk management system and policies to mitigate risks viii) Level of quarterly operational expenses, relative to earnings, previous quarter and corresponding quarter in the previous year.

### **Code of Conduct for Directors**

All directors are by this circular reminded to complete and execute the Code of Conduct forms for directors, a copy of which should remain in the directors' personal files in the bank.

Finally, these measures are necessary to curb the excesses of some directors and to safeguard the safety and soundness of the institutions in the overriding interest of depositors and to ensure the sustainability of the MFBs.

O. A. Fabamwo

Ag. Director,

Other Financial Institutions Department

**IMPORTANT NOTICE ON THE DEADLINE FOR CONVERSION OF EXISTING COMMUNITY BANKS (CBs) TO MICROFINANCE BANKS (MFBs)**

**TO THE CHAIRMEN, DIRECTORS, MANAGERS AND STAFF OF ALL COMMUNITY BANKS**

**1. Submission of Applications for Conversion**

The Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, which was launched by The President, Chief Olusegun Obasanjo, GCFR on 15<sup>th</sup> December, 2005 stipulated a two-year period ending 31<sup>st</sup> December, 2007 for all existing community banks (CBs) to convert to microfinance banks (MFBs).

As the deadline for the conversion of existing CBs to MFBs gradually approaches, it has become necessary to advise all CBs that have already met the minimum capital requirement of ₦20 million shareholders' funds, unimpaired by losses, for a unit MFB, or ₦1.0 billion, for a state MFB, to submit their applications for conversion immediately. This is to avoid bunching of applications towards the deadline.

By the same token, all CBs that are yet to meet the minimum capital requirement are also urged to expedite action and explore all available options towards meeting the capital and documentation requirements for their conversion to MFBs, as stipulated in the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria and the Guidelines for Microfinance Banks in Nigeria.

**Deadline for Conversion to Microfinance Bank**

For the avoidance of doubt, it is necessary to categorically state that the 31<sup>st</sup> December, 2007 deadline for the conversion of CBs to MFBs is sacrosanct and will not be shifted for any reason.

**The Merger Option for Conversion to Microfinance Banks**

One of the options available to CBs for attaining the minimum capital requirement for conversion to MFBs, as stated in the CBN Circular No. OFID/DO/CIR/Vol.1/450 of 3<sup>rd</sup> February, 2006, is merger. A merger between two or more CBs is allowed, provided the merging acquisition institutions have jointly attained minimum shareholders' funds of ₦20 million, unimpaired by losses, for a unit MFB. One of the

offices of the merging CBs, where it has its dominant activities shall be the Head Office, while the other office(s) of the merging CBs shall be retained as approved Branches. However, new branches shall not be allowed for the emerging MFB, outside its state of dominant operations, until it has opened branches to cover two-thirds of the Local Government Areas (LGAs) in the state of dominant operation, where the Head Office is located.

Please feel free to contact the Central Bank of Nigeria for further clarification and assistance should the need arise.

Signed

**Director, Other Financial Institution Department,**

Central Bank of Nigeria, Lagos.

**GUIDELINES**

**FOR**

**BUREAUX DE CHANGE**

**OTHER FINANCIAL INSTITUTIONS DEPARTMENT  
CENTRAL BANK OF NIGERIA  
LAGOS**

## **1. INTRODUCTION**

1.1 These revised guidelines are issued by the Central Bank of Nigeria [hereinafter referred to as “the CBN or the Bank”] in exercise of the powers conferred on it by the Central Bank of Nigeria Act No 24 of 1991 [as amended] [hereinafter referred to as the CBN Act] and the Banks and Other Financial Institutions Act No. 25 of 1991 [as amended] [hereinafter referred to as “the BOFIA”].

1.2. A Bureau De Change [BDC] shall be construed as any company that is licensed to carry out small scale foreign exchange service in Nigeria and whose sole object is the carrying on of such business on a stand alone basis.

1.3 Small scale foreign exchange service shall be limited to dealing in bank notes, coins, buying and selling of Traveller's cheques and Such other businesses as the CBN may approve from time to time.

The licence of a Bureau De Change in Nigeria shall confer on the holder the rights and privileges of an approved buyer of foreign exchange in keeping with the standard of the financial services industry and in order to generate and maintain public confidence in the subsector.

For the avoidance of doubt, all independent micro foreign exchange outposts engaged in Bureau De Change Service are required to apply for licence under the provisions of the BOFIA No. 25 of 1991 [as amended].

## **2.0 APPLICATION FOR LICENCE**

2.1 Any organisation seeking a licence for the operation of a Bureau de Change business in Nigeria shall apply in writing to the Governor of the Central Bank of Nigeria in compliance with the CBN Act, the BOFIA and the Foreign Exchange [Monitoring and Miscellaneous Provisions] Act No. 17 of 1995.

**2.2 The application shall be accompanied with the following:**

**Note: All Bureaux de Change shall be “stand alone” companies**

A non-refundable application fee of N10,000.00 [five thousand Naira only] or such other amount as may be determined by the Bank from time to time in bank draft payable to the Central Bank of Nigeria.

Payment by the proposed shareholders for the shares subscribed to shall be by bank drafts only; cash payment will not be accepted.

Deposit of the prescribed minimum paid-up capital with the CBN until licence is issued.

A copy of detailed feasibility report containing information that will include

The aims and objectives of the proposed Bureau de change

The need for the services of the Bureau de change

The branch expansion programme [if any] within the first 5 years.

The proposed training programme for staff and management succession plan.

A five year financial projection for the operation of the proposed Bureau De Change, indicating expected growth and profitability.

Details of the assumptions which form the basis of the financial projection.

The organisational structure of the proposed Bureau De Change indicating the functions and responsibilities of the top management team.

The composition of the Board of Directors and the curriculum vitae of each member, including other directorships held [if any].

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

A copy of the draft Memorandum and Articles of Association.

A letter of intent to subscribe to the shares of the proposed Bureau De Change signed by each subscriber.

A copy of the list of the proposed shareholders in tabular form showing their business, and residential addresses and the names and addresses of their respective bankers.

The promoters shall reserve the proposed company's name for 120 days at the Corporate Affairs Commission (CAC).

No proposed Bureau De Change shall incorporate/register its name with the Corporate Affairs Commission until an approval in principle [AIP] has been obtained from the CBN, a copy of which shall be presented to the Corporate Affairs Commission.

In considering an application for a licence, the Bank shall require to be satisfied as to the following:

The quality of the management of the proposed Bureau De Change

The adequacy of the capital and earning prospects of the proposed Bureau De Change

The objects of the proposed Bureau De Change as disclosed in its Memorandum and Articles of Association which should agree with the services listed in the provisions of section [1] of these Revised Guidelines and circulars issued by the Bank from time to time.

The "fit and proper" person test of the shareholders, members of the board of directors and the top management.

That the payment for the shares by the shareholders meets the requirements in terms of mode (draft only allowed), properly receipted and documented:

If satisfied with the promoters' submission, the Bank may call upon the promoters to:

Submit the names of the proposed members of the top management.

Require the promoters to incorporate the company.



The bank will release 50% of the minimum paid-up capital at the grant of AIP and the balance at the grant of the operating licence.

Submit evidence of payment for shares proposed to be allotted to each prospective shareholder.

Thereafter, the Governor may grant a licence to the Bureau De Change.

The Bank may at anytime vary or review any condition of a licence or impose additional conditions.

Where a licence is granted subject to the fulfillment of certain conditions, the Bureau De Change shall comply with those conditions to the satisfaction of the CBN within such period as the CBN may specify.

### **3.0 FINANCIAL REQUIREMENTS**

3.1 The financial requirements which may vary whenever the CBN considers it necessary are as follows:

[a]	Minimum paid-up share capital	-	<u>₦</u> 10 million
[b]	Non-refundable application fee	-	<u>₦</u> 10,000.00
[c]	Non refundable licensing fee	-	<u>₦</u> 100,000.00
[d]	Non refundable annual licensing renewal fee [payable within the first quarter of subsequent year]	-	<u>₦</u> 10,000.00
	Non-refundable change of name fee	-	<u>₦</u> 10,000.00
	Mandatory [caution money] Deposit	-	<u>₦</u> 1,000,000.00

The licence shall be renewable annually subject to full compliance with these guidelines and payment of annual renewal fee as stipulated above.

Every Bureau De Change shall be required to be a member of the Association of Bureaux De Change of Nigeria [ABCON].

Any Bureau De Change seeking renewal of its licence shall be required to show evidence of current membership of the Association of Bureaux De Change Operators of Nigeria [ABCON].

Every licensed Bureau De Change shall maintain a mandatory deposit of N1,000,000.00 [as stipulated above] with the Central Bank of Nigeria as a caution money for the purpose of paying bonafide claimants in the event of default or liquidation of the Bureau De Change. Such fund shall be invested in Government securities by the CBN and any income accruing thereon shall be paid to the Bureau De Change periodically. If, for any reason, the principal, i.e the mandatory deposit should fall below the N1,000,000.00 level, the company [BDC] shall be required to make up the shortfall within fourteen [14] days.

3.6 The licensing fee and mandatory deposit shall be paid within 3 months of the grant of Approval-In-Principle, but before issuance of licence.

#### 4.0 **MANAGEMENT REQUIREMENTS**

4.1 The number of directors on the board of a Bureau De Change shall be a minimum of three [3] and a maximum of five [5]. The appointment of directors shall be subject at all times to the approval of the CBN.

4.2 The following minimum qualifications and experience are mandatory for officers who shall occupy the key/top management positions in BDC.

#### 4.3 **MANAGING DIRECTOR/CHIEF EXECUTIVE**

A recognized University degree or its equivalent with a minimum of 5 years relevant post qualification experience.

#### 4.4 **SENIOR MANAGEMENT OFFICERS/MANAGERS**

A recognized University degree or its equivalent with a minimum of 3 years relevant post qualification experience.

#### **4.5 SUPPORT STAFF/CASHIER**

Any person with any other qualifications or experience that may be considered adequate by the CBN can hold any of the positions in [4.3], [4.4], [4.5] within the institution.

4.6 Every BDC shall be required to obtain the approval of the CBN for its organisational structure and top management staff and changes made therein.

#### **5.0 DISQUALIFICATION AND EXCLUSION OF CERTAIN INDIVIDUALS FROM THE MANAGEMENT OF BUREAUX DE CHANGE IN NIGERIA**

In line with the BOFI Act No. 25 of 1991 [as amended], all the conditions stipulating the exclusion of certain individuals from the management of banks, shall apply to the management of BDCs except with written permission of the Governor of the CBN.

#### **6.0 CONDITIONS PRECEDENT TO THE COMMENCEMENT OF OPERATIONS**

**6.1** The promoters of a BDC shall submit the following documents to the CBN before such a company is permitted to commence operations.

- i. A Certified True Copy of the shareholders register in which the equity interest of each shareholder is properly reflected together with the original for sighting.
- ii. A copy of the share certificate issued to each shareholder.
- iii. A certified true copy of the Form CO2 [Return of Allotments] filed with the Corporate Affairs Commission.
- iv. A certified true copy of the Form CO7 [particulars of directors] and written confirmation that the Board of Directors approved by the CBN has been installed.
- v. A certified true copy of the Memorandum and Articles of Association, filed with the Corporate Affairs Commission.

- vi. The opening statement of affairs audited by an approved firm of accountants practising in Nigeria.
  - vii. A certified true copy of the certificate of Incorporation of the company [together with the original for sighting purposes only].
  - viii. A Copy each of the letters of offer and acceptance of employment by the management staff and a written confirmation that the management team approved by the CBN has been installed.
  - ix. The BDC shall inform the CBN of the location and address of its registered office or business premises.
  - x. The BDC shall be informed in writing by the CBN that it may commence business after the physical inspection of its premises, and after the Bank must have been satisfied that necessary equipment have been put in place.
- 6.4. The BDC shall inform the CBN in writing of the date of commencement of business.

## **7.0 SOURCES OF FUNDS**

The sources of funds of a BDC shall consist of the following:

7.1 Equity, that is, paid up capital and reserves

7.2 Acquired foreign exchange for the purpose of re-selling. While a BDC may purchase forex from autonomous sources, it shall not take or accept deposits as defined in Section 61 of BOFI Act 25,1991 [as amended] or any other subsequent amendment.

## **8.00 OPERATIONS OF BUREAUX DE CHANGE**

8.1 Every Bureau De Change in Nigeria shall deal in bank notes, coins, buying and selling of Travellers' cheques.

8.2 The foreign currencies dealt in by a Bureau De Change shall be derived from private sources or such other sources, including the IFEM, as the Central Bank of Nigeria shall define from time to time for the purpose of Business Travel Allowance [BTA] and Personal Travel Allowance [PTA].

8.3 Bureaux De Change shall acquire their Travellers' cheques for resale from appropriate travellers' cheques companies.

8.4 Any person wishing to sell foreign currency to a Bureau De Change shall not be required, and if so required, shall not be obliged to disclose the source. The Bureau De Change should however, ascertain the genuineness of the foreign currency. In the case of travellers' cheques, it should confirm the seller's identity in the conventional way i.e. by sighting the seller's passport for relevant endorsement.

8.5 Transactions shall be on a cash and carry basis. For the avoidance of doubt, forward transactions by Bureaux De Change are not allowed.

8.6 The maximum amount per transaction for a BDC shall be determined from time to time by the CBN with respect to business and personal travel allowances.

8.7 Each licenced Bureau De Change shall be free to quote its buying [bid] and selling [ask] rates subject to a maximum spread of 2% between the buying and selling rates.

8.8 The maximum commission chargeable for banknotes and travellers' cheques shall be 3 of 1% in local currency.

8.9 The exchange rates and commission at which each Bureau De Change is prepared to transact business shall be **clearly** displayed and its business shall be done at those rates and commissions subject to the requirements of 8.5, 8.7 and 8.8.

8.10. Every Bureau De Change shall keep proper registers and other records of **all** its transactions for the purpose of enhancing business efficiency. Furthermore, a machine list or receipts showing how the amount paid to or by a customer was arrived at, should be issued by the Bureau De Change.

8.11. There is no documentation required in respect of the sale or purchase of foreign exchange by customers except for foreign exchange acquired from IFEM for the purposes of BTA and PTA, such documents are as prescribed by the CBN.

8.12. Purchases of foreign currencies by intending travelers shall be supported by a **validly** issued and **genuine** ticket (duly completed Form A, a Current Passport with valid visa), and the amount shall be endorsed on the passport. In such cases a photocopy of the ticket and relevant pages of the passport shall be kept by the bureaux de change.

8.13. Every Bureau De Change shall transact business only at its registered office location or premises specifically approved by the CBN for that purpose and conspicuously located and clearly designated. Any Bureau De Change that operates outside its location or premises without appropriate approval from the CBN, upon a report by ABCON or and confirmation by the CBN would have its licence revoked.

8.14. It shall be a ground for the revocation of a bureau de change licence should any street trader involved in the sale of foreign currencies have any relationship with a licensed bureau de change.

8.15. Every Bureau De Change shall fix its hours of business which shall be **clearly** displayed.

8.16. Transactions between Bureaux De Change are allowed but such transactions shall be conducted at rates negotiated between themselves. In the case of any dispute, such should be reported to ABCON and the CBN.

8.17. It is mandatory for a Bureau De Change to open both foreign exchange domiciliary account and Naira accounts with authorised dealers in Nigeria and inform the CBN accordingly.

8.18. The foreign exchange and naira accounts so opened as provided in 8.16 above shall be used solely for day to day operations.

8.19. Every licensed BDC shall render monthly returns to the CBN and ABCON on its sources and utilisation of forex.

## **9.0 ECOWAS TRAVELLERS CHEQUES [ETC]**

9.1 For the purpose of foreign exchange needed for ECOWAS Travelers Cheques [ETC] operations, a BDC shall obtain its supply from the interbank foreign exchange market [IFEM] at the ruling market rate.

9.2 BDCs will be required to channel their demand for forex through designated banks with whom arrangements have been made by ABCON.

9.3 For the purpose of transparency, each BDC will liaise directly with the authorised dealers or designated banks to confirm the rates of transaction.

9.4 The designated banks shall debit directly the account of BDCs that require forex for ETC purpose.

9.5. Returns of the total transactions per week will be compiled by ABCON and the designated banks.

9.6. BDCs will be required to obtain from each customer appropriate documentation for the sale of forex acquired from IFEM viz Form A, photocopy of passport, air ticket, for BTA.

9.7 The CBN shall conduct an examination to verify the utilization of forex acquired through IFEM and its documentation at ABCON secretariat and the designated bank[s]. For the avoidance of doubt, funds acquired from IFEM shall be used mainly for the purpose of ETC operations. This is to promote trade in the West Africa sub-region.

## **10.0 TRANSACTIONS NOT ALLOWED**

10.1 Engaging in off-shore business or maintaining foreign correspondence relationship.

10.2. Establishment of letters of credit or engaging in any import related activities.

10.3. Engaging directly or indirectly in any form of outward and inward foreign currency transfer activities and credit card services.

10.4 No Bureau De Change shall maintain a foreign account in whatever form including domiciliary account, in any bank, except those stipulated in 8.16.

10.5 Round-tripping of foreign exchange [currency] acquired from IFEM is prohibited.

10.6 Street trading of Forex.

#### **11.0 SUPERVISION AND MONITORING OF BUREAUX DE CHANGE**

11.1 The Central Bank of Nigeria shall supervise and monitor the operations of the Bureaux De Change to ensure the orderly conduct and development of this segment of the Autonomous Foreign Exchange Market.

11.2 The full list of licensed Bureaux De Change and their registered places of business shall be published periodically by the CBN for the information and benefit of members of the public.

11.3 In compliance with the provisions of Section 58 [2] [b] of BOFIA, every Bureau De Change shall render monthly returns to the Central Bank of Nigeria not later than 14 days after the end of the month to which the returns relate. The returns shall be rendered on the prescribed format stipulated by the CBN.

11.4 The records of the Bureaux De Change shall be made readily available to the CBN examiners for examination as and when requested.

11.5 Every operator of Bureaux De Change shall be required to sign the Code of Conduct for BDCs and shall ensure strict adherence to the code by the company and its staff.

#### **11.6 DISPLAY OF LICENCE**

Each Bureau De Change shall display a copy of its licence in a conspicuous position at its head office as well as in all its branches. In contravention, the BDC shall be penalised in line with section 60[1] of BOFIA, as amended.



### 11.7 **BRANCH EXPANSION/CLOSURE AND RELOCATION.**

No Bureau De Change shall open, close or relocate a branch without the prior approval in writing of the Bank.

11.8 Every application for the opening of a new branch shall be accompanied with the following documents:

- i. A copy of the Board resolution in support of the proposed branch.
- ii. A detailed feasibility report on the proposed branch showing:
- iii. The rationale for the proposed branch.
- iv. Initial capital outlay for the proposed branch.
- v. Projected income and expenditures for 3 years.
- vi. The proposed organisational structure of the proposed branch.
- vii. The staffing requirements.
- viii. The underlying assumptions for the financial projections in the report.
- ix. A Bureau De Change seeking approval for the opening of a new branch must have a track record of good financial performance, regularity in the rendition of all required returns, compliance with the laws, rules and guidelines and circulars.
- x. Every application for the closure of a branch or business operation of a BDC shall be accompanied with a copy of the Board resolution authorising the closure.

### 12.0 **INTERNAL CONTROLS**

Every Bureau De Change shall have an Internal Audit Unit which shall ensure that the operations of the company conform with the law, guidelines, directives and

circulars issued by the Bank as well as to its internal rules and regulations. Every fraud or attempted fraud must be promptly reported to the Director, Other Financial Institutions Department of the CBN.

### **13.0 APPROVAL OF AUDITED ACCOUNTS**

Every licensed BDC shall submit its audited financial statements to the CBN for approval, not later than 3 months after the end of its accounting year.

13.1 No Bureau De Change shall publish its Audited Accounts in the Newspaper without the approval in writing of the CBN.

### **14.0 GENERAL SELF REGULATORY INFORMATION**

Every licensed BDC shall be required to be a member of ABCON and shall comply with all the rules and regulations of the association.

### **15.0 REVOCAION OF LICENCE**

15.1 The Central Bank of Nigeria may at any time, revoke the licence of a Bureau De Change if it has reason to believe that it is not in the national interest for it to continue to operate in line with the provisions of CBN Act No. 24, 1991 [as amended] and the Foreign Exchange [Monitoring and Miscellaneous Provision Act] No 17 of 1995.

15.2 The grounds for revoking a licence granted to a Bureau De Change shall be any or all of the followings:

Where the BDC or any of its officers:

15.2.1 With intent to defraud, forge, mutilate, alter or deface any foreign currency, traveller=s cheques or other instruments of exchange in the foreign exchange markets.

15.2.2 Obtains foreign currency from any ineligible source or from an eligible source but in a fraudulent manner.

15.2.2 Fails to maintain the mandatory deposit of x1,00,000.00 as required by the CBN for up to six months within a period of twelve months..

15.2.4 Has been found guilty by a court of competent jurisdiction of fraudulent or dishonest practices.

15.2.5 Fails to operate within six [6] months after the grant of a licence.

15.2.6 Fails to render returns for six [6] consecutive months.

15.2.7 Is associated with street trading in foreign exchange.

15.2.8 Submits false information/data during and after the processing of the application for licence.

15.2.9 Persistently fails to comply with any guidelines directives or circulars of the CBN or provisions of BOFI Act for a period of six [6] months.

15.2.10 Engages in functions/activities outside the scope of its licence.

15.2.11 Failure to renew the licence within the first quarter of the year following the end of each calendar year ending December 31.

15.2.12 Engages in any other act or acts which in the opinion of the Central Bank of Nigeria constitutes a violation or breach of these guidelines, the BOFIA Act No 25 of 1991 [as amended] circulars and other regulations by the Central Bank of Nigeria.

**16.0** In line with the provision of BOFI Act No 25, 1991 [as amended] section 14 [2], where the Bank proposes to revoke the licence of any BDC pursuant to Section 15 of these guidelines, the bank shall give notice of its intention to the BDC and the BDC may within 30 days make representation [if any] to the Bank in respect thereof.

## **17.0 CHANGE IN THE OWNERSHIP STRUCTURE**

Except with the prior consent of the Bank, no Bureau De Change shall enter into an agreement or arrangement:

Which results in a change in the control or ownership of the BDC.

For sale, disposal or transfer of the whole, or any part of the business of the BDC or its licence issued for the business of BDC thereof.

For the amalgamation or merger of the BDC with any other person.

For the reconstruction/restructuring of the BDC

To employ a management agent or to transfer its business to any such agent. For the avoidance of doubt, any BDC wishing to go into a merger or and acquisition shall apply in writing to the Central Bank of Nigeria for approval.

## **18.0 RENEWAL OF LICENCE**

Every BDC licence shall expire on 31st December of each year and shall, be renewed within the first quarter of the subsequent year at a non-refundable fee of ₦10,000.00 [Ten thousand Naira only] or at such a fee as may be stipulated by the Bank from time to time, subject to its operations being satisfactory to the Bank. Failure to renew the operating licence would attract severe sanctions.

## **19.0 COMPLIANCE WITH LAWS, RULES AND REGULATIONS**

19.1 Every Bureau De Change shall comply with the requirements of the monetary policy guidelines, the provisions of BOFI Act 25, 1991 [as amended], all rules and regulations as well as circulars issued by the Bank on foreign exchange activities/business from time to time.

## **20.0 OFFENCES AND PENALTIES**

20.1 Any Bureau De Change which contravenes the provisions of these guidelines shall be liable to penalties as may be stipulated by the Bank in addition to prosecution in a court of competent jurisdiction.

## **21.0 AMENDMENT**

21.1 The Bank reserves the right to amend or revise the guidelines from time to time.

**Central Bank of Nigeria**

**GUIDELINES**

**FOR**

**PRIMARY MORTGAGE INSTITUTIONS**

**OTHER FINANCIAL INSTITUTIONS DEPARTMENT  
CENTRAL BANK OF NIGERIA  
LAGOS**

## **REVISED GUIDELINES FOR PRIMARY MORTGAGE INSTITUTIONS**

### **1. INTRODUCTION**

These revised guidelines are issued by the Central Bank of Nigeria [hereinafter referred to as “the CBN” or “the Bank”] in exercise of the powers conferred on it by the Central Bank of Nigeria Decree 24 of 1991 (as amended) [hereinafter referred to as “the CBN Decree”] and the Banks and Other Financial Institutions Decree No. 25 of 1991 (as amended) [hereinafter referred to as “the BOFID”].

A Primary Mortgage Institution [PMI] shall be construed as any company that is licensed to carry out mortgage business in Nigeria.

Mortgage business shall include the following:

- granting of loans or advances to any person for the building, improvement or extension of a dwelling/commercial house;
- granting loans and advances to any person for the purchase or construction of a dwelling/commercial house;
- Acceptance of savings and deposits from the public and payment of interest thereon;
- management of pension funds/schemes;
- offering of technical advisory services for the purchase or construction of a dwelling house;
- performing estate management duties;
- offering of project consultancy services for estate development;
- engaging in estate development through loan syndication, subject to the restriction imposed by the shareholders’ funds unimpaired by losses;
- engaging in property trading including land acquisition and disposal;
- Engaging in other activities which the Bank may approve from time to time.

## **2. APPLICATION FOR LICENCE**

Any person seeking a licence for the operation of a primary mortgage business in Nigeria shall apply in writing to the Governor of the Central Bank of Nigeria. The application shall be accompanied with the following:

a non-refundable application fee of ₦50,000.00 [Fifty thousand Naira only] or any other amount that may be determined by the Bank from time to time in bank draft payable to the Central Bank of Nigeria.

Two [2] copies of detailed feasibility report containing information that will include:

- I. the objectives and aims of the proposed mortgage institution;
- II. the need for the services of the mortgage institution;
- III. the branch expansion programme [if any] within the first 5 years;
- IV. the proposed training programme for staff and management succession plan;
- V. a five year financial projection for the operation of the primary mortgage institution indicating expected growth and profitability;
- VI. details of the assumptions which form the basis of the financial projection;
- VII. the organizational structure of the mortgage institution indicating the functions and responsibilities of the top management team;
- VIII. the composition of the Board of Directors and the curriculum vitae of each member including other directorships held [if any];
- IX. the conclusions based on the assumptions made in the feasibility report.
- X. two [2] copies of the draft Memorandum and Articles of Association;
- XI. a letter of intent to subscribe to the share of the proposed mortgage institution signed by each subscriber;



- XII. two [2] copies of the list of proposed shareholders in tabular form showing their business and residential addresses and the names and addresses of their bankers;
- XIII. no proposed primary mortgage institution shall incorporate/register its name with the Corporate
- XIV. Affairs Commission until an approval in principle has been obtained from the CBN, a copy of which shall be presented to the Corporate Affairs Commission;

If satisfied with the promoters' submissions, the Bank may call upon the promoters to:

- I. deposit the prescribed minimum capital in bank draft, payable to the CBN; and
- II. submit evidence of payment by each proposed shareholder;
- III. thereafter, the Governor may grant a licence to a primary mortgage institution;
- IV. the Bank may at any time vary or review any condition of a licence or impose additional conditions;

where a licence is granted subject to conditions, the primary mortgage institution shall comply with those conditions to the satisfaction of the CBN within such period as the CBN may deem appropriate in the circumstances. Any PMI that fails to comply with such conditions shall be guilty of an offence under BOFID 1991 [as amended].

### **3. FINANCIAL REQUIREMENTS**

The financial requirements which may be varied as the CBN considers necessary are as follows:

Minimum paid-up share capital - -100 million

Non-refundable application fee -	-50,000
Non-refundable licensing fee	- 100,000
Change of name fee	- 10,000

#### **4. MANAGEMENT REQUIREMENTS**

The number of directors on the board of a primary mortgage institution shall be a minimum of three [3] and a maximum of seven [7].

The following minimum qualifications and experience are mandatory for officers who may occupy the key/top management positions in a PMI.

Managing Director/Chief Executive - a recognised University Degree or Professional qualification with at least 10 years post qualification experience in relevant field.

Departmental Head - a recognised University Degree or Professional qualification with at least 5 years post qualification experience in relevant field.

Support staff - shall be qualified and of proven ability.

Any person with any other qualifications or experience that may be considered adequate by the CBN can hold any of positions [i], [ii] and [iii] within the institution. Every PMI shall be required to obtain approval of CBN for its organisational structure and top management team.

#### **5. CONDITIONS PRECEDENT TO THE COMMENCEMENT OF OPERATIONS**

i. The promoters of a PMI shall submit the following documents to the CBN before such company is permitted to commence operations.

a. Certified True Copy of the shareholders' register in which the equity interest of each shareholder is properly reflected [together with the original for sighting].

b. A copy of the share certificate issued to each shareholder.

- c. Three [3] certified true copies of Form C02 [Return of Allotments] filed with the Corporate Affairs Commission.
  - d. Three [3] certified true copies of form C07 [Particulars of directors] and written confirmation that the Board of Directors approved by the CBN has been installed.
  - e. Three [3] certified true copies of the Memorandum and Articles of Association filed with the Corporate Affairs Commission.
  - f. The opening statement of affairs audited by an approved firm of accountants practicing in Nigeria.
  - g. Three [3] certified true copies of the certificate of incorporation of the company [together with the original for sighting purposes only].
  - h. Two [2] copies of letters of offer and acceptance of employment by management staff and a written confirmation that the management team approved by the CBN had been installed.
- ii The PMI shall inform the CBN of the location and address of its Head Office.
  - iii The PMI shall be informed in writing by the CBN that it may commence business after physical inspection of its premises.
  - iv The PMI shall inform the CBN in writing of the date of commencement of business.

## **6. SOURCES OF FUNDS**

The sources of funds of a PMI shall consist of the following:

- I. Equity paid-up share capital and reserves.
- II. Debenture/other loans.
- III. Funds from NHF.
- IV. Deposits.

## **7. RENDITION OF RETURNS**

In compliance with the provisions of sections 58[2] [b] of BOFID the following returns are to be submitted to the Bank by every primary mortgage institution:

Approved Annual Operational Budget.

### **Monthly:**

- I. statement of assets and liabilities;
- II. report on interest rates;
- III. schedule of other liabilities [should include breakdown of other liabilities];
- IV. breakdown of other liabilities;
- V. schedule of other assets;
- VI. breakdown of other assets;
- VII. schedule of placements with banks in Nigeria;
- VIII. schedule of takings from banks;
- IX. schedule of takings from other financial institutions;
- X. schedule of commercial papers;
- XI. schedule of money at call with banks;
- XII. schedule of money at call from banks;
- XIII. schedule of placement with other financial institutions;
- XIV. schedule of money at call with other financial institutions;
- XV. schedule of money at call from other financial institutions;
- XVI. schedule of loans and advances to banks in Nigeria;
- XVII. schedule of loans and advances from banks in Nigeria;
- XVIII. schedule of loans and advances to other financial institutions in Nigeria;
- XIX. schedule of loans and advances from other financial institutions in Nigeria;
- XX. schedule of Bankers Acceptances;
- XXI. schedule of other creditors;
- XXII. schedule of current account balances with banks in Nigeria;
- XXIII. schedule of current account balances due to banks in Nigeria;
- XXIV. schedule of credit approvals and disbursement by sub-sector;
- XXV. report on undrawn commitments;

- XXVI. funds sources and interest costs;
- XXVII. report on deposit ownership;
- XXVIII. report on lending above statutory limit;
- XXIX. report on dismissed/terminated staff;
- XXX. returns on fraud and forgeries.

**Quarterly:**

Management accounts;  
Schedule of non-interest income;  
Schedule of non-performing credit;  
Schedule of non-performing other assets;  
Schedule of off-balance sheet engagements [contingent liabilities];  
Report on credit to directors and officers of the mortgage institutions;  
Report on equity investment and debenture;  
Report on top users of funds.

**Annually:**

Audited Financial Statements.

**Deadline for Submission of Returns:**

Every primary mortgage institution shall submit the required returns to the Bank within the period specified as follows:

Approved annual operational budget - not later than 28 days before or after the beginning of the financial year of such primary mortgage institution.

Monthly - not later than fourteen [14] days after the end of each month.

Quarterly - not later than fourteen [14] days after the end of each quarter.

Annually - not later than four [4] months after the end of each accounting year.

## **8. PUBLICATION OF AUDITED ACCOUNTS**

- i. Every primary mortgage institution shall submit its audited financial statements and the abridged version of the accounts to the Director of Other Financial Institutions Department for approval before publication not later than four [4] months after the end of the company's financial year.
  - ii After approval, the primary mortgage company shall publish the accounts in at least one national daily newspaper.
  - iii. Every published account shall disclose in detail the penalties paid as a result of contravention of the BOFID and any policy guidelines in force during the year in question and the auditors' report shall reflect such contravention.
  - iv A copy of the newspaper in which the approved account is published shall be forwarded to the Central Bank of Nigeria.
  - v. Any company that fails to comply with any of the above requirements shall be liable to a fine not exceeding ₦10,000.00 for each day during which the offence continues.
- b.[i] Every audited financial statements must bear the auditors' signatures, seal and certification stamp.
- ii The financial statements must be accompanied with:
    - a. the abridged version of the accounts; and
    - b. the domestic report [management letter] from the approved auditor of the PMI.
  - iii. **Audit Opinion on Going-Concern:**

Every audited financial statement of a primary mortgage institution shall contain opinion on the ability of such an institution to continue into the foreseeable future as required by the International Auditing Guidelines No. 23 on going concern.

iv Any auditor that fails to comply with the requirement of this section shall have its appointment determined by the Bank.

#### **9.[1] PENALTIES FOR LATE OR FALSE/INACCURATE RETURNS OR OTHER INFORMATION**

Lateness in the submission of return/furnishing any required information, shall attract a fine of ₦5,000 per day.

Persistent failure/refusal to render the required returns in the prescribed form for a period of six [6] months shall be a ground for the revocation of operating licence of a primary mortgage institution.

Where the Bank considers it necessary, it may appoint a firm of qualified accountants to prepare proper books of accounts or render accurate returns as the case may be for a primary mortgage institution and the cost of preparing the accounts or rendering the returns shall be borne by the primary mortgage institution.

If any director or officer of a primary mortgage institution fails to take all reasonable steps to ensure that proper books of accounts are kept with respect to all transactions by the company at its Head Office and/or at its branches, the Governor may impose on him a fine not exceeding ₦50,000.00. If any default in this respect is caused by the wilful act of any director or officer of the primary mortgage institution, the Governor may impose on him a fine not exceeding ₦250,000.00 or cause the removal of such director or officer of the primary mortgage institution in order to protect the integrity and reliability of the financial system.

Such director or officer of the institution so removed on the ground of lack of transparency and/or unethical practices shall be blacklisted from holding any position either as director or officer in any bank, primary mortgage institution or other financial institution under the supervisory purview of the Central bank of Nigeria.

Any other directorship held in any bank, primary mortgage institution or any other financial institution before the action in [v] shall accordingly cease forthwith.

In addition, the Central Bank of Nigeria may impose on the primary mortgage institution such other penalties as are deemed appropriate.

## **9.[2]**

Where a PMI or its director or officer supplies information which he knows to be false or supplies the information recklessly as to its truth or falsity or fails to supply information as required by the Bank or Bank Examiner as the case may be, such PMI or its officer or director shall be guilty of an offence under this section.

For false supply of information or failure to supply the required information appropriate sanctions shall be imposed as follows:

In the case of an institution, a fine of not less than ₦100,000 or more than ₦500,000 shall be imposed.

In the case of a person, a fine of not less than ₦50,000 or more than ₦200,000 including other disciplinary action the Bank may deem necessary in the circumstance.

## **10. PRUDENTIAL REQUIREMENTS**

Every primary mortgage institution shall comply with the following prudential requirements:

**Cash Reserve Ratio [CRR]:** A minimum cash reserve ratio of two percent [2%] of deposit liabilities.

**Liquidity Ratio:** A minimum ratio of twenty percent [20%] on specified liquid assets against deposit liabilities. Specified liquid assets shall include treasury bills, fund placements, money at call and short-term investments with not more than 90 days maturity.

**Capital Adequacy Ratio [CAR]:** A minimum capital adequacy ratio of ten percent [10%] against risk assets.

**Mortgage Assets to Total Assets Ratio:** A minimum of thirty percent [30%] of mortgage assets to total assets.



**Mortgage Assets to Loanable Funds Ratio:** A minimum of 60% of loanable funds should be used in the creation of mortgage assets. For the avoidance of doubt, loanable funds shall be construed as the amount of total deposit liabilities of a primary mortgage institution.

**Fixed Assets/Long-term Investments and Branch Expansion:** No primary mortgage institution shall be allowed to finance any of the following other than from the shareholders' funds unimpaired by losses:

- i acquisition of fixed assets;
- ii equity investments and investment in long-term debentures;

branch expansion:

In consideration of request for any or a combination of the above options, reference shall be made to the aggregate value of the listed items against the shareholders' funds unimpaired by losses.

for the avoidance of doubt, the eligible shareholders' funds shall be derived only from the most recent audited financial statement approved by the Bank.

**Maximum equity Investment Holding Ratio:** No primary mortgage institution shall invest more than twenty-five percent [25%] of its shareholders' funds unimpaired by losses in the equity share of any venture or undertakings without the prior approval of the Bank.

**Capital Funds to Net Credit Ratio:** Every primary mortgage institution shall maintain at all times a minimum ratio of 1:10 between its shareholders' funds unimpaired by losses and net credits.

**Minimum Exposure to a Single Borrower [Single Obligor Limit]:** No primary mortgage institution shall grant credit which in aggregate value is more than fifty percent [50%] of its shareholders' funds unimpaired by losses to a single borrower whether individual, group or corporate entities. For avoidance of doubt, the credit as applicable to this section shall include any advance, loan, financial guarantee, credit facility or any other liability; and for the purpose of this section, all advances, loans or credit facilities extended to any person shall be aggregated in the

determination of the specified limit and shall include all credits extended to any subsidiaries or associates of a body corporate.

Every director and manager of a primary mortgage institution who during his or her tenure fails to ensure compliance with the prudential requirements for a period of not less than six months without sufficient evidence of efforts being made towards the rectification of the deficiency shall have his appointment determined by the Bank including blacklisting from holding any position in any financial institution under the supervisory purview of the CBN. In the case of a director of a primary mortgage institution who is also on the Board of any other financial institution under the supervisory purview of the Bank, the committal of the foregoing contravention is a ground also for the determination of his continued membership of the Board of such other financial institution.

The bank shall however, inform in writing the Board of every primary mortgage institution of the observed prudential deficiency and shall request it to forward its action plan.

Any contravention or non-compliance with any of the prudential ratios shall be a ground for the revocation of the licence to operate a primary mortgage business.

## **11. MAINTENANCE OF STATUTORY RESERVES**

Every primary mortgage institution shall maintain a reserve fund and shall out of its net profit after taxation and before any dividend is declared, transfer to the statutory reserves:

- i where the reserve fund is less than the paid-up share capital, a minimum of 20% of the net profits; or
- ii where the reserve fund is equal to or in excess of the paid-up share capital, a minimum of 10% of net profit;
- iii no transfer to the reserve fund shall be made until all identifiable losses have been made good.

## 12. APPOINTMENTS OF DIRECTORS AND MANAGEMENT STAFF

Every appointment of a director or management staff by any primary mortgage institution shall be with the prior written approval of the Bank.

For this purpose:

In the case of director[s] the following documents shall be submitted to the Bank:

- a copy of the resolution of an Annual General Meeting [AGM] or an ExtraOrdinary General Meeting [EGM] in the case of a reconstitution of the Board of directors of a PMI;
- a copy of the resolution of the Board of directors of such primary mortgage institution in case of filling a vacancy or more due to retirement, resignation or death;
- a copy of a detailed curriculum vitae of the proposed director which shall contain career history to date and any other directorship appointments;
- after obtaining the approval of the Bank, the primary mortgage institution shall forward the following documents:
  - a certified true copy of form C07 [particulars of directors] reflecting the change in Board composition;
  - a duly completed director's code of conduct form obtained from the Bank.
- In the case of a management staff, the primary mortgage institution shall submit the following documents to the Bank:
  - a copy of the operating organisational structure approved by the Bank;
  - a copy of the Board resolution signed by a director and the Company Secretary in support of the appointment;

- a copy of the detailed curriculum vitae of the appointee showing educational attainments and career history.

Any primary mortgage institution that contravenes the requirement of this section shall be subject to appropriate sanction by the Bank.

### **13. APPOINTMENTS OF AUDITORS**

Every primary mortgage institution shall appoint a person approved by the Bank as “the approved auditor”.

The duties of the approved auditor shall include the issuance of a report to the shareholders on the financial statements of a mortgage institution and such report shall contain statements as to the matters and such other information that may be prescribed from time to time by the Bank.

The report of the approved auditor shall be read together with the report of the directors at the annual general meeting of the shareholders of the mortgage institution.

The approved auditor shall be an auditor who satisfies the following requirements:

- a) a member of a recognised professional accountancy body in Nigeria;
- b) approved by the Central Bank of Nigeria;
- c) resident in Nigeria;
- d) carrying on in Nigeria a professional practice as an accountant and/or auditor.

No person shall be appointed as the auditor of a primary mortgage institution if:

- he has any interest in that institution otherwise than as a depositor
- he is a director, officer or agent of such institution

- it is a firm in which a director of the primary mortgage institution has any interest as partner or director he is indebted to the primary mortgage institution.
- Any auditor who, after appointment, is subsequently affected by section V [a-d] shall immediately cease to continue as an auditor of the primary mortgage institution.

If an approved auditor in the course of his duties as an auditor of a primary mortgage institution is satisfied that:

- a. there has been a contravention of BOFID 1991 as amended or that an offence under any other law, guidelines, circulars, etc. has been committed by the primary mortgage institution or any of its officers; or
- b. losses have been incurred by the primary mortgage institution which substantially reduce its capital funds; or
- c. any irregularity which jeopardises the interest of depositors or creditors of the mortgage institution or any other irregularity has occurred; or
- d. he is unable to confirm that the claims of depositors or creditors are covered by the assets of the mortgage institution, he shall immediately report the matter to the Central Bank of Nigeria.

The approved auditor shall also forward to the CBN two [2] copies of a domestic report on the activities of the mortgage institution not later than four [4] months after the end of the financial year of such mortgage institution.

The approved auditor shall have the right of access at all times to all books, accounts and vouchers of the mortgage institution and shall be entitled to require from the directors, managers and officers of the mortgage institution all information and explanations that he considers necessary for the performance of his audit.

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

The appointment of an approved auditor shall not be determined without a prior written approval of CBN.

Any approved auditor who acts in contravention of the foregoing requirements or fails deliberately or negligently to comply with the requirements of this section shall be liable to a fine of a maximum of ₦250,000 or a determination of his status as an approved auditor to all financial institutions under the supervisory purview of the CBN.

#### **14. ADVERTISEMENTS**

Every primary mortgage institution shall comply with the guidelines on advertisements issued by the Central Bank of Nigeria.

#### **15. BRANCH EXPANSION/CLOSURE**

No mortgage institution shall open or close a branch without the prior approval in writing of the Bank.

Every application for the opening of a new branch shall be accompanied with the following documents:

- I. a copy of Board resolution in support of the proposed branch
- II. a detailed feasibility report on the proposed branch showing:
  - the rationale for the proposed branch
  - the initial capital outlay for the proposed branch
  - projected income and expenditures for a 3-year period
  - the proposed organisational structure of the proposed branch
  - the staffing requirements

- the assumption for the financial projection in the report.

The primary mortgage institution seeking approval for the opening of a new branch must have a track record of good financial performance, regularity in the rendition of all required returns, compliance with laws, rules and regulations.

Every application for the closure of a branch shall be accompanied with the following:

- I. a copy of Board resolution authorising the closure
- II. reasons for the closure with relevant evidence
- III. arrangement put in place to settle the customers of the affected branch.

## **16. ACCESS TO THE NATIONAL HOUSING FUNDS FACILITY [NHFF]**

No primary mortgage institution shall be allowed to apply for the NHFF without obtaining from the Bank a written approval/clearance of its capacity to be considered for such facilities.

In appraising requests from the primary mortgage institutions, the Bank shall take into consideration the following factors:

- I. compliance with the minimum paid-up share capital and capital adequacy ratio;
- II. asset quality;
- III. management competence/stability;
- IV. the integrity of the directors of the primary mortgage institution;
- V. earnings trends;
- VI. liquidity; and
- VII. compliance with laws, rules and regulations.

The written approval/clearance from the Bank shall accompany every application by a cleared primary mortgage institution to the Federal Mortgage Bank of Nigeria [FMBN].

Every primary mortgage institution shall utilise wholly and exclusively all funds obtained from the NHF for mortgage lending or the creation of mortgage assets.

Aggregate funds obtained from the NHF shall be shown separately in the balance sheet of every primary mortgage institution.

Any audited financial statements of any primary mortgage institution that fails to show separately the aggregate funds obtained from the NHF in the balance sheet of such an institution shall not be considered for approval by the Bank.

Any primary mortgage institution that contravenes the requirement of this section shall be liable to a maximum fine of ₱100,000 in addition to such other sanctions the Bank may deem appropriate in the circumstance.

## **17. CHANGE IN THE OWNERSHIP STRUCTURE**

Except with the prior consent of the Bank, no primary mortgage institution shall enter into an agreement or arrangement.

Which results in a change in the control or ownership of the PMI for sale, disposal or transfer of the whole or any part of the business of the PMI for the amalgamation or merger of the PMI with any other person for the reconstruction of the PMI to employ a management agent or to transfer its business to any such agent.

## **18. COMPLIANCE WITH LAWS, RULES AND REGULATIONS**

Every primary mortgage institution shall comply with the requirements of the monetary policy guidelines, the provisions of Banks and Other Financial Institutions Decree, 1991 [as amended], all rules and regulations, as well as circulars issued by the Bank on mortgage activities from time to time.

## **19. PROHIBITIONS**

A primary mortgage institution shall not:

- a. grant any loan, advance or credit facility for the building, improvement or extension of a dwelling house unless adequate security has been taken on an existing property or the property in respect of which the loan or advance is being granted;



- b. grant to any person any loan, advance or credit facility or give any financial guarantee or incur any other liability on behalf of such person so that the total loan, advance, credit facility or guarantee is at any time more than fifty percent [50%] of the sum of the shareholders' funds unimpaired by losses;
- c. grant any loan, advance or credit facility on the security of its own shares;
- d. engage in any commercial, agricultural, industrial or any other undertaking without the prior approval of the Bank;
- e. pay dividend on its shares until all its preliminary expenses, organisational expenses, shares selling commission, amount of losses incurred and other capitalised expenses not represented by tangible assets have been completely written off and adequate provisions made on actual and contingent losses on risk assets;
- f. employ or continue the employment of any person who is or has at any time been adjudged bankrupt or has suspended payment to or has compounded with his creditors or who is or has been convicted by a court for an offence involving fraud, dishonesty or professional misconduct;
- g. appoint as a director without the consent of the Bank any person who is a director of:
  - any other PMI
  - a licensed bank
  - other financial institution/specialised banks under the supervisory purview of the Bank
- h. permit to be outstanding without the prior approval in writing of the Bank, unsecured advances, loans or credit facilities of an aggregate amount in excess of ₦100,000 to:
  - any of its directors whether such advances, loans or credit facilities are obtained by the directors jointly or severally;

- any firm, partnership or private company in which the PMI or any one or more of its directors is/are interested either directly or as a guarantor;
  - any public or private company in which the PMI or any one or more of its directors jointly or severally maintains shareholding of not less than five percent either directly or indirectly.
- i. engage in any business other than those for which it was licensed.

## **20. CONDITIONS FOR REVOCATION OF LICENCE**

The ground for the revocation of a licence granted to a primary mortgage institution may include any of the following:

- I. submission of false information/data during and after the processing of the application for licence;
- II. failure to comply with the minimum capital requirements;
- III. persistent failure to comply with any guidelines or directives of the CBN or provisions of BOFID for a period of six [6] months;
- IV. engaging in activities prejudicial to the Nigerian economy;
- V. having insufficient assets to meet its liabilities;
- VI. persistent failure to meet matured obligations to customers;
- VII. engaging in functions/activities outside the scope of the licence;
- VIII. any other act[s] which in the opinion of the CBN constitute[s] a violation of any of the provisions of these guidelines, the BOFID 1991 as amended, circulars and other regulations by the CBN.

## **21. GENERAL**

Any director who is involved in the management of a licensed primary mortgage institution shall cease to hold office if:

- I. he is declared bankrupt by a competent court;
- II. he is convicted of any offence involving fraud or dishonesty;
- III. he is of unsound mind.

No person who had been a director or directly involved in the management of a failed licenced primary mortgage institution, finance company, discount house, a bank or any other financial institutions shall; without the written authority of the Governor of Central Bank of Nigeria act or continue to act as a director or be indirectly involved in the management of any licenced primary mortgage institution.

Every primary mortgage institution is hereby informed of the maintenance by the Bank of a black book for directors, officers and employees of any financial institution who had committed acts relating to fraud, dishonesty and financial malpractices against their institutions. All primary mortgage institutions are therefore, enjoined to submit the names of such officers for the purpose of updating the black book.

The penalties for any breach of the provisions of these guidelines which are not expressly specified against the appropriate section of these guidelines or other regulations of the CBN shall be as set out in the relevant provisions of the CBN Decree and BOFID.

**Central Bank of Nigeria,  
Lagos**

**GUIDELINES FOR FINANCE COMPANIES**

**OTHER FINANCIAL INSTITUTIONS DEPARTMENT  
CENTRAL BANK OF NIGERIA  
LAGOS**

## **REVISED GUIDELINES FOR FINANCE COMPANIES**

### **1. INTRODUCTION**

These Revised Guidelines are issued by the Central Bank of Nigeria [CBN] in exercise of the powers conferred on it by the provisions of Section 28 of the CBN Act 24 of 1991 [as amended] and in pursuance of the provisions of Sections 56-61 of the Banks and Other Financial Institutions Act [BOFIA] 25, of 1991 [as amended]. The Revised Guidelines are to regulate the establishment, operations and other activities of Finance Companies.

A finance company, unless otherwise stated, means a person or company licensed to carry on finance company business. Finance Company Business means the business of providing financial services for consumers and to industrial, commercial, or agricultural enterprises.

Such services include:

- Funds management;
- Equipment leasing;
- Hire-purchase;
- Debts factoring and securitisation;
- Project financing or consultancy;
- Debt administration;
- LPO financing;
- Project financing;
- Export financing;
- Financial consultancy; and
- Issuing of vouchers, coupons, credit cards and token stamps and such other businesses as the CBN may, from time to time, designate.

Every company desiring to be licensed as a finance company shall be a stand alone@ basis and thus be strictly limited to solely engaging in finance company business as defined above.

## **2. APPLICATION FOR LICENCE**

Any person seeking a licence for a finance company business in Nigeria shall apply in writing to the Governor of the Central Bank of Nigeria. Such application shall be accompanied with the following:

- a. A non-refundable application fee of N10,000.00 [ten thousand Naira only] in bank draft, payable to the Central Bank of Nigeria.
- b. Deposit of the minimum capital of N20 million (Twenty million naira only) in bank draft made payable to the CBN. The capital thus deposited together with the accrued interest will be released to the promoters on the grant of the final licence.
- c. Satisfactory, verifiable and acceptable evidence of payment by the proposed shareholders of the minimum capital of N20 million.
- d. A copy of detailed feasibility report disclosing information that will include:
  - I. The objectives and aims of the proposed finance company.
  - II. The need for the services of the finance company.
  - III. The special services that the finance company intends to provide.
  - IV. The branch expansion programme [if any] within the first five years.
  - V. The proposed training programme for staff and management succession.
  - VI. A five-year financial projection for the operation of the finance company, indicating its expected growth and profitability.
  - VII. Details of the assumptions upon which the financial projection has been made.
  - VIII. The organizational structure of the finance company, setting out in detail, the functions and responsibilities of the top management team.
  - IX. The composition of the Board of Directors and the curriculum vitae of each member including other directorships held [if any].

- X. The conclusions based on the assumptions made in the feasibility report.
- XI. A copy of the draft Memorandum and Articles of Association.
- XII. A letter of intent to subscribe to the finance company, signed by each subscriber.
- XIII. A copy of the list of proposed shareholders in tabular form, showing their business and residential addresses [not post office addresses] and the names and addresses of their bankers.
- XIV. Names and curriculum vitae (CV) of the proposed members of the Board of directors. The Cvs must be personally signed and dated. The documents/items under paragraph (d) above.
- XV. No proposed finance company shall incorporate/register its name with the Corporate Affairs Commission until a written approval has been communicated to the promoters by the CBN, a copy of which shall be presented to the Corporate Affairs Commission.

In considering an application for a licence, the Bank shall require to be satisfied as to the following;

- I. The Minimum paid-up capital of N20 million is acceptable and the source is verifiable, satisfactory and acceptable.
- II. The quality of the management of the proposed company. The promoters would be required to submit the names and curriculum vita (cv) of the proposed top management team. The CVs must be personally signed and dated.
- III. The earnings prospect of the company.
- IV. The objects of the company as disclosed in its Memorandum and Articles of Association which should agree with the services listed in the provisions of Section 1 of these Revised Guidelines.

Thereafter, the Governor may grant a licence to a finance company.

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

Where a licence is granted subject to conditions, the finance company shall comply with those conditions to the satisfaction of the CBN within such period as the CBN may deem appropriate in the circumstances. Any finance company that fails to comply with such conditions shall be guilty of an offence under BOFIA 1991 [as amended].

### **3. FINANCIAL REQUIREMENTS**

The financial requirements, which may be varied whenever the CBN considers them necessary, are as follows:

x

Minimum paid-up capital	-	20,000,000.00
Non-refundable Application fee	-	10,000.00
Non-refundable Licensing fee	-	50,000.00
Non-refundable Annual Licensing Renewal fee	-	20,000.00

(Payable on the first working day of each calender year)

Change of Name fee	-	10,000.00
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### **4. DIRECTORS**

The maximum number of directors on the Board of a finance company shall be seven while the minimum shall be three. To qualify for the position of a director in a finance company, it is hereby required that the person(s) must not be current employees or directors of banks or other financial institutions, except the finance company is promoted by the banks or other financial institutions and are representing the interest of such institutions. In circumstances however, where current directors or employees of banks or Other financial institutions are proposed for the position of Director, the consent of their employers must be given in writing to the CBN.

The appointment of new directors must be preceded by CBN=s approval.

### **5. MANAGEMENT REQUIREMENTS**

The following minimum qualifications and experience are mandatory for officers who may occupy the key/top management positions in the finance company.

- I. Managing Director/Chief Executive - a recognized university degree or professional qualification with at least 7 years post-qualification experience in relevant fields.



- II. Departmental Head - a recognized university degree or professional qualification with at least 5 years post-qualification experience in relevant fields.
- III. Support staff - shall be qualified and be of proven ability.
- IV. A person with any other qualifications or experience that may be considered adequate by the CBN can hold any of positions [i], [ii] and [iii] within the organization.

## **6. CONDITIONS PRECEDENT TO THE COMMENCEMENT OF OPERATIONS**

The promoters of a finance company shall submit the following documents to the CBN before such finance company is permitted to commence operations:

- I. A copy of the shareholders= register in which the equity interest of each shareholder is properly reflected [together with the original for sighting].
  - II. A copy of the share certificate issued to each shareholder.
  - III. A certified true copy of Form C02 [Return of Allotments] filed with the Corporate Affairs Commission.
  - IV. A certified true copy of Form C07 [Particulars of Directors], and written confirmation that the Board of Directors approved by the CBN has been installed.
  - V. A certified true copy of the Memorandum and Articles of Association filed with the Corporate Affairs Commission.
  - VI. The opening statement of affairs audited by an approved firm of accountants practising in Nigeria.
6. A certified true copy of the certificate of incorporation of the company [together with the original for sighting purposes only].
- I. A copy each of the letters of offer and acceptance of employment by management staff and a written confirmation that the Management team approved by the CBN has been put in place.
  - II. A letter of undertaking to comply with all the rules and regulations guiding the operations of finance companies.

- III. Evidence of registration with the finance company=s association umbrella body.
- IV. The finance company shall inform the CBN of the location and address of its Head Office.
- V. The finance company shall be informed in writing by the CBN that it may commence business after physical inspection of its premises.
- VI. The finance company shall inform the CBN in writing of the date of commencement of business.

## **7. SOURCES OF FUNDS**

The sources of funds of a finance company shall consist of the following:

Shareholders= funds - paid-up capital and reserves.

### **Borrowings.**

While a finance company may borrow funds, it shall not take or accept deposits [as defined in section 61 of BOFIA 25, 1991 [as amended]].

## **8. RENDITION OF RETURNS**

In compliance with the provisions of section 58[2]b of BOFIA 25, 1991 [as amended] the following quarterly returns are to be submitted by every finance company:

- I. Statement of Assets and Liabilities.
- II. Schedule of Other Assets.
- III. Schedules of Other Liabilities.
- IV. Profit and Loss account.
- V. Schedule of Investments.
- VI. Schedule of balances held with banks.
- VII. Returns on Borrowings from other finance companies.
- VIII. Returns on Borrowings from other financial institutions.
- IX. Returns on Borrowings from individuals and non-financial institutions.
- X. Returns on credits to other finance companies.

- XI. Returns on credits to other financial institutions.
- XII. Returns on credits to individuals/non-financial institutions.
- XIII. Returns on other credits.
- XIV. Returns on credits to affiliates.
- XV. Returns on non-performing credits.
- XVI. Returns on off balance sheet engagements.
- XVII. Returns on non-performing other assets.
- XVIII. Other returns as may be specified by the CBN.

All quarterly returns must reach the Director of Other Financial Institutions, (OFID) Lagos not later than the 14th day of the month immediately following the end of the quarter. Bi-annual returns must also be sent to the Director, Other Financial Institutions Department (OFID), Lagos to reach him not later than the 14th day of the month following the end of the half year. The Managing Director/Chief Executive Officer and the Chief Accountant [or its equivalent] of the Finance Company shall sign and attach to every return made to the CBN a declaration of authenticity of its contents.

## **9. PUBLICATION OF AUDITED ACCOUNTS**

Every finance company shall submit its audited financial statements and the abridged version of the accounts to the Director of Other Financial Institutions for approval not later than four months after the end of the company's financial year. The Domestic Report on the Accounts from the External Auditors should be forwarded to the Director, Other Financial Institutions Department (OFID) not later than three months after the end of the accounting year. After approval, the finance company shall publish the accounts in at least one national daily newspaper. Every published account shall disclose in detail the penalties paid as a result of the contravention of BOFIA 25, 1991 [as amended] and any policy guidelines in force during the year in question and the auditor's report shall reflect such contraventions. Any company that fails to comply with any of the above requirements will be liable to a fine not exceeding x20,000.00 each day during which the offence continues.

## **10. PENALTIES FOR LATE OR FALSE/INACCURATE RETURNS OR OTHER INFORMATION**

For lateness in submitting a return/furnishing any information required, the penalty, shall be a fine of x2,500.00 for each day during which such failure occurs. Persistent failure/refusal to render returns in the prescribed form may be a ground for the revocation of a finance company=s licence.

Where the Bank considers it necessary, it may appoint a firm of qualified accountants to prepare proper books of account or render accurate returns, as the case may be, for the finance company concerned and the cost of preparing the account or rendering the returns shall be borne by the finance company.

If any Director or Officer of a finance company fails to take all reasonable steps to ensure that proper books of accounts are kept with respect to all transactions by the company at its Head Office and/or at its branches, the CBN may impose on him a fine not exceeding x20,000.00. If any default in this respect is caused by the wilful act of any Director or Officer of the Finance Company, the CBN may impose on him a fine not exceeding x100,000.00 or cause the removal of such Director or Officer in order to protect the integrity of the financial system. In addition, the Bank may impose on the Finance Company such other penalties as are deemed appropriate.

## **11. PRUDENTIAL REQUIREMENTS**

### **1. Capital Funds Adequacy**

The minimum Capital/Risk Weighted Assets Ratio for each Finance Company shall be 12.5%.

Furthermore, a finance company is expected to maintain a ratio of not less than 1:10 between its capital funds and net credits. When any of the above ratios fall below the prescribed level, the Finance Company may not do any or all of the following until the required ratio is restored:

- I. Grant credits and make investment.
- II. Pay dividend to shareholders.
- III. Borrow from the investing public.

In addition, the Finance Company may be required to submit within a specified period, a capital recapitalization plan acceptable to the CBN. Failure to comply with the above may constitute a ground for the revocation of the licence of the finance company or such other penalties as

may be deemed appropriate. Finance Companies are enjoined to ensure that their shareholders' funds do not fall below the required minimum paid-up capital.

## **2. Maintenance of Capital Funds**

Transfer to Statutory Reserve from profit after tax shall be at a minimum of 15% until the Reserve Fund equals the Paid-up Capital and a minimum of 10% thereafter. The CBN may vary from time to time the proportion of net profit transferable to Statutory Reserves. No accretion shall be made to the reserve fund until:

- i. All preliminary and pre-operational expenses have been written off;
- ii. Adequate provision has been made for loan loss/assets deterioration;
- iii. All identifiable losses have been fully provided for.

## **3. Payment of Dividend:**

No Dividend shall be paid until after:

All accumulated losses have been fully absorbed and written off.

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

Capital Adequacy ratio has been met.

All matured obligations have been met.

## **4. Limit of lending to a Single Borrower**

The maximum loan by a finance company to any person or maximum investment in any venture by a finance company shall be 20% of the finance company's shareholders' funds unimpaired by losses.

Any contravention will attract a penalty of x100,000.00 on the finance company and a fine of x10,000.00 on the directors/managers who failed to comply.

## **5. Borrowing Limits**

The minimum amount which a finance company can borrow from any one person or corporate organization is x50,000.00, subject to a total maximum limit for all outstanding borrowings which should not be more than 10 times

the shareholders= funds unimpaired by losses. For contravention of this requirement, the Governor may impose penalties on the finance company as in [10][iii] above.

#### **6. Provision for Classified Assets**

Each Finance Company shall review at least once every quarter its loans and advances and other investments and make appropriate provisions for loan losses or assets deterioration in accordance with the CBN Prudential Guidelines for Licensed Banks. Every Finance Company must send to the Other Financial Institutions Department every quarter a schedule of loans/investments showing the provisions made for losses or deterioration in the quality of the loans/investments.

#### **7. Contingent Items**

The concept, use and treatment of Bankers Acceptances [BAs] and Commercial Papers [CPs] as specified in Circular BSD/PA/4/97 dated 12/8/97 to banks and discount houses shall apply to finance companies.

#### **8. Limit of Investment in Fixed Assets**

The maximum amount which a finance company can invest in fixed assets is 50% of its shareholders= funds unimpaired by losses. Any contravention, will attract a penalty not exceeding x200,000.00 or suspension of any licence issued.

#### **9. Revaluation of Fixed Assets**

Prior approval of the CBN must be obtained by any finance company before the recognition of the revaluation surplus on fixed assets in its books, taking into consideration the following:

The basis of the underlying fixed assets valuations must be stated, and the valuation made by qualified professional valuers whose identity and qualifications are stated.

The difference between the market and the historic values of the eligible fixed assets being revalued is to be discounted by 55%;

Revaluation of fixed assets is applicable only to assets. [own premises only].

The revaluation of Fixed Assets (owned premises only) is permissible within a minimum period of 5 years after the date of the purchase of the asset or the last revaluation.

## **12. REQUIREMENTS FOR INCREASE IN SHARE CAPITAL**

All increases in share capital in any form must be approved by the CBN. Application in respect of this must be supported by the following:

- Evidence of payment of stamp duty.
- Board Resolution authorizing the increase.
- Corporate Affairs Commission [CAC] registration of the increase.
- Form C02 showing the additional capital.
- Share certificate issued to shareholders.
- Photocopy of share register showing the entries of allotment.
- Evidence of payment for the new allotment of shares by the shareholders [photocopies of cheques lodged should be attached]. No cash payment is allowed.
- Statements of accounts from banks reflecting the cheque lodged and cleared.
- Vouchers showing evidence of internal transfer or payment for the right issues allotted.
- Letters to shareholders conveying allotment of shares.
- Any other information that may be required or stipulated by the CBN.

## **13. DISCLOSURE OF INTEREST BY DIRECTORS AND OFFICERS OF FINANCE COMPANIES**

Every Director and officer of a finance company, who has any personal interest, whether directly or indirectly, in an advance, loan or credit facility or proposed advance, loan or credit facility from the finance company in which he is serving, shall promptly declare the nature of his interest to the Board of Directors of the finance company and the declaration shall be circulated to all the directors.

Every Director or officer of a finance company who holds any office or possesses any property whereby, whether directly or indirectly, duties or interests might be

created in conflict with his duties or interest as a Director or Officer of the finance company, shall declare at a meeting of the Board of Directors of the finance company, the fact and the nature, character and extent of such interests. Any Director or Officer who contravenes either of these regulations shall be liable to a fine of x100,000.00 or removal from office.

#### **14. OPENING/CLOSING OF BRANCHES OF FINANCE COMPANIES**

Prior approval of the CBN is required for the opening and closing of branches. If in contravention, the finance company shall be made to pay a fine not exceeding x200,000.00 and the closing/reopening of the branch as the case may be and in addition, a fine of x10,000.00 for each day during which the offence continues.

#### **15. DISPLAY OF LICENCE**

A copy of a Finance Company=s licence shall be displayed in a conspicuous position at its Head Office as well as in the branches. In contravention, the finance company shall be penalized in line with Section 60[j] of BOFIA as amended.

#### **16. DISPLAY OF INTEREST RATES**

Every Finance Company shall display on a daily basis in a conspicuous place at its Head Office and branches, its rates of interest.

Interest rates shall be quoted on annual basis and not per month. In contravention, the finance company shall be liable to a fine of x20,000.00 and N5,000.00 in addition for every day during which the offence continues or such other penalties deemed appropriate.

#### **17. INTERNAL CONTROLS**

Every Finance Company shall have an Internal Audit which should ensure that the operations of the company conform with the law as well as to its internal rules and regulations. Every fraud or attempted fraud must be promptly reported to the Director of Other Financial Institutions Department. Also a quarterly report on Frauds and Forgeries affecting the company and any default in meeting any obligation to lenders or investors shall be submitted to the Director, Other Financial Institutions Department. Where no frauds/forgeries and defaults occurred during the quarter, a Nil return shall be forwarded. The report shall be made along with the quarterly returns on assets and liabilities. Failure to comply with this requirement will attract a fine of x25,000.00 per quarter.



## **18. APPOINTMENT OF CHIEF EXECUTIVE AND PRINCIPAL OFFICERS**

The appointment or replacement of the Chief Executive Officer or any of the Principal Officers of any Finance Company must be cleared with the CBN before such appointments are made. Where the turnover of principal and senior officers is considered to be unduly high or where the reason for leaving by an officer suggests an attempt to cover up a fraud or other illegal activity, or punish the officer for attempting to prevent illegal activities, the CBN shall cause an investigation to be conducted into the matter and other affairs of the finance company as may be considered necessary. The report of such investigation or special examination shall determine the penalty to be imposed on the Finance Company concerned.

## **19. APPOINTMENT OF AUDITOR**

Every finance company shall appoint an auditor to be approved by the Bank whose duties shall be to make to the shareholders a report on the annual financial statements of the company and every such report shall contain true and fair statements as to the matters and such other information as may be prescribed from time to time by the CBN.

## **20. SCHEMES OF ARRANGEMENT**

No finance company shall enter into any AScheme of Arrangement@ with its creditors/investors without obtaining the prior approval of the CBN. Any finance company that is unable to meet its obligations to its creditors or investors must submit its proposals to restore liquidity or viability and for eventual settlement of its outstanding obligations to the Director of the Other Financial Institutions Department for consideration and approval. Failure to comply with this will attract a penalty of x2,500.00 for each\_day during which the contravention exists.

## **21. RESTRUCTURING AND REORGANIZATION OF FINANCE COMPANY**

Except with the prior consent of the Governor, no finance company shall enter into an agreement or arrangement:

- i. which results in a change in the control of the finance company;
- ii. for the sale, disposal or transfer of the whole or any part of the business of the finance company;
- iii. for the amalgamation or merger of the finance company with any other company.

- iv. for the reconstruction of the finance company;
- v. to employ a management agent or to transfer its business to any such agent.

## **22. RENEWAL OF LICENCE**

Every licence shall expire on 31st December of each year and shall, on application, be renewed within the first quarter of the subsequent year at a non-refundable fee of ₦20,000.00 or at such a fee as may be stipulated by the Bank from time to time, subject to its operations being satisfactory to the Bank. Failure to renew a licence would attract severe sanctions, including revocation.

## **23. PROHIBITIONS**

No Finance Company shall:

- i. Advertise for, solicit or, accept money on deposit;
- ii. Deal in foreign currency;
- iii. Give any credit facility or enter into any other transaction against the security of its own shares or the shares of its holding company;
- iv. Pay any dividend on its shares without CBN's prior approval in writing;
- v. Engage in any business other than those for which it was licensed;
- vi. Remit either in whole or in part the debts owed to it by its directors/officers or waive interest thereon without the prior approval of the CBN, in writing.

## **24. CONDITIONS FOR REVOCATION OF LICENCE**

The grounds for revoking a licence granted to a finance company may be any or all of the following:

- i. Submission of false information/data during and/or after the processing of the application for licence.
- ii. Engaging in functions/activities outside the scope of its licence as specified in Section 1 of these Revised Guidelines.
- iii. Persistent failure to comply with request for information/data in the form required/specified by CBN.
- iv. Engaging in activities prejudicial to the Nigerian economy.
- v. Failure to redeem matured obligations to customers.

- vi Unauthorized shop closure.
- vii Failure to comply with any directive issued by CBN.
- viii Failure to renew operating licence within the stipulated period.
- ix Any other act[s] which in the opinion of CBN constitute[s] a violation or a serious default.

**25. GENERAL**

The list of valid licences may be published by the CBN from time to time.

**Other Financial Institutions Department**

**Central Bank of Nigeria**

**Lagos**

## Prudential Ratios for Microfinance Banks

### CAPITAL ADEQUACY COMPUTATION AS AT 30TH SEPTEMBER, 2006

S/N	TYPE OF ASSET	NET VALUE OF ASSET N	WEIGHT OF RISK %	AMOUNT OF RISK ASSET N
1	CASH IN HAND	0	0	-
2	CASH RESERVE WITH CBN	0	0	-
3	BALANCE HELD WITH:			-
	(I) OTHER BANKS IN NIGERIA	XXX	20	#VALUE!
	(II) OTHER BANKS OUTSIDE NIGERIA (INCLUDING FOREIGN CURRENCIES HELD)		20	-
	FEDERAL GOVERNMENT STOCK			-
4	UNCLEARED EFFECTS	-	20	-
5	TREASURY CERTIFICATES	0	0	-
6	TREASURY BILLS	X	0	#VALUE!
7	NEGOTIABLE CERT. OF DEPOSIT		50	-
8	NON-NEGOTIABLE CERT. OF DEPOSIT	-	100	-
	QUOTED INVESTMENTS	-	100	-
9	UNQUOTED INVESTMENTS		100	-

10	<b>LOANS AND ADVANCES</b>			-
	(I) LOANS TO FEDERAL GOVERNMENT			-
	(II) BANKERS' ACCEPTANCES		0	-
	(III) OWNER OCCUPIER OF RESIDENTIAL MORTGAGE	-	100	-
	(IV) PRIVATE SECTOR COMMERCIAL REAL ESTATE		100	-
	(V) OTHER LOANS	XX	100	#VALUE!
	(VI) COMMERCIAL PAPERS		100	-
11	FIXED ASSETS	XX	100	#VALUE!
12	OTHER ASSETS	XXX	100	#VALUE!
13	CONTRA ITEMS		100	-
14	<b>CONTINGENT LIABILITIES</b>		20	-
	TOTAL AMOUNT OF RISK ASSETS			#VALUE!
	<b>1<sup>ST</sup> TIER CAPITAL</b>		<b>2<sup>ND</sup> TIER CAPITAL</b>	
	(A) PAID-UP CAPITAL	#VALUE!	(A) LOAN STOCK OF A	
			(B) DEBENTURE	
	(B) STATUTORY RESERVE	X	(C) BANK'S LOAN LOSS	
			LESS:	
	(C) GENERAL RESERVE	X	(D) INVESTMENTS IN	
	(D) PUBLISHED P & A/C	LX	UNCONSOLIDATED SUB-	
	LESS:		SIDIARIES & ASSOCIATE	TOTAL
	(E) GOODWILL AND		2ND TIER CAPITAL	

INTANGIBLE ASSETS			
(F) UNDER PROVISION	0		
(G) REQUIRED LOAN LOSS RESERVE			
TOTAL 1 <sup>ST</sup> TIER CAPITAL	#VALUE!		
<b>RISK WEIGHTED ASSET RATIO:</b>			
TOTAL QUALIFYING CAPITAL	( #VALUE!		
TOTAL AMOUNT OF RISK ASSE	#VALUE!		
CAPITAL ADEQUACY RATIO	#VALUE!		
MINIMUM REQUIRED RATIO	10 %		
10% OF RISK ASSETS	#VALUE!		
EXISTING CAPITAL	#VALUE!		
RECAPITALIZATION REQUIRE	D #VALUE!		

**Returns Format for Microfinance Banks**

**CENTRAL BANK OF NIGERIA, LAGOS**

**OTHER FINANCIAL INSTITUTIONS DEPARTMENT**

**FORM MMFBR 300**

**MONTHLY STATEMENT OF ASSETS AND LIABILITIES AS AT .....**

**ASSETS**

**MICRO-FINANCE BANK CODE ----- STATE CODE -----**

**MICRO-FINANCE BANK NAME ----- STATE NAME -----**

		N'000	N'000	
<b>10100</b>	<b>CASH</b>			
10110	Notes		X	
10120	Coins		X	
10130	<b>TOTAL CASH</b>			XX
<b>10200</b>	<b>DUE FROM:</b>			
10250	<b>Banks in Nigeria:</b>			
10260	Balances with Banks (Schedule, MMFBR 261)		X	
<b>10300</b>	<b>Placement with:</b>			
10310	<b>Banks/Discount Houses:</b>			
10311	Secured/Unsecured with Treasury Bills (Schedule, MMFBR 312 & 313)		X	
<b>10400</b>	<b>Total Due From</b>			<b>XXX</b>
<b>10500</b>	<b>SHORT-TERM</b>			

	<b>INVESTMENTS</b>			
10510	Treasury Bills			X
10600	<b>LOANS AND ADVANCES/LEASES</b>			
10610	Micro-loans (Schedule MMFBR 611)		X	
10620	Small and Medium Enterprises Loans		X	
10630	Hire Purchase		X	
10640	Advances Under Micro- Leases		X	
10645	Other Loans (specify)			
10650	Staff Loans		X	
10660	Total Loans and Advances/Leases			XX
10670	Specific Loan/Lease Loss Provision (Schedule, MMFBR	( X )		
10680	General Loan/Lease Loss Provision	( X )		
10690	Total Loan/Lease Loss Provision		( XX )	
10695	Net Loans and Advances/Leases			XXX
10700	<b>OTHER ASSETS:</b>			
10710	Total Other Assets (Schedule, MMFBR 711)		XX	
10720	Provision for Losses on Other Assets		( XX )	
10730	Other Assets (Net)			XXX
10800	<b>FIXED ASSETS</b>			



10810	Land and Buildings (Owned)		X	
10820	Plant and Machinery		X	
10830	Furniture and Fixtures		X	
10840	Motor Vehicles		X	
10850	Office Equipment		X	
<b>10860</b>	<b>Total Fixed Assets</b>		<b>XX</b>	
10870	Accumulated Provision for Depreciation	(X)	( X )	
10880	Net Fixed Assets			<b>XX</b>
<b>10900</b>	<b>TOTAL ASSETS</b>			<b>XXX</b>

**Item Code    Item Description    Amount    Amount    Amount N'000**

#### **LIABILITIES**

			N'000	N'000
20100	<b>DEPOSITS:</b>			
20110	Demand Deposits		X	
20120	Mandatory Deposits		X	
20125	Voluntary Savings Deposits		X	
20130	Time/Term Deposits		X	
20140	Special Deposits		X	
20145	Other Deposits (Specify)		X	
<b>20200</b>	<b>Total Deposits</b>			<b>XXX</b>
20300	<b>TAKINGS FROM:</b>			
20310	Banks in Nigeria (Specify)		X	
<b>20320</b>	<b>Total Takings</b>			<b>XX</b>
<b>20450</b>	<b>Re-financing Facilities</b>			<b>XX</b>

20500	<b>OTHER LIABILITIES (MMFBR 1501)</b>			X
20600	<b>BORROWINGS (On-lending):</b>			
20610	Federal Government		X	
20620	State Government		X	
20630	Local Government		X	
20640	Others (Specify)		X	
<b>20650</b>	<b>Total Borrowings</b>			<b>XX</b>
20700	<b>DEBENTURE/LOAN STOCK:</b>			
20710	<b>Redeemable Debenture</b>		X	
20720	<b>Irredeemable Debenture</b>		X	
20750	Total Debentures/Loans Stock			XX
20800	<b>CAPITAL &amp; RESERVES</b>			
20810	Authorised Capital	X		
20820	Issued and Fully Paid-up Capital	X		
20825	Donated Capital	X		
<b>20830</b>	<b>Total Capital</b>		<b>XX</b>	
20840	<b>RESERVES:</b>			
20850	Statutory Reserve	X		
20860	Share Premium	X		
20870	General Reserve	X		
20880	Other Reserves	X		
20890	Retained Profit/(Loss)	X		
<b>20900</b>	<b>Total Reserves</b>		<b>XX</b>	
<b>20910</b>	<b>TOTAL CAPITAL &amp; RESERVES</b>			<b>XXX</b>

<b>20960</b>	<b>GRANTS/DONATIONS (Specify)</b>			<b>XX</b>
<b>20970</b>	<b>TOTAL LIABILITIES</b>			<b>XXX</b>

**Item Code**    Item Description    N'000

MEMORANDUM ITEMS

		Current Month		Previous Month	
		Number	Value (N)	Number	Value (N)
21100	Total New Loans Disbursed				
21110	Borrowers:				
21111	Female				
21112	Male				
21120	Clients Drop-outs:	Number	Value (N)	Number	Value (N)
21121	Female				
21122	Male				
21130	Depositors:				
21131	Female				
21132	Male				
21140	Number of Staff:	MALE	FEMALE	MALE	FEMALE
21141	Senior Staff				
21142	Junior Staff				
21145	<b>Total Staff</b>				
21146	Staff Resigned, Terminated, Dismissed etc in the Month ( Specify )				
21147	New Recruitments in the Month ( Specify )				
21150	Date of Last CBN/NDIC Examination				

21151	Recommended Provision as at Last Examination		
21160	Financial Year End		
21170	Number of Branches in Operation:		
21171	Existing		
21172	New		
21173	Closed		

**FORM MMFBR 1000**

**MONTHLY STATEMENT OF PROFIT AND LOSS ACCOUNT FOR THE PERIOD.....**

**MICRO-FINANCE BANK CODE .....**

**STATE CODE .....**

**MICRO-FINANCE BANK NAME .....**

**STATE NAME .....**

			N'000	N'000
10000	INTEREST INCOME	X		
10100	LESS : INTEREST EXPENSES	X		
<b>10110</b>	<b>NET INTEREST INCOME</b>		XX	
<b>10200</b>	<b>OTHER INCOME:</b>			
10210	COMMISSION	X		
10220	FEES/CHARGES	X		
10230	INCOME FROM INVESTMENTS	X		
10240	OTHER INCOME FROM NONFINANCIAL SERVICES	X		

10250	TOTAL OTHER INCOME		X	
10300	NET TOTAL INCOME			XXX
<b>20000</b>	<b>OPERATING EXPENSES</b>			
20100	STAFF COST		X	
20130	DEPRECIATION		X	
20140	PROVISION FOR BAD DEBTS		X	
20151	BAD DEBTS WRITTEN-OFF		X	
20155	PENALTIES PAID		X	
20160	OVERHEADS		X	
20170	<b>LESS : TOTAL OTHER EXPENSES:</b>			<b>XX</b>
<b>20180</b>	<b>PROFIT/(LOSS) BEFORE TAX</b>			<b>XX</b>
20190	LESS : PROVISION FOR TAXATION			X
<b>20200</b>	<b>PROFIT/(LOSS) AFTER TAX</b>			<b>XX</b>

**Item Code    Item Description    Amount N'000    Amount    Amount**

**FORM  
MMFBR 261**

**SCHEDULE OF BALANCES DUE FROM OTHER BANKS IN NIGERIA AS AT .....**

**MICRO-FINANCE BANK CODE .....**

**STATE CODE .....**

**MICRO-FINANCE BANK NAME .....**

**STATE CODE .....**

Total Amount N'000 .....

BANK'S CODE	NAME OF BANK	N' 000
TOTAL		

**FORM MMFBR 312 & 313**

**SCHEDULE OF PLACEMENTS WITH BANKS/DISCOUNT HOUSES AS**

**AT .....**

**MICRO-FINANCE BANK CODE .....**

**STATE CODE .....**

**MICRO-FINANCE BANK NAME .....**

**STATE NAME .....**

**Total Amount N'000 .....**

BANK'S CODE	NAME OF BANK	TENOR	MATURITY DATE	SECURED WITH TREASURY BILLS N' 000	UNSECURED N' 000
TOTAL					

**FORM MMFBR 611**

**SCHEDULE OF MICROFINANCE LOANS AS AT .....**

**MICRO-FINANCE BANK CODE .....**      **STATE CODE .....**

**MICRO-FINANCE BANK NAME .....**      **STATE NAME .....**

**Total Amount N'000 .....**

**LENDING MODELS**

<b>S/N</b>	<b>MODEL NUMBER</b>		<b>AMOUNT (N '000)</b>	<b>%</b>
1	Individuals			
2	Solidarity Group			
3	NeighborhoodSmallGroup and Revolving Funds			
4	Village Banking			
5	Wholesale Lending			
6	Credit Unions			
7	Staff			
8	Others – Specify			
	<b>TOTAL</b>			





Real Estate & Construction			
Rent/Housing			
Consumer/Personal			
Health			
Education			
Tourism & Hospitality			
Purchase of Shares			
Staff			
Others (Specify )			
TOTAL			

**SECTOR                      NUMBER OF LOANS                      AMOUNT (N)                      %**

**FORM MMFBR 673**

**SCHEDULE OF LOANS STRUCTURE AND MATURITY PROFILE AS AT .....**

**MICRO-FINANCE BANK CODE .....**

**STATE CODE .....**

**MICRO-FINANCE BANK NAME .....**

**STATE NAME .....**

Total	1	2	3	4	5	6	7	8	9	10
TYPE	30	60	90	120	180	240	360	TOT	%	
MIC										
LOA										
Num										
Amount										
CMA										
MEDI										
ENTERPR										
S										
Num										
Amount										
LIQ										
PLURCH										
Num										
Amount										
MIC										
LEAS										
Num										
Amount										
OTHR										
LOA										
(SPEC)										
Num										
Amount										
STAF										
LOA										
Num										
Amount										
TOT										
Num										
Amount										

**FORM MMFBR 674**

**SCHEDULE OF INTEREST RATES AS AT.....**

**MICRO-FINANCE BANK CODE .....**

**STATE CODE .....**

**MICRO-FINANCE BANK NAME .....**

**STATE NAME .....**

TYPE OF ACCOUNT	0 - 30 Days	31 - 60 Days	61 - 90 days	91 - 180 days	180 - 360 Days	Over 360 days
	%	%	%	%	%	%
<b>LOANS AND ADVANCES</b>						
Hire Purchase						
Micro-Leases						
<b>SAVINGS DEPOSITS</b>						
<b>TIME/TERM DEPOSITS</b>						
<b>TARGET DEPOSITS</b>						

**FORM MMFBR 711**

**SCHEDULE OF OTHER ASSETS AS AT.....**

**MICRO-FINANCE BANK CODE .....**

**STATE CODE .....**

**MICRO-FINANCE BANK NAME .....**

**STATE NAME .....**

**Total Amount N'000 .....**

CODE	ITEM	PERFORMING N' 000	NON-PERFORMING N' 000	TOTAL N' 000
10910	Accounts Receivable			
10920	Accrued Interest Receivable ( Specify )			

10930	Cheques for/Transit Collection Items			
10940	Un-audited Loss to Date			
10950	Prepaid Interest			
10960	Prepaid Rent			
10970	Stationery			
10980	Other Prepayments			
10990	Suspense Account			
11010	Goodwill and Other intangible Assets			
11020	Miscellaneous (Specify)			
	TOTAL			

**Note: Please provide a breakdown of any item that is equal to or greater than 10% of Total Other Assets.**



**FORM MMFBR 1501**

**SCHEDULE OF OTHER LIABILITIES AS AT -----**

**MICRO-FINANCE BANK CODE** .....

**STATE CODE** -----

**MICRO-FINANCE BANK NAME** .....

**STATE NAME** -----

Total Amount N'000 .....

20110	Accounts Payable	
20120	Unearned Income	
20130	Interest Accrued Not Paid	
20150	Uncleared Effects / Transit items	
20160	Un-audited Profit to Date	
20170	Interim Half-year Audited Profit Approved by CBN	
20180	Provision for Diminution in the Value of Investments	
20190	Provision for Losses on Off-Balance Sheet Items	
20200	Interest-in-Suspense	
20210	Provision for Taxation	
20230	Provision for Other Losses	
20240	Dividends Payable	
20250	Suspense Account	
20260	Deposit for Shares	
20270	Miscellaneous (Specify)	
	Total	

CODE            ITEM    N' 000

Note: Please provide a breakdown of any item that is equal to or greater than 10% of Total Other Liabilities.

**FORM MMFBR 1600**

**GAP ANALYSIS REPORT AS AT .....**

**MICRO-FINANCE BANK CODE .....**

**STATE CODE .....**

**MICRO-FINANCE BANK NAME .....**

**STATE NAME .....**

Total Amount N'000 .....

ITEMS	1 1 - 30 Days	2 31 - 60 Days	3 61 - 90 Days	4 91 -180 Days	5 180 - 360 Days	6 > 360 Days	7 Total N' 000
Loans							
Investments							
Other Assets							
Total (A)							
Deposits							
CDs and Other Liabilities							
Total (B)							
Equity (C)							
Net Periodic Gap A - (B+C)							
Cumulative Gap							

Note :-

- i. Net Periodic Gap = A minus B minus C
- ii. Cumulative Gap Column 1 = Net Periodic Gap in Column 1
- iii. Cumulative Gap in Column 2 = Net Periodic Gap in (Column 1 + Column 2)
- iv. Cumulative Gap in Column 3 = Cumulative Gap in Column 2 + Net Periodic Gap in Column 3
- v. Cumulative Gap in Column 4 = Cumulative Gap in Column 3 + Net Periodic Gap in Column 4 etc.

## Performance Indicators

### Compulsory Prudential Ratios

S/N	DESCRIPTION	RATIO	REMARK	STANDARD
1	Capital Adequacy Ratio	X	Capital adequacy ratio is the ratio which determines the capacity of the bank to meet its liabilities with respect to credit risk, operational risk, etc.	
	Recapitalisation Required	0		
2	Current Ratio	#RE/F!	Measures the ability of the MFB to meet its liabilities with respect to maturity of assets and liabilities. It is calculated as follows: $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	= 20%
3	Fixed Asset Long Term Investments/Share Holders Funds	#VALU/E!	Measures the ability of the MFB to meet its liabilities with respect to maturity of assets and liabilities. It is calculated as follows: $\frac{\text{Fixed Assets}}{\text{Long Term Investments/Share Holders Funds}}$	
4	Statutory Reserve/paid capital	#DIV/0!	Measures the amount of statutory reserve held by the MFB. It is calculated as follows: $\frac{\text{Statutory Reserve}}{\text{Paid Capital}}$	MFB Policy page 28
5	Single Obligor Limit	#VALU/E!	Measures the limit of lending to a Single borrower related parties	Single obligor-1% (single) 5% (group) of shareholders funds
6	Maximum Equity Investment Ratio	#DIV/0!	Measures the participation of the MFB in all enterprises.	5% of shareholders funds
7	Loan Loss Provisions	#DIV/0!	Measures all loan loss provisioning according to provisioning schedule	See page 31 MFB
8	Investment in Fixed Assets	#DIV/0!	Measures the limit of an MFB investment in Fixed Assets	2 % of 0 SHF

S/N	DESCRIPTION	RATIO	REMARK	STANDARD
1	Capital Adequacy Ratio	#VALUE!	Capital adequacy ratio is the ratio which determines the capacity of the bank in term	= 10%
	Recapitalisation Required	#VALUE!		
2	Return on Equity	#VALUE!	Calculates the rate of return on the average equity for the period. Because the numerator does not include non-operating items such as donations, the ratio is a frequently used proxy for commercial viability. Usually, ROE calculations are net of profit or revenue taxes. MFIs that are not using average equity as the denominator should specify the alternative denominator they are using.	
3	Adjusted Return on Equity (AROE)	Adjusted net operating income-Taxes		
4		Average Equity		
5	Return on Assets (ROA)	#VALUE!	Measures how well an MFI uses its total assets to generate returns.	
6	Adjusted return on Assets (AROA)			
7	Operational Self-sufficiency	#VALUE!	Measures how well an MFI covers its costs through operating revenues. In addition to operating expense, it is recommended that financial	



			expense and loan-loss provision expense be included in this calculation, as they are a normal (and significant) cost of operating.	
8	Profit margin	#VALUE!	Measures what percentage of operating revenue remains after all financial, loan-loss provision, and operating expenses are paid.	
9	Financial Self-sufficiency	#VALUE!	Measures how well an MFI can cover its costs, taking into account a number of adjustments to operating revenues and expenses. The purpose of most of these adjustments is to model how well the MFI could cover its costs if its operations were unsubsidized and it were funding its expansion with commercial-cost liabilities. Adjustments are discussed in section III.	

Assets/Liability Management

S/N	DESCRIPTION	RATIO	REMARK	STANDARD
1	Yield on Gross loan Portfolio	#VALUE!	Indicates the gross loan portfolio's ability to generate cash financial revenue from interest, fees, and commissions. It does not include any revenues that have been accrued but not paid in cash, or any non-cash revenues in the form of post-dated checks, seized but unsold collateral, etc.	
2	Current Ratio	#VALUE!	Measures how well an MFI matches	= 20%
3	Yield Gap	#VALUE!	the maturities of its assets and liabilities. Short term means assets or	

			<p>liabilities or any portion thereof that have a due date, maturity date, or may be readily converted into cash within 12 months. Compares revenue actually received in cash with revenue expected from loan contracts. While a small gap is common, a substantial yield gap (&gt; 10%) may indicate significant past-Expected annual yield) due payments (In arrears), fraud, inefficiency, or accounting error. this formula, "expected annual yield" means the effective interest rate of the loan contracts (the declining-balance equivalent rate) for a single payment period, multiplied by the number of periods in a year.</p>	
4	Funding-expense ratio	=	Shows the blended interest rate an MFI is paying to fund its financial assets. This ratio can be compared with yield on the gross portfolio to determine the interest margin.	
5	Cost of Funds Ratio	<p>Interest and fees expenses on funding liabilities</p> <p>Average funding liabilities</p>	This ratio gives a blended interest rate for all of an MFI's funding liabilities. Funding liabilities do not include interest payable or interest on loans to finance fixed assets.	

Portfolio Quality

S/N	DESCRIPTION	RATIO	REMARK	STANDARD
1	PAR ratio	#DIV/0!	The most accepted measure of portfolio quality. Portfolio at risk is the outstanding amount of all loans that have one or more installments of principal past due by a certain number of days. When referring to PAR, an MFI should always specify the number of days. MFIs should indicate whether restructured loans are included in their calculation. Some MFIs automatically include restructured loans in their portfolio at risk. This practice reflects the belief that restructured loans carry higher risk than do current loans.	2.5% =
2	Write-off ratio	#DIV/0!	Represents the percentage of an MFI's loans that have been removed from the balance of the gross loan portfolio because they are unlikely to be repaid. A high ratio may indicate a problem in the MFI's collection efforts. However, write-off policies vary, which makes comparisons among MFIs difficult. As a result, analysts may present this ratio on an adjusted basis to provide for uniform treatment of write offs (see section III).	
	Adjusted write-off ratio	Adjusted of loans off Average gross loan portfolio	The adjustments to the write-off ratio may increase or decrease the value of loans written off by removing or adding back	

			delinquent loans to the gross loan portfolio in accordance with an international or national standard for writing off loans.	
3	Risk coverage ratio	#DIV/0!	Shows how much of the portfolio at risk is covered by an MFI's loan-loss allowance. It is a rough indicator of how prepared an institution is to absorb loan losses in the worst case scenario.	
			MFI's should provision according to the age of their portfolio at risk: the older the delinquent loan, the higher the loan-loss allowance. For example, a ratio for PAR > 180 days may be close to 100%, whereas the ratio for PAR > 30 days is likely to be significantly less. Thus, a risk coverage ratio of 100% is not necessarily optimal.	

Efficiency/Productivity.

These indicators reflect how efficiently an MFI is using its resources, particularly its assets and personnel.

S/N	DESCRIPTION	RATIO	REMARK	STANDARD
	Loan Officer Productivity		Measures the average caseload of each loan officer, as defined in P14. This is a common ratio, but is difficult to compare among MFIs when their definitions of loan officer vary. MFIs may also substitute the number of loans outstanding as a surrogate for number of active borrowers and the number of financial services officers for loan officers. Regardless of the ratio used, MFIs should explain their definition of the numerator and denominator.	
	Personnel productivity	#DIVIDE	Measures the overall productivity of total MFI human resources in managing clients who have an outstanding loan balance and are thereby contributing to the financial revenue of the MFI.	
		#DIVIDE	Alternatively, the MFI may wish to measure the overall productivity of MFI personnel in terms of managing clients, including borrowers, savers, and other clients. This ratio is the most useful ratio for comparing MFIs.	
	Average disbursed loan size	#DIVIDE	Measures the average loan size that is disbursed to clients. Total number of loans MFIs should be careful to distinguish between disbursed loan size and outstanding loan size (see R17).	
	Average outstanding loan size	#DIVIDE	Measures the average outstanding loan balance by client, which may be significantly less than the average disbursed loan size. It is frequently compared to per capita GDP as a rough proxy for the income level of an MFI's clientele.	
	Operating expense ratio	#VALUE1	This ratio is the most commonly used efficiency indicator for MFIs. It includes all administrative and personnel expense. Care must be taken when using this ratio to compare MFIs. MFIs that provide smaller loans will compare unfavorably to others, even though they may be serving their target market efficiently.  Likewise, MFIs that offer savings and other services will also compare unfavorably to those that do not offer these services, if gross loan portfolio is used as the denominator. Therefore, average total assets is the more appropriate denominator for financial intermediaries when calculating the operating expense ratio.	
	Cost per borrower	#VALUE1	Provides a meaningful measure of efficiency for an MFI, by determining the average cost of maintaining an active borrower or client. MFIs may choose to substitute the number of active loans as the denominator to see cost per active loan outstanding. It is also useful to compare to GDP per capita to assess an MFI's efficiency in the local context. Because they count clients rather than amounts, these indicators have the advantage of not prejudicing MFIs which offer smaller loans and savings accounts.	
	Cost per client	#VALUE1		
	Other expense ratios	Any expense Average gross loan portfolio*	Expense ratios can be created for nearly any expense account on the income statement. The purpose is to allow an MFI or analyst to track the growth or decline of a particular expense over time or across a group.	

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

<b>S/No</b>	<b>SUB-TITLES</b>	<b>ACTION</b>	<b>APPRAISING OFFICER'S COMMENTS</b>
<b>A. <u>PROVISIONAL APPROVAL STAGE</u></b>			
1	<b>Introduction</b>	Provide introductory remarks	Brief comments on the application received, previous correspondence and response to issues raised by the institution.
2	<b>Documents Submitted</b>	List all the documents submitted in support of the application.	Comment on whether or not the documents submitted are complete.

3	<b>Background Information</b>	Review and provide background information on the converting institution, including a brief history, location, licensing and general performance to date	<p>Briefly comment on:</p> <ul style="list-style-type: none"> <li>• Original name of the institution and proposed name (if different)</li> <li>• Certificate of incorporation number and date</li> <li>• CBN/NBCB Licence number and date</li> <li>• Ownership/shar eholding structure categorized into individuals, corporate bodies and other organizations</li> <li>• Board &amp; corporate governance history</li> <li>• Comment on CBN Approval of Audited A/c.</li> <li>• Confirm that CB had been rendering returns and had paid all penalties on returns and audited accounts.</li> </ul>
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4.	<b>Memorandum and Articles of Association (MEMART)</b>	<p>a) <b><u>Name Clause</u></b></p> <p>Check the following:</p> <ul style="list-style-type: none"> <li>• That the proposed name is available at CAC and has been duly reserved by promoters.</li> <li>• Evidence of board approval and resolution by shareholders at the AGM/EGM</li> <li>• Is not already taken/submitted by an earlier applicant (CB or new investor) at CBN</li> <li>• Not associated with any religion</li> <li>• Bears no linkage or similarity to any existing financial institution within CBN's purview (except where it is a subsidiary of an existing institution)</li> <li>• Bears no linkage or similarity to any liquidated/failed bank</li> <li>• Not in conflict with BOFIA, CAMA or any other subsisting law <b><u>Object Clause</u></b></li> <li>• Thoroughly review the MEMART to ensure that the objects are permissible activities of MFBs as stipulated in the Microfinance Policy.</li> <li>• Confirm that it is consistent with BOFIA, CAMA and other banking laws and regulations.</li> <li>• Ensure that liabilities of members are limited by shares</li> </ul>	<p>Comment on the acceptability of the proposed name.</p> <p>Comment on the acceptability of the object clauses and whether they are consistent with the Microfinance Policy.</p> <p>Comment on whether there are prohibited activities to be expunged</p> <p>Comment on the suitability of the Articles and whether they do not conflict with the Microfinance Policy.</p> <p>Comment on Articles that should be amended, expunged or inserted.</p>
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		<ul style="list-style-type: none"> <li>• Determine the shareholding structure;</li> <li>• Ascertain if shareholding of subscribers are significantly diversified</li> <li>• Ensure that the subscribers sign against their names and it is dated and witnessed</li> </ul> <p><b>Articles</b></p> <p>Ensure that it has provisions on classes of shares, transfer of shares, transferability of shares, preemptive rights of shareholders, alteration of capital (reduction – not allowed; increase – subject to CBN approval), meetings, notices, proceedings, quorum (minimum of 2\3), voting, no alternating directors (except in the case of institutional investors); a director shall not vote on matters concerning him and should declare his interest in such matters, powers &amp; duties of directors, borrowing powers, secretaries, auditors, seal, winding-up, indemnity and subscribers have signed.</p>	
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5.	<p><b>Capital</b></p> <p>Minimum Shareholders Funds unimpaired by losses of N20 million (for unit MFB and N1.0 billion (for state MFB)</p>	<p><b><u>Adequacy of Capital</u></b></p> <ul style="list-style-type: none"> <li>• Confirm the Authorised Capital, Paid-up Capital and Shareholders' Funds from latest CBN approved Audited Accounts, latest Examination Report and latest Returns.</li> <li>• Produce and insert an abridged Balance Sheet, showing key components of the Shareholders' Funds and show the Examiners' figures side by side.</li> </ul> <p>Where additional capital had been injected and evidence provided in line with CBN Circular OFID/DO/CIR/Vol.1/488 of 14 Nov. 2006, confirm:</p> <ul style="list-style-type: none"> <li>▪ Statement of Account obtained from the correspondent bank showed details of the lodgement of the additional capital.</li> <li>▪ Evidence of payment for the shares by new and existing investors</li> <li>▪ Increase has been registered at CAC and Form CO2 reflecting the additional capital.</li> <li>▪ Letter of intent from shareholders that the deposits were for shares.</li> <li>▪ Copies of letters of allotment of additional shares to shareholders or share certificates</li> </ul>	<p>Appraise and comment on the adequacy of capital.</p> <p>Comment on the method of capital injection and adequacy of evidences provided (Note that existing CBs need not submit drafts to the CBN for the additional capital injection).</p> <p>Comment on the adequacy of new capital base and whether or not minimum capital had been met.</p>
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		<ul style="list-style-type: none"> <li>• Provide details of significant shareholders with equity of 5% and above.</li> <li>• If new investors are corporate entities, provide a brief on the company, its ownership structure, names of directors and principal officers.</li> <li>• If no additional capital injection, state so</li> </ul> <p><b><u>Ownership Structure</u></b></p> <ul style="list-style-type: none"> <li>• If no additional injection, state that the ownership remain the same.</li> <li>• If there are new investors, show the new and existing shareholders and their individual percentage holding side by side.</li> <li>• Show directors' holdings, percentage holding, and interest being represented</li> <li>• Indicate the diversification of ownership</li> <li>• Show the combined volume, value and percentage holdings of all directors in relation to the total holdings.</li> </ul>	Comment on the structure and diversification of ownership.
6.	<b>Board Structure and Governance</b>	Review the CVs of all directors Check board composition (Minimum 5; maximum 7) 'Determine the size of the board and appropriateness or adequacy to promote good corporate governance and the	Comment on the qualifications and experience as well as the status enquiries carried out on the Directors

	<p>establishment of board committees to assist the main board to function</p> <p>Confirm and state whether at least two directors have requisite experience in banking or related field stipulated in the Microfinance Policy.</p> <p>Check interlocking directorship. A director cannot be on the Board of more than 2 institutions under CBN's purview Assess the composition of the board to ensure that the same family members are not in majority (not more than 2 of such related parties at all times).</p> <p>Note that same family members cannot be non-executive directors and at the same time be part of the executive management.</p> <p>Do a table showing the name, qualification and experience of the directors</p> <p>Show the directors and related parties indebtedness to the CB (approved limit, type of facility, amount outstanding, tenor, expiry date, status of loan-whether performing or not)</p> <p>If there is no new director introduced i.e. existing directors to remain, then, there is no need for any appraisal. Just disclose the fact in the reprot.</p> <p>For new directors, check board</p>	<p>Comment on the suitability of the proposed directors to serve on the board., or whether there is any objection.</p> <p>Comment on any recommended adjustment to the board composition</p> <p>Comment generally on the governance structure</p>
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		<p>resolution for their appointments and letters of acceptance to serve on the board. Carry out status enquiries at the Bankers' Committee Secretariat, NDIC and on the Credit Risk Management System (CRMS).</p> <p>Check that current employees of banks had obtained clearance from employer</p>	
7.	<b>Organizational Structure</b>	<p>Appraise the proposed organizational structure as represented in the business plan and ensure conformity with the Microfinance Policy.</p> <p>Indicate and emphasize business development/marketing department and particularly proposed number of loan officers .</p> <p>Where provision is made for the appointment of executive directors, this should be critically assessed for justification based on the size of the CB (total assets and capital base.</p>	<p>Comment on the organizational structure.</p> <p>Point out any recommended adjustments</p>
8.	<b>Management and Staff</b>	<ul style="list-style-type: none"> <li>• Review the CVs of the Management team.</li> <li>• Check that members of the management team possess the minimum required qualification and cognate experience.</li> <li>• Show in tabular form, the profile of heads of departments (i.e. name, job title, key responsibilities,</li> </ul>	<p>Comment on the qualifications and experience, as stipulated in the Microfinance Policy, as well as the status enquiries carried out on the top management.</p> <p>Comment on the</p>

		<p>qualification and experience).</p> <ul style="list-style-type: none"> <li>• If they are currently in the employment of the CB and are to be upgraded to their new positions and roles in the new MFB, state so and that they had been previously cleared. However, ensure that they have the qualifications and cognate experience prescribed in the Microfinance Policy.</li> <li>• If they are new employees, review their CVs, check board resolution for their appointments, their acceptance letters and make a conclusion as to their suitability, subject to good reports of status enquiries at the Bankers' Committee Secretariat, NDIC and on the Credit Risk Management System (CRMS).</li> <li>• Review total staff and their various departments/units and determine the adequacy or otherwise of staff in the business development/marketing department based on the case load per staff.</li> </ul>	<p>suitability of the top management for their proposed positions</p>
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		<ul style="list-style-type: none"> <li>Assess the reporting line of the Head of Internal Controls</li> <li>Appraise the overall suitability of the organogram and succession plans</li> </ul>	
9	<b>Feasibility Study/ Business Plan</b>	<p><b><u>Aims and Objectives of the MFB</u></b> Review and confirm the following:</p> <ul style="list-style-type: none"> <li>That the aims and objectives are consistent with the MF policy</li> <li>Corporate vision &amp; Mission</li> <li>Strategic plan and objectives</li> <li>Operational strategies</li> </ul>	Comment that the aims and objectives are consistent with the Microfinance Policy
		<p><b><u>Main Products and Services to be offered</u></b></p> <ul style="list-style-type: none"> <li>State the main products/services to be offered as indicated in the business plan and avoid copying the permissible activities described in the Microfinance Policy</li> <li>Confirm that services are adequate, in conformity with the permissible activities and have strong MF orientation</li> </ul>	Comment on the unique products and services
		<p><b><u>Target Market and Customers</u></b></p> <ul style="list-style-type: none"> <li>State the size of the target market and customers</li> <li>Describe the main activities of the catchment area (eg hair-dressing, vulcanizer, okada operators, artisans, barbers, traders, etc)</li> </ul>	Comment on the target market, customers' demography and scenario testing

	<ul style="list-style-type: none"> <li>• Describe the community groupings and segmentation criteria, such as age groups, professional groups, trade groups, etc</li> <li>• Review the demography of the market – location, population, gender distribution, etc</li> <li>• Review whether the unique savings/deposit products; loan/credit products meets the aspirations of the target customers</li> <li>• State the expected outreach – volume and percentage of the market to be captured annually over the next 5 years.</li> <li>• Scenario testing of the target market, based on projected savings client size, loan portfolio size and projected growth rates. Test for worst case, likely case and desired case scenarios.</li> <li>• Determine the appropriateness of the case load per loan officer based on expected volume to be captured.</li> </ul>	
	<p><b><u>Microfinance Business Models</u></b></p> <ul style="list-style-type: none"> <li>• Describe the lending methodologies/models as stated in the business plan</li> <li>• State the structure of loan, tenor, rate and other variants and ensure they fit into the</li> </ul>	<p>Comment on the appropriateness of the business model.</p>



	lending models and demand or taste of the expected customers and make a conclusion.	
	<p><b><u>Business Risks and Mitigants</u></b></p> <ul style="list-style-type: none"> <li>Identify major business risks, namely, credit risk, market risk, operational risk (cash-in-transit, deposit/thrift collection, cash handling, clearing items, account opening, etc), strategic risk, liquidity risk and reputational/legal risk.</li> <li>Review mitigants proposed</li> </ul>	Comment on the identified business risks and mitigants
	<p><b><u>Institutional Analysis</u></b></p> <ul style="list-style-type: none"> <li>SWOT Analysis</li> <li>Strategic direction</li> </ul>	Comment on the institutional analysis
	<p><b><u>Environmental Analysis</u></b></p> <ul style="list-style-type: none"> <li>Likely competition - from number of bank branches, CBs, other MFBs, informal credit unions, co-operatives and other financial institutions in the catchment area.</li> <li>Collaborations with other institutions</li> <li>Areas of competitive advantage</li> <li>Impact of macroeconomic policies</li> </ul>	Comment on the environmental analysis
	<p><b><u>Institutional Capacity</u></b></p> <ul style="list-style-type: none"> <li>Board and governance structure</li> <li>Management and staff</li> <li>Assets and shareholders' funds</li> </ul>	Comment on available institutional capacity
	<p><b><u>Branch Expansion Programme</u></b> Check:</p>	

		<ul style="list-style-type: none"> <li>Review the plan for branch expansion and justification for the proposed branches, expected outreach volume and value over the period of the proposed expansion.</li> <li>State how expansion would be financed - availability of free funds, or injection of additional capital by directors.</li> </ul>	Comment on the justification, availability of free funds, and viability of proposed branches.
		<p><b><u>Proposed Training Programme</u></b></p> <ul style="list-style-type: none"> <li>Confirm adequacy of the training programme in terms of coverage and relevance.</li> </ul>	Comment on adequacy of programme
10.	<b>Financial Projections</b>	<p><b><u>Projections</u></b></p> <ul style="list-style-type: none"> <li>Show the abridged financial projections for 5 years</li> <li>State the underlying assumptions in bullet points</li> <li>Show the projected profitability and the appropriate financial and prudential ratios</li> </ul> <p><b><u>Stress Test/Sensitivity Analysis</u></b></p> <ul style="list-style-type: none"> <li>Perform sensitivity analysis by varying the key variables used in the assumptions</li> <li>Show the impact of each of the variables on the earnings and capital of the institution</li> <li>Make conclusions</li> </ul>	<p>Comment on the reasonableness or otherwise of the financial projections and assumptions</p> <p>State specific issues or recommendations requiring the attention of the board and management.</p>

11.	<p><b>Management Information System</b></p> <p><b>Note: If not yet in place, may be stepped down till the final approval stage.</b></p>	<ul style="list-style-type: none"> <li>• Describe the configuration of the MIS</li> <li>• State the reports (output) to be generated</li> <li>• Describe the application for loan tracking</li> <li>• If multiple applications are to be deployed, state how integration issue is to be addressed</li> <li>• Describe the personnel to man the MIS and the IT platform</li> <li>• Describe the monitoring and feedback procedures or mechanism</li> <li>• Assess the conformity of the MIS to the general and specific requirement of the CBN circular issued on MIS</li> <li>• Mention the plans to deploy the selected MIS and ensure compatibility with e-FASS.</li> </ul>	<p>Comment on the suitability of the selected MIS and its deployment plans</p>
12.	<p><b>Manuals of Policies and Procedures</b></p> <p><b>Note: If not yet in place, may be stepped down till the final approval stage.</b></p>	<ul style="list-style-type: none"> <li>• Review all manuals submitted and ensure they meet the business requirements of the institution in ensuring that its policies and procedures are effective.</li> <li>• Ensure they at least cover credit, human resources, banking operations, accounting and internal controls</li> </ul>	<p>Comment on the adequacy and appropriateness of the manuals</p>

13.	<b>Conclusion</b>	Summary of findings	Conclude and make specific recommendations  Prepare draft letter conveying provisional approval and should be specific on issues to be addressed before the final approval.
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**CENTRAL BANK OF NIGERIA**

CBN website: [www.cenbank.org](http://www.cenbank.org)

Our Ref: OFID/DO/CIR./Vol.1/484

Tel: 01-2662483

Fax: 01-2668667

Tinubu Square,

P.M.B. 12194,

Lagos.

11<sup>th</sup> September, 2006

**CIRCULAR TO ALL CHAIRMEN, DIRECTORS AND MANAGERS OF ALL COMMUNITY BANKS**

**WAIVER OF THE APPLICATION, LICENSING AND CHANGE OF NAME FEES FOR EXISTING COMMUNITY BANKS CONVERTING TO MICROFINANCE BANKS**

In order to encourage existing Community Banks (CBs) to expeditiously convert to Microfinance Banks (MFBs), the Management of the Central Bank of Nigeria (CBN) has approved the waiver of application fees of ₦50,000 and ₦100,000, as well as licensing fees of ₦100,000 and ₦250,000 for all CBs converting to Unit and State Microfinance Banks, respectively. Also approved is a waiver of the change of name fee of ₦5,000 for any converting CB.

For the avoidance of doubt, all CBs converting to MFBs are no longer required to pay these fees. This gesture is to minimize the cost of documentation and other requirements for conversion by CBs to MFBs on or before 31<sup>st</sup> December, 2007. All CBs are to note that this concession would automatically lapse by 31<sup>st</sup> December, 2007.

**S. A. Oni**

Director, Other Financial Institutions Department.

## CENTRAL BANK OF NIGERIA



CBN website: [www.cenbank.org](http://www.cenbank.org)

Tinubu Square,  
P.M.B. 12194,  
Lagos.

Our Ref: OFID/DO/CIR./Vol.1/482

August 21, 2006

Tel: 01-2662483

Fax: 01-2668667

### **CIRCULAR**

#### **TO ALL CHAIRMEN, DIRECTORS AND MANAGERS OF COMMUNITY BANKS AND PROPOSED MICROFINANCE BANKS**

#### **MINIMUM REQUIREMENTS AND STANDARDS FOR A SUITABLE MANAGEMENT INFORMATION SYSTEM (MIS) IN MICROFINANCE BANKS (MFBs)**

##### **1. PREAMBLE**

The regulatory and supervisory guidelines for Microfinance Banks (MFBs) require that an appropriate management information system (MIS) be put in place to compliment risks assessment rating criteria of these institutions on an on-going basis. In this regard, the Central Bank of Nigeria (CBN) has considered it necessary to issue this circular to guide the operators of MFBs on the minimum requirements and standards for an appropriate MIS to ensure uniformity and provision of information for the sub-sector. This is borne out of the desire that a sound and adequate MIS will provide a platform for a quick decision making process. The information required by management are generated through proper organisation of data from different distinct parts and summarised to become an output for decision making. Management Information System includes all components used for generating the information that guide management in its decisions and actions. In view of the high volume but small transactions and relatively less manpower prevalent in MFBs, the installed management information systems shall facilitate decision making at the different levels of the institution, with reference to

the specific description of various types of products and services (deposits and loan portfolio), adequate identification of depositors and borrowers, and reporting requirements of the Central Bank of Nigeria.

The types of information expected to be generated by MIS are:

- Financial statements (Balance sheet, Income statement, Cash flow & liquidity)
- Portfolio monitoring (credit & savings)
- Performance ratings/ indicators
- Customer information
- Non-financial performance( staffing, service quality, fixed asset etc)
- Market trends and comparisons.

## **2. REQUIREMENTS**

In reviewing the management information system of every MFB, the Central Bank of Nigeria shall therefore take into consideration the following generic and specific requirements:

- (i) Functionality and flexibility: this includes:
  - a. Functional completeness, appropriateness and integration
  - b. Accounting package
  - c. Portfolio tracking
  - d. Deposit monitoring
  - e. Customer information system
  - f. Expandability and institutional growth
  - g. Flexibility
  - h. Customer-centric-tailored to meet recipient needs
  - i. Account-centric-data standards & definition
  - j. Credible-consistent with internal/external cross
  - k. Institutional types
  - l. Lending methodologies
  - m. Loan interest types
  - n. Savings and deposit account types
  - o. Deposit interest types
  - p. Payment types
  - q. Payment frequencies
  - r. Multiple branches

- s. Timeliness of processing
- (ii) Usability, including
  - a. Ease of use and user-friendliness, and
  - b. User interface
  - c. Compatibility with Microsoft word, SQL and e-FASS
  - d. Application interface for data extraction and conversion into XML return format
- (iii) Ability to generate accurate, convenient access and timely reports.  
This includes
  - a. CBN prudential returns
  - b. Daily reports for decision making
  - c. Past reports and two way flow
  - d. Trend analysis of all the important ratios required for decision making.
- (iv) Administration and support, including
  - a. Security
  - b. Back-up and recovery
  - c. Fault tolerance and robustness
  - d. End-of-period processing
  - e. Support infrastructure and maintenance
  - f. Version control and upgrade strategy
  - g. Maintenance support services

The above information and requirements are provided for general guidance and application by operators of MFBs in installing an appropriate MIS for their institutions.

Should you require any further assistance, please feel free to contact us on Tel.: 01-2662483, 09-61635640.

**S. A. ONI**  
**Director**  
**Other Financial Institutions Department Central Bank of**  
**Nigeria, Lagos**



CENTRAL BANK OF NIGERIA, LAGOS

OUR REF: OFID/DO/CIRC/VOL.388

June 23, 2004

CIRCULAR TO ALL LICENSED COMMUNITY BANKS  
AND PRIMARY MORTGAGE INSTITUTIONS

RE: AUTHORITY TO EXAMINE YOUR RECORDS BY THE NIGERIAN DEPOSIT INSURANCE  
CORPORATION (NDIC).

This is to inform all deposit taking financial institutions that the NDIC in consultation with the CBN is making arrangements to provide insurance cover to the Deposits of licensed community banks and Primary Mortgage Institutions

To that effect, the corporation is authorised to examine the records of all licensed community banks from time to time and also receive your quarterly returns.

All licensed community banks and Primary Mortgage Institutions are therefore, enjoined to oblige the corporation with their returns and any other information it may need to accomplish this task.

Thank you for your corporation.



**POLYCARP NWOSISI**

**For DIRECTOR, OTHER FINANCIAL INSTITUTIONS DEPT.**



**CENTRAL BANK OF NIGERIA, LAGOS**

**OUR REF: OFID/DO/CIRC/VO.387**

April 29, 2004

**CIRCULAR TO ALL COMMUNITY BANKS AND PRIMARY MORTGAGE INSTITUTIONS**

The attention of the Central Bank of Nigeria has been drawn to a series of illegal clearing and conversion/ diversion of third party cheques belonging to parastatals, agencies, corporate bodies and individuals by some community banks. This fraudulent practice which has resulted in the loss of huge revenues to the affected institutions and individuals is also capable of destroying the credibility of the financial sector and the financial system in general.

In view of the foregoing, it has become very imperative to warn all Non-Bank Financial Institutions, particularly, the community banks to desist from this unwholesome practice as any institution or individual found to be involved would be appropriately and decisively dealt with in accordance with the law.

A handwritten signature in black ink, appearing to read 'A. Sesan Bamisile'.

A. Sesan Bamisile

Director, Other Financial Institutions Department

**CENTRAL BANK OF NIGERIA, LAGOS**

**OUR REF:OFID/DO/CIRC/351**

**Date: January 26, 2004**

**TO: ALL OTHER FINANCIAL INSTITUTIONS**

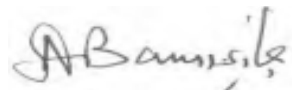
**CIRCULAR**

**THE NEW STATUTORY RETURN FORMATS**  
**FOR THE OTHER FINANCIAL INSTITUTIONS (OFIs)**

The Central Bank of Nigeria (CBN) wishes to inform all the Development Finance Institutions (DFIs), Primary Mortgage Institutions (PMIs), Finance Companies (FCs) Bureaux de Change (BDCs) and Community Banks (CBs) that the use of the newly approved 'return formats' will commence as follows:

- [i] Institutions rendering monthly returns January 2004 and [ii]  
Institutions rendering quarterly returns March 2004.

All Institutions that do not have the said return formats are advised to contact the office the Director, Other Financial Institutions Department, Central Bank of Nigeria, New Building, Tinubu Square, Lagos. Tel. 01/2662483 or Other Financial Institutions Department, Liaison Office, 6th Floor, Wing A, Central Bank of Nigeria, Head Office, Central District, Abuja. Tel. 09-61635640.



**A. Sesan Bamisile**  
**Director, Other Financial Institutions Dept.**

**SECTION K**  
**TRADE AND EXCHANGE CIRCULARS, POLICIES AND GUIDELINES**

Please ensure strict comp  
AHMED B. UMAR  
DIRECTOR  
TRADE & EXCHANGE D

classification of 41 import  
Nigerian Foreign Exchan  
public are hereby notified  
Friday December 07, 201  
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which payments are outst  
dates.





**CENTRAL BANK OF NIGERIA**  
Corporate Head Office  
Central Business District  
P.M.B. 9787, Garki, Ansa, FCT

**TRADE AND EXCHANGE DEPARTMENT**

09 46237800  
08 46237804

*ƙirƙira gabaɗaya: gabaɗaya*

TIKIDEMPEC/06SHITBHF

November 29, 2018

**TO: ALL BUREAU DE CHANGE OPERATORS  
THE GENERAL PUBLIC**

**INTRODUCTION OF SPECIAL INTERVENTION OF FOREIGN EXCHANGE  
CASH SALES TO BUREAU DE CHANGE OPERATORS**

This is to inform Bureau De Change (BDC) Operators and the general public that with the approach of the yuletide season and the resultant increase in the demand for Personal/Business Travel Allowance, the CBN has in addition to the existing market days (Monday, Wednesday and Friday) introduced a special intervention day every Thursday for USD15,000.00 per BDC commencing on Thursday, December 06, 2018.

Consequently, all BDCs should note that the cut-off time for receiving Naira deposits into their respective bank accounts for the Thursday's special intervention shall be 10:00am on the Thursday.

All operators are hereby advised to ensure strict compliance with the provisions of the extant regulations on the disbursement of forex cash to their respective customers as any case of infraction will be appropriately sanctioned.

Please ensure strict compliance.

**U. ABDULLAHI**  
For: DIRECTOR  
TRADE & EXCHANGE DEPARTMENT



**TRADE AND EXCHANGE DEPARTMENT**

09 462 37800

09 462 37804

e-mail: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

**TED/FEM/FPC/GEN/01/004**

**July 26, 2018**

**TO: ALL AUTHORISED DEALER BANKS & THE GENERAL PUBLIC**

**INTRODUCTION OF THE REVISED FOREIGN EXCHANGE MANUAL**

It will be recalled that as part of a deliberate programme for the liberalization of the Foreign Exchange Market, the Bank in 2006 undertook a review of the Foreign Exchange Manual to incorporate policy changes that had taken place since its introduction in 1995 pursuant to the powers vested on the CBN via the provisions of Act 17 section 1 (2) of 1995, LFN Cap F34.

However, contemporary developments have since made the existing provisions of the manual inadequate, resulting in the need to update the document.

Consequently, changes introduced in this revised Foreign Exchange Manual are intended to streamline documentation requirements, enhance transparency of transactions and engender compliance by stakeholders.

In view of the above, the provisions of the revised Foreign Exchange Manual shall take effect from August 1, 2018.

A handwritten signature in blue ink, appearing to read 'F. O. Okonji'.

**F. O. OKONJI (MRS)  
Ag. DIRECTOR  
TRADE AND EXCHANGE DEPARTMENT**



**CENTRAL BANK OF NIGERIA**  
Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

09 46237804  
09 46237802

**TRADE AND EXCHANGE DEPARTMENT**

E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

**TED/FEM/FPC/GEN/01/003**

**May 28, 2018**

**TO: ALL AUTHORISED DEALERS,  
BUREAU DE CHANGE OPERATORS and  
THE GENERAL PUBLIC**

**DEVELOPMENT IN THE FOREIGN EXCHANGE MARKET**  
**RE: REVIEW OF WEEKLY FOREIGN EXCHANGE CASH SALES TO**  
**BUREAU DE CHANGE (BDC) OPERATORS**

As part of our efforts to enhance the accessibility of foreign exchange especially to the Bureau De Change (BDC) segment, the frequency of sales to licensed BDCs is hereby increased to three (3) times weekly.

Consequently, purchase of foreign exchange by BDCs shall be on Mondays, Wednesdays and Fridays. The BDCs are to ensure that their accounts with the banks are duly funded with the equivalent Naira proceeds on Tuesdays, Thursdays and Fridays.

Meanwhile, Authorised Dealers shall continue to sell foreign currencies for travel related invisible transactions to customers and non-customers over the counter upon presentation of relevant travel documents (passport, Air ticket & Visa).

All Authorised Dealers and Bureau De Change Operators are hereby advised to ensure strict compliance with the provisions of the extant regulations on the disbursement of foreign exchange cash to travellers, as any case of infraction will be appropriately sanctioned.

**AHUCHOGU O.L. (MRS.)**  
**Ag. DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**





CENTRAL BANK OF NIGERIA  
Corporate Head Office  
Central Business District  
P.M.B. 0117, Garki, Abuja, FCT

TRADE AND EXCHANGE DEPARTMENT

09 46237800  
09 46237804

E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

TED/FEM/FPC/GEN/01/002

February 28, 2018

TO: ALL AUTHORISED DEALERS,  
NIGERIA CUSTOMS SERVICE  
NIGERIAN EXPORT PROMOTION COUNCIL,  
ALL TERMINAL OPERATORS  
AND THE GENERAL PUBLIC

TEMPORARY ENGAGEMENT OF PRE-SHIPMENT INSPECTION AGENTS (PIAs) FOR NON-OIL EXPORTS

This to inform all Authorised Dealers, the Nigeria Customs Service, Terminal Operators and the general public that the Honourable Minister of Finance has approved the appointment of PIAs listed below on a **TEMPORARY BASIS**:

**a) MESSRS. COBALT INTERNATIONAL SERVICES LIMITED:**

S/N	GEO-ZONE	LAND BORDER	SEA PORT	AIRPORT
1	South-West I	Idiroko, Imeko, Ilara, Ijoun	Tin Can Island Port	MM I Airport
2	South-West II	Ohumbe, Ilashe, Ijoffin, Seme, Shaki	Apapa Port, KiriKiri Lighter Terminal	

**b) CARMINE ASSAYER LIMITED**

S/N	GEO-ZONE	LAND BORDER	SEA PORT	AIRPORT
1	North-West	Ilela, Kangiwa, Kamba, Dole Kairua, Sabon Birni, Maigafan		

2	North East/North Central	Tulobulo'a, Machina, Mallam Fatori, Doro Sago, Wujo, Gamboru, Sigael, Jibe, Banki and Krawa	International Airport, Kaduna
		Jibiya, Denkama, Maidua, Zango, Babanmum, Shuba, Mayobewa, Gembu and Kajal	Aminu Kano International Airport, Kano
		Babana, Chikanda, Ksubosu, Keri and Okuta	Nnamdi Azikiwe International Airport, FCT, Abuja

**c) NEROLI TECHNOLOGIES LIMITED**

Messrs Neroli Technologies is to maintain its former areas of coverage (South-South and South-East)

Please note that the appointment is with effect from November 3, 2017 and on temporary basis, pending the appointment of new ones. Accordingly, the contract will be terminated upon the appointment of new Agents by the Government, or at any time that their services are no longer required.

**O. L. AHUCHOGU (MRS.)**  
**Ag. DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**

09 462 37804  
09 462 37802

E-mail: ted@fem.rfc.gov.eg

TED/FEM/RFC/GEN/01/001

TO: ALL AUTHORIZED DEALERS  
AND THE GENERAL PUBLIC

CHARGES ON THE SALE OF

TRANSACTIONS (RTA, PTA, SCHO

All Authorized Dealers are hereby

on retail foreign exchange transac

tion in accordance with the relevant

Directorate of Exchange Control

W. D. oring

Consequently, all Authorized Deal

compliance.

*[Handwritten signature]*



0187, Gar, 'Apuia, FCT  
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CENTRAL BANK OF NIGERIA  
Corporate Head Office  
Central Business District  
P.M.B. 0187, Lagos, Abuja, FCT

TRADE AND EXCHANGE DEPARTMENT

09 462 37804  
09 462 37802  
e-mail: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

**TED/FEM/FPC/GEN/01/013**

**October 26, 2017**

**TO: ALL AUTHORISED DEALERS  
AND THE GENERAL PUBLIC**

**RE: REPATRIATION OF EXPORT PROCEEDS (OIL AND NON-OIL)**

Further to the provisions of the circular Ref: TED/FEM/FPC/GEN/01/005 of February 19, 2015 on the above subject, exporters are hereby reminded that failure to repatriate their exports proceeds within the stipulated 90 days for Oil & Gas and 180 days for Non-Oil Exports constitute a breach of the extant regulation.

Consequently, any exporter that defaults in the repatriation of export proceeds within the stipulated period shall be barred from accessing all banking services including access to the foreign exchange market.

Please note and ensure compliance accordingly.

**W. D. Gotring**  
Director  
Trade and Exchange Department



CENTRAL BANK OF NIGERIA  
Corporate Head Office  
Central Business District  
P.M.B. 0117, Garki, Abuja, FCT

TRADE AND EXCHANGE DEPARTMENT

09 462 37804  
09 462 37802  
e-mail: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

**TED/FEM/FPC/GEN/01/012**

**September 7, 2017**

**TO: ALL AUTHORISED DEALERS  
AND THE GENERAL PUBLIC**

**IMPLEMENTATION OF ELECTRONIC CERTIFICATE OF CAPITAL  
IMPORTATION (eCCI)**

In a bid to enhance transparency and efficient processing of foreign investment flows to the country, the Central Bank of Nigeria hereby informs the Authorised dealers and the public of the deployment of Electronic Certificate of Capital Importation (eCCI) platform.

Accordingly, the eCCI shall replace the hard copy CCI normally issued in respect of all capital inflows either in form of cash or machinery/equipment.

**Consequently, effective from Monday 11<sup>th</sup> September, 2017, the processing of Certificate of Capital Importation in Nigeria shall only be done electronically on the eCCI platform.**

Please note and ensure compliance accordingly.

  
**W.D. Gotring**  
Director  
Trade & Exchange Department

In the continued effort to improve foreign exchange market and ameliorate Nigerian foreign exchange market and ameliorate by critical stakeholders, payment for port charges Authority, NIMASA, etc., by oil marketing companies accommodated by the Central Bank of Nigeria using payments of port charges from oil marketing companies to the CB. Foreign Exchange window.

**W. D. GORRING**  
**DI CTOR**  
**TRADE & EXCHANGE DEPARTMENT**

*W. D. GORRING*

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**PLATFORMS SERVICE ELECTRONIC AUCTION**

July 24, 2017

**TRADE AND EXCHANGE DEPARTMENT**  
P.M.B. 0187, Oshodi  
Corporate Head Office  
Central Business District



**TRADE AND EXCHANGE DEPARTMENT**  
P.M.B. 0187, Oshodi  
Corporate Head Office  
Central Business District



24, 2017

CAUTION

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**W. D. GOTRING**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



TRADE AND EXCHANGE DEPARTMENT

TRADE AND EXCHANGE DEPARTMENT

E-mail address: [fed@cbn.gov.ng](mailto:fed@cbn.gov.ng)

TED\FEM\FPC\GEN\101009

THE GENERAL PUBLIC  
EXPORTERS  
AUTHORISED DEALERS

REPORT FROM NIGERIA - COMPLIANCE WITH FOREIGN EXCHANGE M

In the continued effort to ensure that all exports through the formal channels, bills of lading in all bills of lading carry the Form NXP number of the

Consequently, all exporters are required to use an Authorized Dealer of their choice prior to shipment. Section 1(a)(ii).

For the avoidance of doubt, it shall be a breach of the provisions of the Act for a shipper to take on-board any cargo for which a bill of lading is required by the exporter.

This circular takes immediate effect.

Please ensure strict compliance.

W.D. GORING  
DIRECTOR  
TRADE & EXCHANGE DEPARTMENT



TO: ALL AUTHORISED DEALERS

NIGERIA CUSTOMS SERVICE AND

THE GENERAL PUBLIC

CLARIFICATION ON ITEMS VALID FOR FOREIGN EXCHANGE MARKETS

Following misconceptions and enquiries from Authorized Dealers, Nigeria Customs Service items with their related HS Codes remain "Val

1 1816 2010 00

3 3330 1020 00

4 4822 1000 00

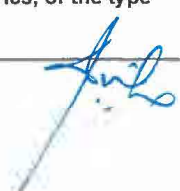
ii. f. q@cpn dov ud



CENTRAL BANK OF NIGERIA

0187, Garki Area FCT  
1 Business District  
the Head Office

SN	HS CODES OF ITEMS	DESCRIPTION OF ITEMS
8.	4805.1900.00	Other uncoated paper and paper board, in rolls or sheets not further work
9.	4805.1100.00	Other uncoated paper and paper board, in rolls or sheets... <b>Semi chemical fluting paper</b>
10.	4810.9990.00	Paper... coated with kaolin (china clay) etc in rolls or sheets... in rolls of a width exceeding 150mm or in rectangular
11.	4802.5400.00	Uncoated paper for writing..in rolls or sheets; hand-made paper... <b>Weighing less than 40 g/m<sup>2</sup></b>
11.	5402.1910.00	Synthetic filament yarn, nprs (incl. synthetic monofilament)... <b>High tenacity yarn of Nylon or other polyamides of Nylon</b>
13.	5402.3300.00	Synthetic filament yarn, nprs (incl. synthetic monofilament)... <b>Textured yarn of Polyesters</b>
14.	5402.3200.00	Synthetic filament yarn, nprs (incl. synthetic monofilament)... <b>Textured yarn of Nylon or other Polyamides, measuring per single yarn more than 60 text.</b>
15.	5402.5100.00	Synthetic filament yarn, nprs (incl. synthetic monofilament)... <b>of Nylon or other Polyamides</b>
16.	5402.2000.00	Synthetic filament yarn, nprs (incl. synthetic monofilament)... <b>High tenacity yarn of polyesters</b>
17.	5403.1000.00	Artificial filament yarn, nprs (incl. artificial monofilament)... <b>High tenacity yarn of viscose rayon</b>
18.	5403.3100.00	Artificial filament yarn, nprs (incl. artificial monofilament)... <b>Other yarn, single of viscose rayon, untwisted or with a twist not exceeding 120 turns per meter</b>
19.	5403.3300.00	Artificial filament yarn, nprs (incl. artificial monofilament)... <b>Of Cellulose Acetate</b>
20.	5407.2010.00	Woven fabrics of synthetic filament yarn, including woven fabrics obtained from material... <b>Polypropylene fabrics, of the type used as carpet backing</b>



36	8419.8900.00
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Please ensure compliance accordingly.

  
**W. D. GOTRING**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



CENTRAL BANK OF NIGERIA

Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

TRADE AND EXCHANGE DEPARTMENT

1. Revised Import Documentation
- i. Bill of lading
- ii. Certificate of Origin (Formerly Certificate of Origin) (CCO)
- iii. Commercial invoice
- iv. Exit Note (Formerly Exit Gate)
- v. Form "M"
- vi. Packing list
- vii. Single Goods Declaration (SGD)
- viii. Product Certificate

All Authorised Dealers are therefore  
this circular to the attention of their

hours time line,  
ii. Authorised Dealers shall submit

appropriate documentations,  
i. The time line for processing for  
a maximum of 48 hours from

  
**W.D. GOTRING**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**

**3) Timeline for Processing Form**

- vii. Packing list,
- vi. Clean Certificate of Inspection
- v. Nigerian Export Proceeds(NXP)
- iv. Single Goods Declaration (SGD)
- iii. Commercial Invoice
- ii. Certificate of Origin
- i. Bill of lading

**2. Revised Export Documentations**



CENTRAL BANK OF NIGERIA

09-031800  
09-031804  
E-mail address: [info@cbn.gov.ng](mailto:info@cbn.gov.ng)

TED/FEM/PC/GEN/01/003

TO

RE:

Further to  
the above s  
Small and  
foreign exc  
requiremen

The new Fo  
SME applica  
a. applica

W.D. OTRING  
DI CTOR  
T DE & EXCHANGE DEPARTMENT

Please ensure compliance

This circular takes immediate effect

Furthermore, processing banks shall refer  
Director, Trade and Exchange Department

**CENTRAL BANK OF NIGERIA**  
**FORM Q**  
**FOREIGN EXCHANGE APPLICATION FORM**  
**FOR SMALL AND MEDIUM ENTERPRISES AND RETAIL BUSINESSES**  
(To be completed in duplicate)

1 Name of Applicant	_____
2 Applicant's BVN	_____
3 Address of Applicant	_____
4 Telephone No.	_____
5 email Address	_____
6 Annual Turnover	_____
7 Number of Employees	_____
8 Applicant's Bank Name	_____
9 Applicant's Bank Account No.	_____
10 Item of Import/Service	_____
<b>Beneficiary Transfer Instruction</b>	
11 Name of Beneficiary	_____
<b>12 Account Details of Beneficiary</b>	
a Beneficiary Bank Name	_____
b Beneficiary Bank Address	_____
c IBAN	_____
d Swift Code	_____
e Amount(in words and figures)	_____
f Purpose of Remittance/Transfer	_____

**APPLICANT'S CERTIFICATION**

I/We hereby certify/confirm that the information provided above are true and correct.

\_\_\_\_\_  
Authorized Signatory

\_\_\_\_\_  
Authorized Signatory

**NOTE:** All requests **MUST** be accompanied by customer's duly signed application letter, proforma invoice and beneficiary bank account details. Applicant Must have operated account in the bank for at least six(6) months

**FOR BANK USE ONLY**

\_\_\_\_\_  
Processor

\_\_\_\_\_  
Authorised

\_\_\_\_\_  
Approved



CENTRAL BANK OF NIGERIA

Corporate Head Office  
Central Business District  
P.M.B. 0187, Lagos, Nigeria

TRADE AND EXCHANGE DEPARTMENT

09-61637800  
09-61637804

E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

TEDEFEM FPC/GEN/1/002

TO: ALL AUTHORISED DEALERS  
THE GENERAL PUBLIC

FOREIGN EXCHANGE PAYMENT

In continued effort to accommodate  
the needs of the CBN will intervene to  
assist small and medium enterprises  
and US Dollars) per customer

W.D. OTING  
DIRECTOR  
TRADE & EXCHANGE DEPARTMENT

Please ensure strict compliance.

This circular takes immediate effect.

Final shipping documents to the Director





**CENTRAL BANK OF NIGERIA**

Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

09 462 37802

09 462 37802

e-mail: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

TRADE AND EXCHANGE DEPARTMENT

TED/IRM/FPC/GEN/01/012

November 25, 2016

TO: ALL AUTHORISED DEALERS

BDC OPERATORS AND THE GENERAL PUBLIC

**HONG KONG AUTHORITIES ALERT THE PUBLIC ON THE CIRCULATION OF FAKE HONG KONG DOLLAR BANK NOTES**

The attention of the Central Bank of Nigeria has been drawn to the circulation of fake hundred banknotes of Hong Kong Dollar (HK\$100) in the country.

The fake notes which were printed on normal A4 paper using inkjet printers are of poor quality, lacked embossment and the feel of security features. The silver marks were stuck on the notes to appear like the holographic security thread on real bills. Also the HK\$100 numerals failed to turn gold and green when viewed from different angles.

For avoidance of doubt, members of the public are hereby advised that the genuine Hong Kong Dollar banknote has the following features:

1. The colour and features of the notes shift when viewed at different angles.
2. The holographic windowed thread shows a complete metallic thread when viewed under light, and
3. When rubbed on the surface, the bill gives an embossed feeling.

In the light of the above, members of the public are enjoined to report any suspected fake Hong Kong Dollar to relevant security agencies for necessary action.

  
W.D. Gotring  
Ag. Director  
TRADE & EXCHANGE DEPARTMENT



TEDE\FEM\FPC\GEN\01\000

The subject is hereby amended as follows:  
"A resident/ non-resident Nigerian national or entity may invest in Nigeria by way of [...] such as Commercial Papers, Nigerian [...] Acquirers, Treasury Bills, etc. subject to requirements":

- Tested SWIFT message evidencing the [...]
- Board resolution of the local beneficiary of a company);
- Purpose of capital importation specific [...]
- Evidence of incorporation where applicable.

**Procedure for Resident/non-resident investing in Portfolio investment**

i. The prospective investor purchase the instrument  
The funds for the investment bank  
On receipt of the fund  
Capital Importation with  
Authorized Dealer shall returns to CBN in form  
v. With the certificate, the market; invests in any  
vi. If at any point in time with the following documents  
a) Certificate  
b) Evidence  
For the avoidance of doubt resident/non-resident Nigerian investment shall be eligible ordinary domiciliary account

  
**W.D. GOTRING**  
Ag. **DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



**CENTRAL BANK OF NIGERIA**

Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

09-61637800  
09-61637804

TRADE AND EXCHANGE DEPARTMENT

E-mail address: ted@cbn.gov.ng

Our Ref: TED/FEM/FPC/GEN/01/016

August 25, 2016

**To: ALL AUTHORISED DEALERS  
AND THE GENERAL PUBLIC**

**ILLICIT INTERNATIONAL MONEY REMITTANCES THROUGH THE  
BANKING SYSTEM**

Further to the guidelines for the operation of International Money Transfer Service (IMTS) in Nigeria reference TED/FEM/FPC/GEN/01/016 of September 26, 2014, we have observed that some Deposit Money Banks (DMBs) are operating accounts either as companies or companies masking themselves as individuals for the purpose of illegally receiving money transfer flows into those accounts for onward disbursements to recipients in Nigeria.

The CBN therefore reiterates that the DMBs have the absolute responsibility to conduct Know Your Customers' Business (KYCB) checks on all their customers to ensure that they do not transact in illegal/illicit flows. Consequently, DMBs are hereby directed;

1. to identify and freeze accounts receiving illicit flows
2. to submit the mandate and account details of these accounts held in Naira or foreign currency to the CBN for onward reporting to the security agencies.

Please note and ensure compliance.

  
**W.D. GOTRING**  
Ag. DIRECTOR  
TRADE & EXCHANGE DEPARTMENT



CENTRAL BANK OF NIGERIA  
Corporate Head Office  
Central Business District  
P.M.B. 0187, Carri, Abuja, FC

August 2, 2016

GENERAL PUBLIC

to management of foreign exchange to  
proportion of foreign exchange  
of raw materials for the

the observed imbalance,  
efforts dedicated at least 60% of  
resources (inclusive) interbank to  
and raw materials plant and  
used to meet other trade

are to continue to publish  
the National Newspapers and  
promptly.

otherwise advised.

  
**W. D. GOTRING**  
**Ag. DIRECTOR**  
**TRADE AND EXCHANGE DEPARTMENT**



CENTRAL BANK OF NIGERIA

TRADE AND EXCHANGE

09 46237804  
09 46237802

E-mail address: fed@cbn.gov.ng

TEDE\FEM\FPC\GEN\01\008

TO: ALL AUTHORISED DEALERS


RE: TRANSACTIONS IN "FREE FUND

The Central Bank of Nigeria has notified  
continued to buy and sell foreign exchange  
the provision of the circular reference  
on the subject.

Against the backdrop of the  
exchange without appropriate documents  
physical documents and non-compliance  
is a breach of extant regulations.

The CBN therefore reiterates that  
governing dealings in foreign exchange  
foreign exchange without appropriate  
Regulatory Authorities irrespective of  
Accordingly, Authorized Dealers shall  
to engage in any foreign exchange transaction  
extant laws and/or regulations.

Please ensure compliance accordingly.

  
W. D. GORING  
Ag. DIRECTOR  
TRADE AND EXCHANGE DEPARTMENT



**CENTRAL BANK OF NIGERIA**

Corporate Head Office  
Central Business District  
P.M.B 0187 Garki, Abuja FCT

Charge Operators (BDCs), the following

1. Authorized Dealers shall sell foreign currency of USD3,000 to (Three thousand US Dollars) per week. A BDC shall not (DMB) and can only procure the choice in a week. Any breach of sanction.
2. The selling rate by the Authorised rate from IMTO plus a margin not

3. Foreign exchange cash purchased by BDCs from Authorised Dealers (ADs) shall be sold to foreign exchange end-users at a rate not exceeding two (2) percent margin above the buying rate;
4. For the avoidance of doubt, the two (2) percent margin stated in (3) above shall be applicable to all funds to be retailed by BDCs regardless of sources of fund;
5. Authorised Dealers shall continue to render weekly returns on sales to BDCs and the BDCs shall also continue to render weekly returns on purchases from ADs as specified in the attached excel format to Trade & Exchange Department, CBN, Abuja;
6. Funds purchased by BDCs shall be disbursed for the following eligible transactions only. In all cases, the maximum disbursement per transaction shall not exceed USD5,000.00;
  - a. Business Travel Allowance/ Personal Travel Allowance
  - b. Overseas School fees
  - c. Overseas Medical fees
7. Record shall be maintained for all transactions by the BDCs showing the BVN of the end-user, including endorsement of the amount disbursed in the International Passport of the beneficiary;
8. International Money Transfer Service Operators shall continue to render weekly returns on their operations with agent banks directly to the CBN as specified in the attached format.
9. All BDCs are required to render weekly returns on foreign exchange purchases from Authorised Dealers and other sources as well sales to the Director, Trade & Exchange Department as specified in the attached excel format; and



10. It is to be noted that Authorized Dealer should ensure strict compliance to the provisions of appropriate transactions.  
11. Any Authorized Dealer and provision of these guidelines suspension of dealership license.  
Please note and ensure compliance.

W.D. OTRING  
AS DIRECTOR  
T. DE & EXCHANGE DEPARTMENT











CENTRAL BANK OF NIGERIA

FCT

REF: TEDFEMFPCIGEN01004



Handwritten signature

W. GOTRING  
DIRECTOR  
TRADE & EXCHANGE DEPARTMENT

Furthermore, Authorised Dealers and BDC operators daily and monthly to the Director in accordance with extant regulation. For the avoidance of doubt, failure by any operator to render returns as and when withdrawal of dealership license. Please ensure strict compliance.



CENTRAL BANK OF NIGERIA

Page 8 of 11

16

Please note and ensure compliance.

1. [info@cbn.gov.ng](mailto:info@cbn.gov.ng)

2. [info@cbn.gov.ng](mailto:info@cbn.gov.ng)

ALVAYE IKOKU

[alvayeikoku@cbn.gov.ng](mailto:alvayeikoku@cbn.gov.ng)

DIRECTOR

TRADE AND EXCHANGE DEPARTMENT

with copies of the returns should be forwarded to:

The returns, which should be in the attached format, should be submitted to the Director, Trade & Exchange Department, Central Bank of Nigeria, Lagos.

This is to request all Authorized Dealers to submit returns on Nigerian's Investments by Nigerian entities offshore for the period 2006 - 2010.

THE PERIOD 2006 - 2010

RETURNS ON NIGERIAN'S INVESTMENTS

For: ALL AUTHORIZED DEALERS

TED/PFO/PFC/GEN/01/003





**CENTRAL BANK OF NIGERIA**

**TRADE AND EXCHANGE DEPARTMENT**

Central Bank of Nigeria  
Plot 101, Garki II, Abuja  
Federal Capital Territory, Nigeria

Our Ref: TED/FEM/FPC/GEN/01/015

*[Faint, illegible text, likely a circular or official notice]*

**AHUCHOGU O.L. (MRS)**  
**For: DIRECTOR**  
**TRADE & EXCHANGE DEPART**

Please note and ensure compliance

Ref: TED/FEM/FPC/GEN/01/015

This circular supersedes

laundry and other malpractice

conducted on their commodity



## **GUIDELINES ON INTERNATIONAL MOBILE MONEY REMITTANCE SERVICE**

## **1.0 INTRODUCTION**

Following the widespread use of mobile telephone as a means of communication in Nigeria, and in recognition of its potential as a tool for financial inclusion and efficient payments system, the Central Bank of Nigeria (CBN), pursuant to its powers under Section 47 (2) of the CBN Act, 2007, issued the "Guidelines on Mobile Money Services in Nigeria" in 2009. The above guidelines, however, restricts users and operators of mobile payments services to local currency transactions within Nigeria. Also, the extant CBN "Guidelines on International Money Transfer Services in Nigeria" issued in June 2014 did not cover money remittances via mobile applications.

Consequent upon representations by some stakeholders on the need to facilitate foreign exchange transactions via a more convenient and flexible payment channel, the CBN has approved the inclusion of mobile money as part of international money transfer services in Nigeria. It is in this regard that the Bank hereby issues the "Guidelines on International Mobile Money Remittance Service (IMMRS) in Nigeria" to complement the existing guidelines.

These guidelines cover the business rules governing the operation of IMMRS and specify the infrastructural and risk management requirements for international mobile payments services in Nigeria. It also identifies the participants, and defines their expected roles and responsibilities in the system. In addition, it sets the basis for the regulation of services offered by the participants.

## **2.0 OBJECTIVES**

The objectives of these guidelines are to:

- I. Provide minimum standards and requirements for the operation of
- II. international funds remittance over mobile devices in Nigeria;
- III. Specify delivery channels for offering international funds remittance over mobile (inbound/outbound), in a cost effective manner;
- IV. Provide an enabling environment for International funds remittance over mobile devices in the Nigerian economy;

- V. Specify minimum technical and business requirements for various participants in the International Funds Remittance over mobile devices in Nigeria; and
- VI. provide broad guidelines for implementation of processes and flows of international money transfer services, from initiation to completion.
- VII. Ensure a structured and orderly development of International Funds Remittance over mobile devices in Nigeria, with clear definition of various participants and their expected roles and responsibilities.
- VIII. Promote safety and effectiveness of mobile money services and thereby enhance user confidence.

### **3.0 SCOPE**

To achieve the above stated objectives, these Guidelines cover business rules, agent network, roles and responsibilities of participants under the scheme.

## **4.0 OPERATIONS OF INTERNATIONAL MOBILE MONEY REMITTANCE SERVICE (IMMRS) IN NIGERIA**

### **4.1 Permissible Activities**

The permissible activities of International Mobile Money Remittance Service (IMMRS) shall consist of allowable inbound and outbound transactions as follows:

a) Inbound Remittances

The transaction shall be limited to the receipt of monies transmitted via mobile phones and other hand held devices to persons resident in Nigeria and foreign visitors.

b) Outbound Remittances

This includes all outbound Person-to-Person money remittances from Nigeria towards family maintenance. To safeguard against circumventing the statutory reporting threshold, the mobile money remittance service shall target individual customers only.

## **5.0 AUTHORITY TO PROVIDE INTERNATIONAL MOBILE MONEY REMITTANCE SERVICE IN NIGERIA**

Institutions seeking to offer international mobile money remittance service in Nigeria shall apply and obtain a valid approval from the CBN subject to the following conditions;

- a. Be a registered entity, licensed in its home country to carry on money transfer activities.
- b. Have a minimum Net Worth of US\$1 billion, as per the latest audited financial statement, or as may be determined by the CBN from time to time.
- c. Should hold a valid Mobile Money Operator's license
- d. The Institution should be well established (operate in at least twenty countries with at least 10 years experience) in the money transfer business, with a track record of operations.
- e. There should be an MOU that clearly delineates liabilities in the event of disputes and/or process failures.

For operation of this service there must be in partnership with at least an Authorised Dealer bank licensed in Nigeria shall be eligible for the grant of CBN approval under these guidelines.

## **5.1 RESERVE RIGHTS OF THE CENTRAL BANK OF NIGERIA**

The Central Bank of Nigeria shall have the right to decline the issuance of any license without any reason.

## **6.0 BUSINESS RULES**

### **6.1 Requirements**

- i All financial institutions authorised to carry out international mobile money remittance service in Nigeria shall:
- ii Be issued a unique Scheme Code by the NIBSS for managing interoperability.

- iii Be issued unique short codes by the NCC.
- iv Ensure that all telecommunication equipment is type approved by the NCC.
- v Register users of its scheme based on technology standards and the requirements of these Guidelines.
- vi Ensure that the registration processes within its International Funds Remittance scheme shall fulfil the entire KYC requirements specified in these Guidelines.
- vii Display the summary of transaction requested to the user for confirmation which shall include the phone numbers of the initiator and receiver, transaction description, the transaction amount, date and time and a unique transaction identifier.
- viii The user commits to the transaction by confirming the summary.
- ix Provide the tJSer option to save transaction summary.
- x Ensure UPOn completion of the transaction, that the USer receives an electronic confirmation.
- xi Regulatory authorities shall have access to the transaction log.
- xii Ensure that all transfers are subjected to the sanction screen platform

## **6.2 Activation**

- a) All banks offering international funds remittance over mobile devices shall provide an Application, which shall require a registered USer to activate the service before the commencement of transactions with a security code (e.g. PIN/Password, etc.).
- b) The bank shall ensure that the activation process is not compromised or altered within its infrastructure.

### **6.3 Transactions**

- (a) All transactions within the IMMRS shall have a unique reference issued by the system.
- (b) All transactions shall have; reference number, payer and payee phone numbers, amount, unique identifier date and time and other relevant transaction details.
- (c) IMMRS providers shall appoint and notify CBN of their settlement/correspondent banks.

**6.4** International Mobile Money Remittance Payments Processes The IMMRS shall put in place detailed processes that cover the entire solution delivery, from user registration and management, consumer protection, dispute resolution procedures, risk management processes, to transaction settlement.

## **7.0. ROLES AND RESPONSIBILITIES OF PARTICIPANTS**

### **7.1 Banks**

The role/responsibilities of banks as Scheme Operators shall include:

- (a) Verification, approval and accountability for the credibility and integrity of their partner organizations.
- (b) Seeking and obtaining necessary approvals from relevant regulatory authorities.
- (c) The deployment and delivery of the International Funds Remittance over mobile payment services to the customer.
- (d) Ensuring that the International Funds Remittance over mobile payment service meets all specified mobile payment standards as provided in this Guidelines.
- (e) Putting in place adequate measures to mitigate all the risks that could arise in the use of its mobile payment service.
- (f) Facilitating remittances to both scheme and non—scheme recipients.

- (g) Providing financial, clearing and settlement services to the mobile payments system.
- (h) Educating the customers on the appropriate use of the service and ensuring the deployment of adequate channels for enquiries and complaints.

## 7.2 **Infrastructure Providers**

These are organizations providing infrastructure that enable switching, processing and settlement facilities for International Funds Remittance over mobile services. Settlement here refers to Foreign Exchange Settlement.

## 7.3 **Mobile Network Operators (MNOs):**

Their role shall be guided by the following provisions:

- (a) Providing telecommunication network infrastructure for the use of International Funds Remittance over Mobile devices;
- (b) Ensuring that a secure communication channel based on the minimum technology standard stipulated in these Guidelines are implemented;
- (c) That MNOs shall not give preferential treatment to any mobile money operator over another in terms of traffic and price;
- (d) Ensuring that its customers are free to use any mobile payments scheme service of their choice;
- (e) Shall not receive deposits from the public, except in respect of the airtime billing of their customers;
- (f) Shall not allow the use of the airtime value loaded by their customers for purposes of payments or to transfer monetary value;
- (g) Shall ensure seamless interconnection between MMOs; and
- (h) Shall not engage in any conduct which has a purpose or effect of anti-competition in any aspect of mobile money services.

## 7.4 Consumers

They shall have rights/responsibilities as follows:

- (a) Ease of enrolment
- (b) Ease of (SMS, USSD, STK, IVR, etc.) (c) Privacy, Trust and Security of transaction
- (c) Convenience
- (d) Accessibility to funds on completion of transaction process
- (e) Real time transfer of value
- (f) Easy and prompt access to dispute resolution process
- (g) Ensure the protection of PIN / Password
- (h) Ensure prompt reporting of fraud cases, errors and complaints
- (i) Ensure proper confirmation of transaction details and recipients' mobile phone numbers at all times before authorizing transactions.
- (j) Comply with all security rules as provided by the scheme operator
- (k) Report complaints to the Consumer Protection Departments of the Central Bank of Nigeria, if resolution exceeds 14 working days.

## 8.0 NOMINEE/SETTLEMENT ACCOUNT

- (a) IMMRS providers shall notify CBN of their settlement/correspondent banks.
- (b) All obligations arising from mobile money transactions shall be settled into settlement accounts.
- (c) The settlement accounts with the deposit money banks shall be opened as Nominee Accounts on behalf of the customers of the international Mobile Money Service providers. The operations of the account shall be guided by the following conditions:
  - i. no right of set-off
  - ii. debit transactions into the account shall only be for settlement related transactions
  - iii. No charges of any form shall apply to the account



- (d) The settlement account shall not be used, under any guise or purpose, as collateral for negotiation of loans by the bank.
- (e) The balance on the settlement account shall always be equal to the total outstanding (un-spent) balance of all holders of the mobile money.
- (f) International Mobile Money Service Providers shall be required to reconcile on a daily basis, the balances in their pool accounts and make monthly returns to the Director, Trade & Exchange Department of the CBN.
- (g) All customer transactions shall be traceable; auditable and can be validated.
- (h) Remittance inflow messages shall, at a minimum, be conveyed to the recipient through SMS.

## **9.0 SETTLEMENT**

- a. The settlement process to be deployed by International Mobile Money Remittance Service providers shall ensure compliance with the settlement standards and requirements defined in these Guidelines.
- b. The IMMRS provider shall ensure that its mobile payment infrastructure fully complies with the clearing and settlement rules for finality of settlement.
- c. The scheme operator shall, on a daily basis request for its settlement positions from its correspondent bankers for reconciliation of transactions.
- d. The scheme operator shall ensure that all settlement information details are preserved for reference for a minimum period of seven (7) years.

### **9.1 Operating Rules for Scheme Settlement Operator**

Nigeria Inter-bank Settlement System Plc (NIBSS) shall:

- (a) Provide net settlement positions of all Inter-Scheme service providers and effect final settlement using the CBN InterBank Funds Transfer System (CIFTS) on (T+1) cycle.

- (b) Provide statistical reports to the regulatory bodies and participants as may be prescribed from time to time.
- (c) Maintain audit trail and transaction log of all transactions consummated on the scheme.
- (d) Provide the infrastructure (hardware, software, switching and security) to link all inter scheme providers.
- (e) Provide business continuity/disaster recovery plans to ensure services are available at all times.
- (f) Provide 99.99% system availability and ensure that all signed-on participating institutions follow same rules.
- (g) Ensure MMOs are connected to the National Central Switch (NCS) for the purpose of interoperability.
- (h) Ensure that the mobile payments system is interoperable with the network infrastructure of different MNOs, solution providers, IMMRS and the NCC.

## **10.0 TRANSACTION SECURITY STANDARDS**

**10.1** Mobile Payments solutions deployed shall adhere to the following minimum standards:

- (a) The Advanced Encryption Standard (AES). Encryption shall be on an end-to-end basis.
- (b) ISO 8583
- (c) All subsequent routing of messages to the Mobile Money Operators' servers must be with the highest level of security with dedicated connectivity;
- (d) That any sensitive information stored in third party systems is restricted with appropriate encryption and hardware security standards as contained in this guidelines;
- (e) All transactions on an account shall be allowed only after authentication of the mobile number and the PIN associated with it;
- (f) That mobile payments application shall not allow the option of saving the PIN either on the handset or on the application;
- (g) All accounts on the mobile application shall be activated using the customer on the mobile application linked to the mobile phone number. This mobile phone number shall be used as the second factor authentication for mobile transactions;

- (h) The PIN shall not travel in plain text during the transaction;
- (i) That proper system of verification of the phone number shall be implemented;
- (j) The payment authorisation message from the user's mobile phone shall, at the minimum, be AES encrypted and checked for tampering by the scheme operator. It shall not be possible for any interceptor to change the contents of the message;
- (k) There shall exist, a security policy duly approved by the Board of Directors of the organisation providing the service;
- (l) Segregation of duty of Security Officer / Group dealing exclusively with information systems security and Information Technology Division which actually implements the computer systems;
- (m) The Information Systems Auditor shall conduct periodic audit of the system to ensure adherence to the specified security standards half yearly;
- (n) Logical access controls to data, systems, application software, utilities, telecommunication lines, libraries, system software, etc. exists;
- (o) At the minimum, there shall be in place, the use of proxy server type of firewall so that there is no direct connection between the internet and the Mobile Money Operators' systems. For sensitive systems, an inspection fir wall shall be implemented to thoroughly inspect all packets of information, compare past and present transactions and enable a real time security alert;

## **11.0 INFRASTRUCTURE**

The core infrastructure for providing an international mobile payment system shall comply with the following standards and other requirements outlined in these guidelines:

### **a. Standards**

- i. Transaction processing, clearing and settlement platforms. The responsibility for the provision and management of these platforms shall be that of the bank.
- ii. The IMMRSs shall ensure that the minimum technology standards for communication are met (Interoperability and Interconnectivity).

- iii. Only secure channels shall be used in providing mobile money services
- iv. The mobile money services shall ensure non-repudiation.

b. Reliability

- i. Payment instruction shall be consistently executed. In the event of failure, reversal shall be immediate and automatic.
- ii. Consumers shall get immediate value for every successful transaction.

c. User Interface

- i. The user interface shall, at the minimum, adhere to the security requirements as stated in the guideline.
- ii. The user interface shall not provide access to confidential information.
- iii. PIN shall be encrypted at the point of entry.

## 12.0 RISK MANAGEMENT

12.1 In view of the peculiarity of the operations of the IMMRS and the unique risks associated with their operations, these guidelines hereby specifies the following minimum requirements to management of risks arising from their activities.

- (a) The IMMRS shall ensure that risk management policies are in place to minimize operational, liquidity, settlement, fraud, financial and money laundering risks.
- (b) The mobile payments system shall not be susceptible to sustained operational failures, as a result of system outages.
- (c) A risk management officer shall be assigned by the IMMRS, who is to provide internal risk management oversight.
- (d) The CBN will review the risk management policies, including all the controls that are in place to manage the risks from time to time.

- (e) Without prejudice to the existing enterprise Risk management framework in the bank, emerging risks from the deployment of this service should be submitted to the Central Bank of Nigeria for review and approval as part of the licensing process

## **12.2 Credit and Settlement Risk**

The central role of the settlement infrastructure requires that IMMRS shall:

- (a) Ensure that the mobile payment settlement platform automatically generates transaction settlement information/records.
- (b) Maintain audit trail and settlement log for a minimum of seven (7) years.
- (c) Fulfill other conditions that may be reviewed by the regulatory authorities from time to time.

## **12.3 Business Continuity Plan (BCP)**

IMMRS shall:

- (a) Ensure that BCP is approved by their board.
- (b) Comply with laid down minimum technology standards as specified in this document.
- (c) Ensure proper/adequate back up of data as may be required by their operations.
- (d) Ensure that the BCP is tested through a fail-over process, at least twice a year.
- (e) Have, well documented and tested business continuity plans approved by the board, that address all aspects of the mobile payment business, to take care of business disruptions and ensure system availability and recoverability:
  - i. data should be backed up daily while software should be updated as appropriate
  - ii. Recovery and business continuity measures, based on the criticality of the systems, shall be in place and a documented

plan with the organization and assignment of responsibilities of the key decision making personnel shall exist.

- iii. An off-site back up is required for recovery from major failures / disasters to ensure business continuity. Different technologies based on backup, hot sites, warm sites or cold sites should be available for business continuity.

#### **12.4 The BCP shall be:**

- (a) Based on a comprehensive Business Impact Analysis and Risk Assessment;
- (b) Documented in a written format;
- (c) Reviewed and approved by the board and senior management, at least annually;
- (d) Disseminated to employees;
- (e) The responsibility of the IMMRS, where it is outsourced to a third-party;
- (f) Flexible to respond to unanticipated threat scenarios and changing internal conditions;
- (g) Focused on the impact of various threats that could potentially disrupt operations rather than on specific events;
- (h) Developed based on valid assumptions and an analysis of interdependencies;
- (i) Effective in minimizing service disruptions and financial loss through the implementation of mitigation strategies
- (j) Ensure that processing priorities can be adequately implemented and that business operations resumes within twenty-four (24) hours.
- (k) Monitor closely mobile traffic and system capacity to ensure that any service degradation due to capacity problems are addressed promptly.
- (l) Ensure that the BCP is reviewed by external auditors at least annually, and forwarded to CBN;

- (m) Ensure employees are trained and aware of their roles in the implementation of the BCP;
- (n) Ensure the BCP is tested, at least quarterly, on an enterprise-wide basis;
- (o) Review the BCP testing program and test results on a quarterly basis;
- (p) Ensure the BCP is continually updated to reflect the current operating environment.

### **13.0 KNOW YOUR CUSTOMER (KYC) AND CUSTOMER DUE DILIGENCE (CDD) REQUIREMENTS**

All IMMRS shall comply with the provisions of the KYC Guidelines (CBN AML/CFT Regulation 2013).

### **14.0 Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT)**

The IMMRS providers shall have measures in place to prevent money laundering and terrorist financing. The mobile money IT system shall have inbuilt mechanisms to identify SUSPiCiOUS transactions, The following measures shall be in place:

- (a) Adhere to international Know Your Customer (KYC) standards at account opening by carrying out Customer Due Diligence (CDD). The entity conducting customer verification should require at least one of the following documents to verify the identity of the customer: a valid international passport, National Identity card, permanent voter's card, driver's license.
- (b) Allowable maximum limit of the outbound mobile money remittance per week shall be US\$] 00 or its equivalent, subject to periodic review by the CBN.
- (c) SUSPiCiOUS transactions should be reported in line with the AML/CFT Act.

### **15.0 CONSUMER PROTECTION MEASURES**

IMMRS shall comply with the following minimum requirements:

- a. Ensure that customers understand the transactions they are entering and adequate disclosures are made.
- b. Ensure that a channel of communication is in place twenty four (24) hours a day, seven (7) days a week to entertain enquiries and complaints in a language understood by customers.
- c. Clearly display charges for services rendered.
- d. Factor in the vulnerability of the lower end of the society in product and services design. There should be adequate consumer education activities to ensure that consumers are sensitized on the services.
- e. Ensure that appropriate consumer protection mechanisms are put in place against loss of service, fraud and privacy of customer information to enhance confidence in the mobile money services.
- f. Provide the leading role in dispute resolutions and take necessary steps to reach other agencies in the ecosystem that are relevant to resolving disputes.
- g. Respond to customer complaints within a reasonable time and not later than 48 hours from the date of reporting or lodging the complaint with the IMMRS.
- h. Be held responsible for the actions and inactions IMMRS.

## **15.1 DISPUTE RESOLUTION MECHANISMS**

Disputes arising between parties shall be settled as follows:

- a. The parties shall settle disputes within 14 working days.
- b. Customers may report complaints addressed to the Director, Consumer Protection Department Central Bank of Nigeria where they are dissatisfied with item a above.
- c. If resolution is not achieved, after (a & b) above, parties may thereafter settle the dispute in accordance with the provisions of the Arbitration and Conciliation Act, Cap A 18, Laws of the Federation of Nigeria, 2004 and other applicable legislations.

## **16.0 CESSATION OF MOBILE PAYMENT SERVICE**

- a. Any IMMRS wishing to exit from the mobile payments system shall notify the CBN in writing regarding the intention for the discontinuation, 120 days before ceasing its operations;



- b. The CBN shall have powers to order any IMMRS exiting from the mobile payments system to meet its outstanding obligations.

## **17.0 STATUTORY RETURNS**

IMMRS shall, at the end of every month and not later than the 10th day of the following month, submit to the CBN, data and other information on International mobile money operations including:

- i. Nature, value and volume of transactions;
- ii. Incidents of fraud; and
- iii. Nature and number of customer complaints and remedial measures taken.

### **17.1 Annual Reporting**

IMMRS shall include in their annual reports and accounts, in the prescribed format all activities of its mobile money operations.

## **18.0 REMEDIAL MEASURES**

If an IMMRS or its agent fails to comply with these Guidelines, the CBN may take any corrective action against the IMMRS as may be prescribed from time to time.

## **19.0 SANCTIONS**

In addition to the use of remedial measures, the Bank may impose any or all of the following sanctions against an IMMRS, its board of directors, officers or agents:

- (a) Withholding Corporate approvals;
- (b) Financial Penalties;
- (c) Suspension from International mobile money operation; and
- (d) Revocation of the mobile money operation license.

## **20.0 REVIEW OF THE GUIDELINES**

These Guidelines shall be reviewed from time to time by the Central Bank of Nigeria.

## 21.0 GLOSSARY OF TERMS

**Bank:** A deposit taking institution duly licensed by the Central Bank of Nigeria.

**EMV:** Europay, Mastercard and Visa (Chip and PIN)

**Infrastructure Providers:** These are organizations providing infrastructure that enable switching, processing and settlement facilities for mobile money services. Settlement here refers to Inter-Scheme Settlement.

**International Mobile Money Remittance Service Providers:** provide the infrastructure for the mobile payment systems for the use of participants that are signed-on to their scheme.

**Interoperability:** a situation in which payment instruments belonging to a given scheme may be used in systems installed by other schemes.

**Inter-Scheme Operation:** Inter-Scheme operations are mobile payments consummated across two different schemes by various participants.

**Intra-Scheme Operations:** Intra-Scheme operations are mobile payments that are consummated within a particular service provider's scheme.

**ISO8583:** International Organisation Standard 8583 (messaging format)

**Issuer:** the entity which receives payment in exchange for value distributed in the system and which is obligated to pay or redeem transactions or balances presented to it.

**Non-scheme recipients: Nominee Account:** Account set up by a Nominee (MMO) for settlement of customer transactions held on behalf of the individual customers (the beneficial owner') under a custodial agreement.

**PCIDSS:** Payment Cards Industry Data Security Standard

**Settlement Infrastructure Providers:** Organizations providing infrastructure that enables message exchange, switching and settlement facilities for mobile money services. Scheme recipients:

**AES:** Advanced Encryption Standard

## **APPROVAL REQUIREMENTS FOR INTERNATIONAL MOBILE MONEY SERVICE PROVIDERS**

1. Evidence of the formation of the Consortium that will deploy the project (Certificate of Incorporation)
2. The Consortium's profile and functional contact e-mails and telephone numbers
3. Memorandum & Articles of Association
4. Shareholding structure of the Consortium
5. Forms C02 (Return on Allotment of shares) and C07 (Particulars of Directors)
6. CV's of Board and Management of the Company
7. Organogram of the company
8. Business Plan, to include:
  - a. Nature of the Business
  - b. Features of the scheme
  - c. Securities features that will be put in place
  - d. 3 years Financial projections for the company
  - e. Transaction and other charges that will be borne by customers
  - f. Profit sharing agreement among the parties
  - g. Diagrammatic illustration of transaction flows
9. Information Technology Policy of the Company including:
  - a. Privacy Policy
  - b. Information Ownership/Disclosure/Loss Policy
  - c. Backup and Restore Policy
  - d. Network Security Policy
  - e. Encryption Policy
  - f. Confidential Data Policy
  - g. Password Policy
  - h. Third Party Connection Policy
  - i. Incidence Response Policy
  - j. Physical Security Policy
10. Enterprise Risk Management Framework
11. Contingency and Disaster Recovery Plan (Business Continuity Programme)
12. Draft agreements with the following:
  - a. Technical Partners
  - b. Participating banks

- c. Switching company/(s)
  - d. Merchants
  - e. Telcos
  - f. Any other party
13. Tax Clearance Certificate for three (3) years of each party in the Consortium
  14. Project Deployment Plan (time, location, operation, etc.)
  15. Payment of non-refundable Application fee of N1,000,000.00(One million naira) made payable to the CBN via the RTGS Third Party Transfer.



**CENTRAL BANK OF NIGERIA**

Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

09 46237802  
09 46237809  
E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

TRADE AND EXCHANGE DEPARTMENT

TED/FEM/FPC/GEN/01/021

October 23, 2015

TO: ALL AUTHORIZED DEALERS  
AND THE GENERAL PUBLIC

**RE: INCLUSION OF SOME IMPORTED GOODS AND SERVICES ON THE LIST OF ITEMS NOT VALID FOR FOREIGN EXCHANGE IN THE NIGERIAN FOREIGN EXCHANGE MARKETS**

Further to the circular Ref: TED/FEM/FPC/GEN/10/010 of June 23, 2015 on the above subject, Authorised Dealers are hereby informed of the following for immediate compliance:

1. Confirmed/Unconfirmed Letters of Credit established before the release of the circular of June 23, 2015 in respect of the 41 items excluded from the foreign exchange market can now be **paid** from the interbank foreign exchange market;
2. This circular applies **only** to the "LETTERS OF CREDIT" established for the 41 items prior to the date of the circular;
3. Banks are required to render weekly returns on the negotiated Letters of Credit to the Director, Trade and Exchange Department, CBN Abuja as per the attached format.
4. For the avoidance of doubt, no bank or Bureau de Change (BDC) is to provide foreign exchange for any of the 41 items in respect of Forms 'M' established after June 23, 2015.

All Authorised Dealers are enjoined to ensure strict compliance.

  
**OLAKANMI O. OSHINBAJO**  
DIRECTOR  
TRADE & EXCHANGE DEPARTMENT





**CENTRAL BANK OF NIGERIA**

Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

09-46237804

**TRADE AND EXCHANGE DEPARTMENT**

09-46237802

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

Our Ref: TED/FEM/FPC/GEN/01/018

September 22, 2015

To: ALL AUTHORISED DEALERS AND THE GENERAL PUBLIC

RE: INTEGRATION OF SON'S e-CERTIFICATES INTO THE NIGERIA  
INTEGRATED CUSTOMS INFORMATION SYSTEM (NICIS)

This is to notify all Authorized Dealers and the general public that the Standards Organization of Nigeria's e-Certificates (i.e.e-product certificate and eSONCAP certificates) were deployed on the Nigeria Integrated Customs Information System (NICIS) on Thursday September 10, 2015.

Consequently, e-product certificate shall form part of documents to be attached to all Forms "M" in respect of SON's regulated products with effect from the date of the deployment. Similarly, only e-SONCAP certificate shall henceforth be used for processing of customs clearance of imported regulated products.

However, in the case of existing SON's regulated products made without the pre-requisite SONCAP certificates, importers of such consignments have been granted three months grace period effective from Thursday September 10, 2015 to clear them. Affected importers in this category are required to apply to the Director General/Chief Executive, Standards Organization of Nigeria to obtain e-Provisional Clearance Certificate (ePCC) to clear their consignments.

For the avoidance of doubt, all SON's e-certificates shall be used for the processing and clearance of SON's regulated products with effect from December 1, 2015.

Please note and ensure compliance.

J. O. AJEWOLE  
for: DIRECTOR,  
TRADE & EXCHANGE DEPARTMENT



**CENTRAL BANK OF NIGERIA**

Supplement  
Circulars  
Circulars

**TRADE AND EXCHANGE DEPARTMENT**

BN 4823982  
BN 4823984

E-mail address: [info@cbn.gov.ng](mailto:info@cbn.gov.ng)

**REF: FEN/FC/GEN/17/15**

August 2, 2015

**TO: ALL AUTHORIZED DEALERS  
AND THE GENERAL PUBLIC**

**DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET  
RE: CASH DEPOSIT INTO DOMICILIARY ACCOUNTS**

The Central Bank of Nigeria has considered the recent statements by Deposit Money Banks (DMBs) concerning the large volume of foreign currencies in their vaults and the decision to stop accepting foreign currency cash deposits into customers' domiciliary accounts as a welcome development.

Therefore, in its continued efforts to stop illicit financial flows in the Nigerian banking system which aligns with the anti-money Laundering stance of the Federal Government, the CBN hereby prohibits from the date of this circular the acceptance of foreign currency cash deposits by DMBs.

For foreign currency cash lodgments made prior to the date of this circular, the account holder has the option to either withdraw his or her foreign currency cash or the Naira equivalent. For the avoidance of doubt, only wire transfers to and from Domiciliary Accounts are henceforth permissible.

The CBN advises individuals that wish to source foreign currency for eligible and legitimate purposes such as BTA, PTA medical, mortgage, school fees, goods etc. to do so through recognized channels with the use of Form 'A' for "invisible" and Form 'M' for "visible" transactions.

Please ensure strict compliance.

Director  
TRADE & EX





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**OLAKANMI I. GBADAMOSI**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



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Bank, Abuja, FCT

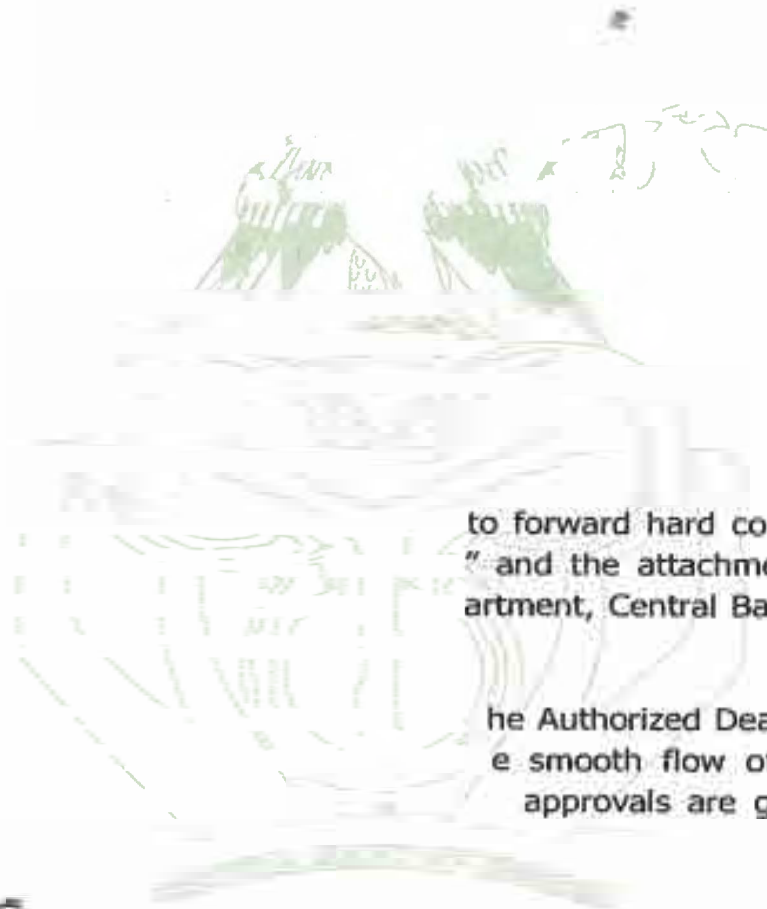
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July 3, 2012

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**OLAKANMI I.GBADAMOSI**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



**CENTRAL BANK OF NIGERIA**

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Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

09-61637804

**09-61637802**

**TRADE AND EXCHANGE DEPARTMENT**

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

**TED\FEM**

**July 01, 2015**

**To: ALL AUTHORISED DEALERS, BDCs AND THE GENERAL PUBLIC**

**RE-INCLUSION OF SOME IMPORTED GOODS AND SERVICES ON THE LIST OF ITEMS NOT VALID FOR FOREIGN EXCHANGE IN THE**  
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As a follow up to the Circular Ref. No. **TED/FEM/FPC/GEN/01/010** of June 23, 2015, on the above subject, Authorized Dealers, the BDCs and the general public are hereby notified of the following additional clarifications.

As stated in the circular, all the items on the attached schedule which have already been classified as **"Not Valid for Forex"** cannot be funded at the interbank, from proceeds of exports and Bureaux de Change sources.

Consequently, Authorized Dealers are enjoined to ensure that these items are funded from sources outside all the segments of the Nigerian foreign exchange markets. (Interbank, Export proceeds and BDC segments)

Authorized dealers and the BDCs are also reminded of the need to comply strictly with the requirements of the Central Bank Circular reference no. **TED/AD/62/2006** of April 4, 2006 which "inter alia" categorically stated that:

"BDCs shall use the cash purchased for the transactions listed below, provided the invoices/demand notes for the payment do not exceed US\$5,000.00 (Five Thousand United States Dollars) or its equivalent in other foreign currencies per transaction".

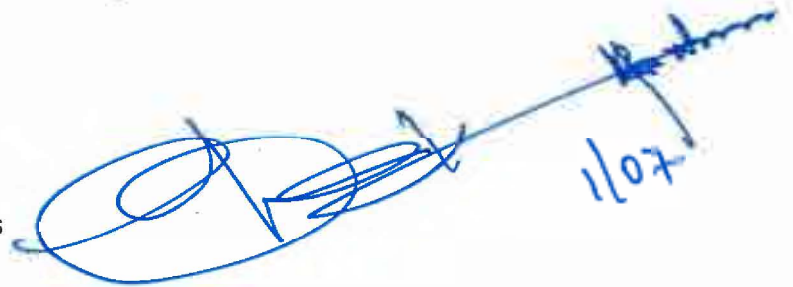
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LIST OF ITEMS NOT VALID FOR FOREIGN EXCHANGE AT THE NIGERIAN FOREIGN EXCHANGE WINDOW

1. Rice
2. Cement
3. Margarine
4. Palm Kernel/Palm oil products/vegetable oils
5. Meat and Processed Meat Products
6. Vegetables and Processed Vegetable Products
7. Poultry - chicken, eggs, Turkey
8. Private Airplanes/Jets
9. Incense
10. Tinned Fish in sauce (Gelsha)/Sardines, and Fish
11. Cold Rolled Steel Sheets
12. Galvanized Steel Sheets
13. Roofing Sheets
14. Wheelbarrows
15. Head Pans
16. Metal Boxes and Containers
17. Enamelware
18. Steel Drums
19. Steel Pipes
20. Wire Rods (deformed and not deformed)
21. Iron Rods and Reinforcing Bars
22. Wire Mesh
23. Steel Nails
24. Security and Razor Wire
25. Wood Particle Boards and Panels



A handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke extending to the right. Below the signature, the date '1/07' is written in blue ink.



**CENTRAL BANK OF NIGERIA**

Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

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TRADE & EXCHANGE DEPARTMENT**

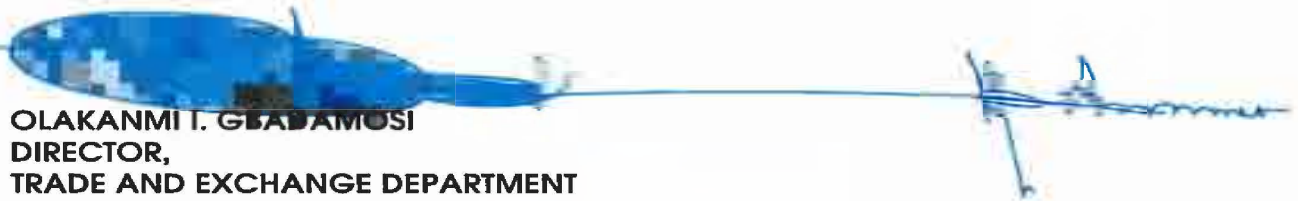


CENTRAL BANK OF NIGERIA

09-4537802  
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TRADE AND EXCHANGE DEPARTMENT

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**OLAKANMI T. GLADAMUSI**  
**DIRECTOR,**  
**TRADE AND EXCHANGE DEPARTMENT**

**LIST OF ITEMS NOT VALID FOR FOREIGN EXCHANGE AT THE NIGERIAN FOREIGN EXCHANGE WINDOW**

1. Rice
2. Cement
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18. Steel Drums
19. Steel Pipes
20. Wire Rods (deformed and not deformed)
21. Iron Rods and Reinforcing Bars
22. Wire Mesh
23. Steel Nails
24. Security and Razor Wire
25. Wood Particle Boards and Panels
26. Wood Fiber Boards and Panels
- Plywood Boards and Panels
- Joden Doors





- 29. Toothpicks
  - 30. Glass and
  - 31. Kitchen Utensils
  - 32. Tableware
  - 33. Tiles - vitrified
  - 34. Textiles
  - 35. Woven Fabrics
  - 36. Clothes
  - 37. Plastic and
  - 38. Soap and
  - 39. Tomatoes
  - 40. Euro bonds
- Purchases

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011-45277804  
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Email address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

## CENTRAL BANK OF NIGERIA

Central Bank of Nigeria  
Trade and Exchange Department  
Trade and Exchange Department

**TED/FEM/FPC/GEN/01/007**

TRADE AND EXCHANGE DEPARTMENT

April 13, 2015

**TO: ALL AUTHORISED DEALERS AND  
THE GENERAL PUBLIC**


### USAGE OF NAIRA DENOMINATED CARDS OVERSEAS


Further to the circular referenced No. TED/FEM/FPC/GEN/01/009 of September 26, 2013, all authorized dealers and the general public are hereby informed that with effect from the date of this circular (13<sup>th</sup> April, 2015) the existing limit on the usage of the naira denominated cards for transactions overseas has been reviewed downward.

Accordingly, the limit has been reduced from \$150,000 to \$50,000 per person, per annum. In addition, authorized dealers are to ensure that the daily cash withdrawal limit embedded in the cards per person, per day, is pegged at \$300.

Authorized dealers are to ensure strict compliance with this new limit and render monthly returns of the transactions to the Director, Trade and Exchange Department, Central Bank of Nigeria not later than the 5<sup>th</sup> day of the following month.

Please ensure strict monitoring and compliance.

  
**OLAKANMI. T. OSABAMSI**  
DIRECTOR  
TRADE & EXCHANGE DEPARTMENT





**CENTRAL BANK OF NIGERIA**

Head Office  
Business District  
Marka, Garki, Abuja, FCT

DEPARTMENT OF TRADE AND EXCHANGE

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[info@cbn.gov.ng](mailto:info@cbn.gov.ng)

TED/FEM/FPC/GEN/01/006

20 February 2015

TO: ALL AUTHORISED DEALERS and  
GENERAL PUBLIC

**CLARIFICATION ON THE PROVISIONS OF MEMORANDUM 26,  
PARAGRAPH (5), SECTION (D) OF THE FOREIGN EXCHANGE  
MANUAL  
RE: UNFETTERED ACCESS TO FUNDS IN EXPORT PROCEEDS  
DOMICILIARY ACCOUNTS**

Following different interpretations of Memorandum 26, Paragraph (5), Section D of the Foreign Exchange Manual, it has become imperative to clarify the term "unfettered access" as contained in the provisions under reference.

For the avoidance of doubt, all authorized dealers and the general public are to note that henceforth, the term "unfettered access" granted to holders of export proceeds domiciliary accounts shall be strictly construed to mean that the proceeds of exports in the account can only be:

- I. Used by the exporters to finance eligible and other trade related transactions supported with appropriate documentation
- II. Sold to authorized dealers (banks) for eligible transactions only.

Any exporter that henceforth utilizes the export proceeds for non-eligible transactions will be barred from the foreign exchange market in Nigeria.

Please be guided accordingly and ensure strict compliance.

**OLAKUNMI I. GBADAMOSI  
DIRECTOR  
TRADE & EXCHANGE DEPARTMENT**



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**OLAKANMI I. GBADAMOSI**  
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E-mail address: [info@fct.gov.mt](mailto:info@fct.gov.mt)



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**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



CENTRAL BANK OF NIGERIA

TRADE AND EXCHANGE DEPARTMENT

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CENTRAL BANK OF NIGERIA

TRADE AND EXCHANGE DEPARTMENT  
09 4537802  
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E-mail: [aqdr@cbn.gov.ng](mailto:aqdr@cbn.gov.ng)

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January 21, 2012



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09-61637804

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E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

Our Ref: TED/FEM/FPC/GEN/01/001

January 12, 2015

To: ALL AUTHORISED DEALERS

**DAILY FOREIGN CURRENCY TRADING POSITIONS OF BANKS AND PERIOD FOR  
UTILIZATION OF FUNDS**

Further to the Circular Ref: TED/FEM/FPC/GEN/01/029 of December 18, 2014, Authorized Dealers are hereby notified that the daily Foreign Currency Trading positions of banks have been reviewed with immediate effect.

Accordingly, Authorized Dealers are required to maintain 0.1% as maximum open limit of their Shareholders' Funds (SHF) unimpaired by losses as Foreign Currency Trading Position at close of each business day.

In addition, banks are required to utilize funds purchased from the autonomous/interbank Foreign Exchange Market within 72 hours from the value date, failing which such funds must be returned to the CBN for re-purchase at the Bank's buying rate.

Please note and ensure strict compliance.

**O. L. AHUCHOGU (MRS)**  
For: **DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



fed@cbn.gov.ng

December 18, 2014

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**TRADE AND EXCHANGE DEPARTMENT**

09 46237802  
09 46237804

E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

**TED/FEM/FPC/GEN/01/026**

**December 17, 2014**

**TO: ALL AUTHORIZED DEALERS**

**FOREIGN EXCHANGE TRADING POSITIONS OF BANKS AT  
THE CLOSE OF EACH BUSINESS DAY**

The Central Bank of Nigeria has observed the recent development in the Foreign Exchange Market and its consequences on the stability of the exchange rates.

In order to preserve the stability of the market, the Foreign Exchange Trading Position of individual Authorized Dealer, which is currently at 1% of its Shareholder's Funds (SHF) unimpaired by losses, **has been temporarily reviewed downward to Zero percent with immediate effect.**

Consequently, Authorized Dealers are therefore required to maintain **Zero Percent of their shareholder's fund as Foreign Exchange Trading Position** at the close of each business day.

Any infraction of the requirement of this circular, in any way whatsoever, will attract appropriate sanction, which may include suspension from the Foreign Exchange Market.

**OLAKANJI I. O.  
DIRECTOR  
TRADE & EXCH.**



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E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

TED/FEM/FPC/GEN/01/022

November 6, 2014

TO: ALL AUTHORISED DEALERS and,  
THE GENERAL PUBLIC

**EXCLUSION OF SOME TRANSACTIONS FROM THE RDAS WINDOW**

This is to inform all Authorised Dealers and the General Public that in order to maintain the existing stability in the Foreign Exchange market and to further strengthen the various policy measures already initiated by the Central Bank of Nigeria, the importation of the following items shall henceforth be funded from the interbank foreign exchange market only;

1. Electronics
2. Finished Products
3. Information Technology
4. Generators
5. Telecommunication Equipment
6. Invisible Transactions

Please ensure strict compliance.

AGAG I.O  
DIRECTOR  
TRADE & EXC



09 46237802  
09 46237809

**TRADE AND EXCHANGE DEPARTMENT**

TED/FEM/FPC/GEN/01/020

October 28, 2014

TO: ALL AUTHORIZED DEALERS  
BUREAUX DE CHANGE AND THE GENERAL PUBLIC


RE: GUIDELINES ON THE OPERATIONS OF CBN INTERVENTIONS IN  
THE INTERBANK MARKET THROUGH THE TWO-WAY QUOTE  
SYSTEM

Further to our circular referenced TED/FEM/FPC/GEN/01/025 of October 20, 2011 in respect of the above subject, we write to inform all Authorised Dealers and the General Public that with effect from the date of this circular, funds purchased through the CBN interventions should be utilized within two (2) working days of delivery at a rate not more than 10 kobo above the purchase rate.

Consequently, intervention funds not utilized within (2) days of delivery should be returned to CBN at the original purchase rates.

For the avoidance of doubt, all Authorised Dealers are no longer permitted to sell CBN intervention funds to Authorised Buyers and must ensure compliance with Net Open Trading Position limit. Any observed case of "Position Parking" will be appropriately sanctioned.

Please ensure strict compliance.

  
O. I. GBADAMOSI  
DIRECTOR  
TRADE & EXCHANGE DEPARTMENT



CENTRAL BANK OF NIGERIA

TRADE AND EXCHANGE DEPARTMENT  
09 46537809  
09 46537805

E-mail address

TED/FEM/FP

October 03, 2014

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DIRECTOR  
TRADE & EX

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**Guidelines on International  
Money Transfer Services in  
Nigeria**

## **1.0 PREAMBLE**

In exercise of the powers conferred on the Bank by Section 2 (d) of the Central Bank of Nigeria Act, 2007 and Section 57 (2) of the Banks and Other Financial Institutions Act Cap B3, Laws of the Federation of Nigeria, 2004, (BOFIA) to issue guidelines for the maintenance of adequate and reasonable financial services to the public, the Central Bank of Nigeria (CBN or the Bank) hereby issues the following guidelines for the regulation of International Money Transfer Services in Nigeria.

These guidelines supersede previous circulars issued on the subject.

## **1.1 OBJECTIVES**

The objectives of the guidelines are to:

- (i) provide minimum standards and requirements for International money transfer services operations in Nigeria;
- (ii) specify delivery channels for offering International Money Transfer Services (inbound/outbound), in a cost effective manner;
- (iii) provide an enabling environment for international money transfer services in the Nigerian economy;
- (iv) specify minimum technical and business requirements for various participants in the international money transfer services in Nigeria; and
- (v) provide broad guidelines for the implementation of the processes and flows of international money transfer services, from initiation to completion.

## **1.2 SCOPE OF OPERATION**

These guidelines address business rules governing the operations of international money transfer services in Nigeria only. In addition, it sets the basis for the regulation of the services offered at different levels and by diverse participants.

## **2.0 LICENSING REQUIREMENTS FOR INTERNATIONAL MONEY TRANSFER SERVICES OPERATORS**

- 2.1 No person or institution shall operate International Money Transfer Services unless such person/institution has been duly licensed by the CBN.
- 2.2. A financial product involving International Money Transfer by any institution or person that is not duly registered with the CBN is illegal.
- 2.3. Application for a license to carry on the business of International money transfer services shall be submitted to the Director, Trade and Exchange Department, Central Bank of Nigeria, Abuja.

## **2.4. LICENSING REQUIREMENTS FOR INTERNATIONAL MONEY TRANSFER OPERATORS - EXISTING AND NEW APPLICANTS**

Any International Money Transfer Operators wishing to operate in Nigeria shall accompany the application with the following:

- (i) a non-refundable application fee of N500,000.00 (Five Hundred Thousand Naira only), or such other amount that the Bank may specify from time to time;
- (ii) Names of Licensed Agents (Authorised Forex Dealers) to serve as local agents.
- (iii) Such other information, documents and reports as then Bank may, from time to time, specify;
- (iv) Evidence of being licensed in their home country;
- (v) A minimum share capital of US\$1 .0million in their home country.

## **2.5.LICENSING REQUIREMENTS FOR INDIGENOUS INTERNATIONAL MONEY TRANSFER OPERATORS**

All applications shall be accompanied with the following documents:

- I. Board of Director's approval to operate International money transfer service.
- II. Copy of the applicant's certificate of incorporation
- III. Memorandum and Articles of Association (certified true copy), of which the primary object clause shall indicate provision of money transfer services.

- IV. Shareholding structure of the company
- V. Forms C02 (Return on Allotment of Shares) and C07 (Particulars of Directors)
- VI. Profiles of the company to include: Curriculum Vitae (CVs), contact and e-mail address and telephone numbers of the Board and the Management of the company
- VII. ownership, governance and management structure;
- VIII. Business plan to include:
  - a. Nature of the business
  - b. Features of the scheme
  - c. Internal control systems and monitoring procedures
  - d. Security features to be put in place
  - e. Three (3) years financial projections/market analysis for the company
  - f. Transaction and other charges that will be borne by customers
  - g. Profit sharing agreement among the parties
  - h. Diagrammatic illustration of transaction flows
  - i. Consumer protection and dispute resolution mechanism
  - j. Information Technology policy of the company including:
    - a. Privacy policy
    - b. Information ownership/disclosure/loss Policy
    - c. Backup and restore policy
    - d. Network security policy
    - e. Encryption policy
    - f. Confidential data policy
    - g. Password policy
    - h. Third party connection policy
    - i. Incidence response policy
    - j. Physical security policy
      - i. Enterprise risk management framework
      - ii. Contingency and disaster recovery plan\business continuity plan
      - iii. Draft agreements with the participating parties
      - iv. Tax clearance certificate for three years
      - v. Project deployment plan (time, location, operation, etc.)
      - vi. Credit reports from a licensed credit bureau for the shareholders and key officers of the money transfer services operator;

- vii. Any other information as may be required by the CBN from time to time.
- viii. Evidence of meeting the minimum paid-up share capital of **N2,000,000,000.00** (Two Billion Naira) for Nigerian companies.

## **2.6 OVERSEAS PARTNERSHIP REQUIREMENTS**

An Indigenous money transfer services operator (MTSO) who provides regional and/or global money transfer service and who wishes to engage a foreign technical partner shall obtain the prior approval of the CBN. The following conditions shall apply to the technical partner:

- i). Be a registered entity, licensed in its home country to carry on international money transfer services;
- ii) Have a minimum net worth of US\$10.0million, as contained in its current audited financial statement, or as may be determined by the CBN from time to time;
- iii) The overseas technical partner should be well established in money transfer services business, with a verifiable track record of operations; ~~iv)~~ there should be Memorandum of Understanding that clearly delineates the liabilities in the event of disputes and/or process failures.

The CBN shall conduct appropriate due diligence on the promoters, directors and key officers of the proposed international MTSO.

## **2.7. PROHIBITION OF PERSONS/INSTITUTIONS**

- i) Deposit money banks (DMBs) are prohibited from operating as International Money Transfer Service Operators, but can act as agents except with the express approval of the CBN.
- ii) The provisions of the BOFIA on the prohibition of employment of certain persons in banks, shall also apply to International Money Transfer Services Operators.

## **2.8 DISQUALIFICATION OF SHAREHOLDERS AND OFFICERS**

- i) In line with the BOFIA, all the conditions stipulating the exclusion of certain individuals from the management of banks, shall apply to the management of International Money Transfer Services Providers.

- ii) Shareholders and officers of the company shall be disqualified, from undertaking International Money Transfer Operations based on the provisions of Section 48 (2) of the BOFIA.

### **3.0 OPERATIONS OF INTERNATIONAL MONEY TRANSFER SERVICES**

#### **3.1 PERMISSIBLE ACTIVITIES**

The permissible activities of International Money Transfer Operators shall include allowable inbound and outbound international money transfer transactions. The transactions shall be limited to the following activities:

- i) The acceptance of monies for the purpose of transmitting them to persons resident in Nigeria or another country.
- ii) Cross-border personal money transfer services, such as, money transfer services towards family maintenance; money transfer services in favour of foreign tourists visiting Nigeria, etc; shall be allowed under the arrangement.
- iii) To safeguard against corporate customers that may structure their transactions into smaller amounts to circumvent the statutory reporting threshold, the money transfer services shall target individual customers mainly and the transactions shall be on "person to person transfer" (retail customer) basis only.

#### **3.2 NON PERMISSIBLE ACTIVITIES**

An International MTSO shall not engage in any other business other than those authorized by the Bank.

Specifically, an international MTSO is not authorized to:

- i) Act as an authorized dealer in gold, or other precious metals;
- ii) Engage in deposit taking and/or money lending;
- iii) Maintain current accounts on behalf of customers;
- iv) Establish letters of credit;
- iv) Act as a custodian of funds on behalf of customers; vi) Engage in institutional or corporate transfers; vi) Buy foreign exchange from the domestic foreign exchange market for settlement.

#### **3.3. BUSINESS PREMISES**

An International MTSO shall display prominently at each of its business premises:

- i) The license to engage in International Money Transfer Services.
- ii) Details of the tariffs to be charged;
- iii) A notice informing the customers that they are entitled to be issued with a receipt for any money transfer service transactions; and
- iv) A notice to the effect that the money transfer operator is not allowed to accept deposits or lend to the public.

### **3.4 NOTIFICATION OF BUSINESS HOURS**

An International MTSO shall notify the Bank and its customers of:

- i. the business hours for each of its outlets; and
- ii. any intended changes in business hours, in any of its business locations, fifteen days in advance, before the changes come into effect.

### **3.5 TEMPORARY CLOSURE OF BUSINESS**

- i) An International MTSO wishing to temporarily close any of its office location shall seek the consent of the CBN within two weeks of the planned closure. In the event of an emergency, the operator shall relocate to its established back up site and notify the CBN within 48 hours.
- ii) In either of events above, the operator/agent shall display a conspicuous notice to that effect.

### **3.6. TRANSFERS**

#### **3.6.1 LIMITS PER OUTBOUND TRANSFERS**

Allowable limit of the outbound money transfer per transaction shall be US\$2,000 or its equivalent, subject to periodic review by the CBN.

#### **3.6.2. MODE OF DISBURSEMENT FOR INBOUND TRANSFERS**

- i) All in-bound money transfers to Nigeria shall be disbursed to beneficiaries who operate a bank account, mobile money wallets with the agent or through ATM. Maximum Allowable cash withdrawal for inbound money transfer shall not be more than US\$500 and any amount in excess of \$500 shall be paid through an account.
- ii) mode of settlement shall be as agreed by the parties ~~iii~~.the rate shall be the prevailing inter-bank rate

**3.6.3** Where the beneficiary does not have a bank account or mobile money wallet, payments shall only be made UPOn the provision of a satisfactory/an acceptable means of identification as enumerated in Section 6.1 (iii) below.

**3.6.4** The following conditions shall apply in the transaction:

- i) The currency to be given to a money transfer agent for an OUTbOUnd transfer shall be the Naira;
- ii) An outward payment transaction shall be executed in a convertible currency agreed by the parties; and
- iii) Where a currency conversion service is offered before initiation of a payment transaction or at the point of payment, the money transfer services operator must disclose all charges, and the exchange rate to be used for converting the payment transaction.

### **3.7 SPLIT TRANSACTIONS**

An International MTSO shall not allow or process a transaction that appears to have been deliberately split into small amounts to avoid the reporting requirements under the provisions of the Anti money Laundering/Combating the Financing of Terrorism, (AML/CFT) Act.

### **3.8 AGENTS**

An approved International MTSO may conduct its business through an agent, in line with the provisions of these guidelines.

#### **3.8.1 SUITABILITY FOR APPOINTMENT:**

An agent shall:

- i. be a corporate body registered with the Corporate Affairs Commission.
- ii. be an existing and well established commercial entity which has been operating for at least 12 months.
- iii. not have been classified as a non-performing borrower by any financial institution in the preceding 12 months.
- iv. possess appropriate physical and ICT infrastructure and human resources to provide money transfer services.
- v. not be an entity listed on any Sanction List.



- vi. be an Authorised Foreign Exchange Dealer/Buyer under the regulatory purview of the CBN or any other Institutions so authorized by the Bank.

### **3.8.2 ENGAGEMENT OF AN AGENT**

The International MTSO shall:

- i) execute a contract with each agent that specifies the terms and conditions of their engagements. These terms shall include but are not limited to the following:
  - a) A statement that the International MTSO is wholly responsible and liable for all actions or omissions of the agent;
  - b) Measures to mitigate risks associated with agent business including limits per transaction, cash management, cash security, security of agent; premises and insurance policies;
  - c) Specific services to be rendered by the agent;
  - d) The rights, expectations, responsibilities and liabilities of both parties;
  - e) A statement that the Bank shall have free, unfettered and timely access to the internal systems, documents, reports, records, staff and premises of the agents, in so far as money transfer services business is concerned and shall exercise such powers as it may consider necessary;
  - f) Appropriate policies and procedures to detect, prevent, and report or otherwise deal with incidences of money laundering;
  - g) Responsibilities of the agent to deliver supporting transaction documents;
  - h) A statement that all information or data that the agent collects in relation to agency money transfer services, whether from the customers, the International MTSO or from other sources, is the property of the International MTSO;
  - i) Adequate oversight safeguards for the International MTSO to address instances of non-compliance by the agent with the stipulated obligations;
  - j) Prohibition from charging the beneficiary any fees other than the fees agreed upon with the sender, at the initiation of the transaction;
  - k) Business hours of the agent;
  - l) Suitable limits on cash holding by the agent and limits on individual customer payments and receipts;
  - m) Confidentiality of customer and User information;
  - n) Remuneration for the agent;

- o) A transition clause on the rights and obligations of the International MTSO and the agent upon termination or cessation of the agency contract; and
  - p) Detailed procedure for disengagement or termination of the agency contract.
- ii) Maintain a valid contract for the tenor of the agency.
  - iii) Notify the Bank of the appointment of each agent, providing details of name, phone number and any additional information as may be required by the Bank.
  - iv) Conduct the business in compliance with all the applicable laws, regulations and guidelines.

### **3.9. BANK ACCOUNTS**

An International MTSO shall:

- 3.9.1 Hold all customer funds for transfer in an account designated as "customers' account" domiciled with any DMB in Nigeria. This account shall be separate from all other accounts maintained by the operator.
- 3.9.2 Maintain complete and accurate accounting records.
- 3.9.3 Produce, upon request by the Bank, all documents pertaining to the account activity, including, but not limited to, bank statements, cheque books, deposit slips and reconciliations or other comparable account records.

### **3.10 RECORDS**

An International MTSO shall:

- 3.10.1 Maintain a management information system that facilitates efficient collection and processing of data required for audit trails.
- 3.10.2 Maintain accurate information on each transaction. The Transaction Information shall include, but not limited to the following:
  - I. Date of transaction;
  - II. Name, address and contact phone number of sender;
  - III. Name, address and contact phone number of beneficiary;
  - IV. Acceptable means of identification; and
  - V. Amount and currency;

The operator shall keep the transaction information for a minimum period of six (6) years or as may be determined by the CBN from time to time

3.10.3 Issue receipt, which shall contain the following information:

- i. Full names of the customer;
- ii. The type and amount of currency sent or received;
- iii. The transaction reference;
- iv. The nature, time and date of the transaction;
- v. Customer signature; and
- vi. Commission charged, if any.

3.10.4 An International MTSO shall keep accurate and up to date records and ensure that the records are verified on a daily basis.

### **3.11 RETURNS**

A MTSO agent shall submit its returns to the Director, Trade and Exchange Department, Central Bank of Nigeria, Abuja. The returns shall include; nature, volume and value of transactions, incidence of theft, robbery or fraud and nature and number of customers.

### **3.12 ANTI-MONEY LAUNDERING RISK**

All International MTSO in Nigeria shall comply with the provisions of the CBN "Anti-Money Laundering and Combating the Financing of Terrorism in Banks and Other Financial Institutions Regulations 2013" and all other applicable laws and regulations.

## **4.0 DISCLOSURE REQUIREMENTS**

### **4.1 GENERAL**

A money transfer services operator shall disclose to its customers:

- 4.1.1 Details of applicable exchange rate, commission, fees and any other amount that may be charged by banks/agents involved in a transfer;
- 4.1.2 The meaning of any technical terms and acronyms used;
- 4.1.3 That it neither accepts deposits nor lends to the public; and
- 4.1.4 Prevailing exchange rates at all times and in all locations it conducts business.

### **4.2. OUTWARD INTERNATIONAL MONEY TRANSFER SERVICES**

An International MTSO shall:

- 4.2.1 Advise customers of the time funds sent would be available for collection by beneficiaries;

- 4.2.2 Inform the customers within 24 hours where outward transfers could not be effected within the time frame advised;
- 4.2.3 Refund to the sender, any amount returned undelivered in the manner it was paid by the customer:
  - i) Where the operator is responsible for the returned transfer, the refund to the sender shall include all the fees and charges paid by the sender; and
  - ii) Where the sender is responsible for the returned transfer, the operator shall recover from the sender, only costs associated with the transaction.

### **4.3. INWARD INTERNATIONAL MONEY TRANSFER SERVICES**

An International MTSO shall:

- 4.3.1 Make payment to customers only in Nigerian currency, in line with the CBN regulations;
- 4.3.2 Use the prevailing inter-bank exchange rate on the day the transfer is received; and
- 4.3.2 Declare in the receipt/certificate of transfer that the money paid to the customer is not counterfeited.

### **4.4.0 CHARGES**

- 4.4.1 All money transfer services operators shall comply with the guide to money transfer charges as may be provided by the CBN from time to time.
- 4.4.2 The service provider/agent shall make refund where wrong, inappropriate or disproportionate charges or fees have been identified internally by the service provider.

### **5.0 DISPUTE RESOLUTION**

- 5.1 All complaints to the operator must be acknowledged on receipt.
- 5.2 Each operator shall provide a complaints management unit to resolve complaints or disputes submitted by its customers. The unit shall provide its services free of charge through well-publicized and dedicated channels, including phone numbers and e-mail address(es).
- 5.3 An operator must fully investigate complaints and make appropriate decision and communicate same to the complainant within two weeks of the receipt of the complaints.

- 5.4 Each complaint shall be assigned a unique identifier for ease of reference. Operators shall provide dedicated phone, email or other means by which complainants may enquire about the progress of their complaints. In addition, operators shall provide a response to all enquiries within 48 hours of receipt.
- 5.5 Where a complainant is dissatisfied with the decision, the operator shall provide an internal mechanism to review its initial decision.
- 5.6 The review body must arrive at a decision within one (1) week of receiving a letter of dissatisfaction from a complainant;
- 5.7 Where a complainant is not satisfied with a decision of a review body, the complainant may escalate the issue to the Director, Consumer Protection Department, Central Bank of Nigeria.
- 5.8 An International MTSO shall render monthly returns on all complaints to the Director, Trade and Exchange Department, Central Bank of Nigeria, Abuja, in a format approved by the Bank.

## **6.0 MISCELLANEOUS**

6.1 At a minimum, a money transfer operator must have a second level authentication before payment could be made to recipients in the case of inward money transfer services;

- i) A money transfer operator owes a customer a duty of confidentiality except where disclosure is at the instance of a relevant authority;
- ii) A money transfer operator shall not require from the customer, any means of Identification different from those provided in extant CBN circulars and guidelines;
- iii) For the avoidance of doubt, any of the under-listed is an acceptable means of identification:
  - a. International passport;
  - b. Driver 's license;
  - c. National Identity Card;

- d. NEC Permanent Voters Card (PVC); or
- e. Bank Verification Number (BVN)

## **7.0 REMEDIAL MEASURES**

If an International MTSO or its agent fails to comply with these guidelines, the CBN may take any corrective action against the MTSO as may be prescribed from time to time.

## **8.0 SANCTIONS**

In addition to the use of remedial measures in Section 7, the Bank may take any or all of the following sanctions against an MTSO, its board of directors, officers or agents:

- i) Withhold corporate approvals;
- ii) Financial penalties;
- iii) Suspension from money transfer operation; and
- iv) Revocation of the Money Transfer Services operation license.

8.1 With the coming into effect of these guidelines, any individual, persons or institution carrying out the business of International Money Transfer services in any form without being licensed by the CBN shall be deemed to be operating illegally and in violation of the extant laws. Such an individual, persons or institution shall be appropriately sanctioned and/or prosecuted in accordance with the provision of BONA

## 9.0 DEFINITION OF TERMS

Agent:	An agent is a suitable entity engaged by a money transfer services to provide money transfer services on its behalf, using the agent's premises, staff and/or technology.
Bank:	Central Bank of Nigeria
BONA:	Banks and Other Financial Institutions Act
CAC:	Corporate Affairs Commission
CBN:	Central Bank of Nigeria
Credit Bureau:	Credit Reference Company - means an institution that collects information from creditors and available public sources on borrower's credit history. The bureau compiles the credit information on individuals/entities regarding their credits, credit repayments, court judgments, bankruptcies etc. and then creates a comprehensive credit record that may be sold to lending institutions and other authorized users.
MTSO:	Money Transfer Services Operator
Transaction:	A transfer sent or transfer received as the case may be.
Transfer Amount:	The funds collected from the sender for a transfer, excluding applicable fees.
Technical Partner	A foreign expert that provides professional guides to indigenous Money Transfer Services Operators Indigenous International
Money Transfer Operator:	An International MTSO that is incorporated in Nigeria
Overseas Partners:	Foreign Shareholders in an indigenous IMTSO

**Trade and Exchange Department**

**August, 2014**



TRADE AND EXCHANGE DEPARTMENT

**09 46237804**

**09 46237802**

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

**TED/FEM/FPC/GEN/01/012**

**April 30, 2014**

**TO: ALL AUTHORISED DEALERS  
AND THE GENERAL PUBLIC**

**RE: IMPORT GUIDELINES, PROCEDURES AND DOCUMENTATION  
REQUIREMENTS UNDER THE DESTINATION INSPECTION SCHEME IN  
NIGERIA**

This is to inform all Authorised Dealers and the general public that the Federal Government has approved the revised Import Guidelines, Procedure and Documentation Requirements under the Destination Inspection Scheme. The approved document is herewith attached.

All authorised dealers are therefore advised to note and bring the provisions of these guidelines to the attention of their customers for compliance.

Please ensure compliance.

A handwritten signature in black ink, appearing to read 'Ajewole', written over a light blue circular stamp.

**J. O. AJEWOLE  
Ag. DIRECTOR  
TRADE & EXCHANGE DEPARTMENT**



**FEDERAL MINISTRY OF FINANCE  
IMPORT GUIDELINES, PROCEDURES AND  
DOCUMENTATION REQUIREMENTS UNDER THE  
DESTINATION INSPECTION SCHEME IN NIGERIA**

In pursuit of the Government decision to seamlessly transfer the Destination Inspection Scheme for import from Scanning Service Providers (SSPs) to the Nigeria Customs Service (NCS) with effect from 1<sup>st</sup> December 2013, the following guidelines, procedures and documentation requirements shall apply in respect of import transactions with effect from that date.

**A. GUIDELINES:**

1. Any person intending to import physical goods into Nigeria shall in the first instance process e-Form 'M' through any Authorized dealer bank irrespective of the value and whether or not payment is involved.
2. The initial validity period of an approved e-Form 'M' for general merchandise shall be 180 days, which may be extended for 180 days by the Authorized Dealer Bank. For capital goods, the initial validity of an approved e-Form 'M' shall be 365 days subject to a maximum extension of another 365 days. However, any subsequent request for revalidation of e-Form 'M' shall be forwarded to the Director, Trade and Exchange Department, Central Bank of Nigeria, for consideration.
3. Supporting documents shall be clearly marked "VALID FOR FOREX" or "NOT VALID FOR FOREX" as appropriate i.e. whether or not foreign exchange remittance would be involved.
4. All applications for goods subject to Destination Inspection shall carry the "BA" code, while those exempted shall include "CB" in the prefix of the numbering system of the e-form 'M'. Payments for goods exempted from Destination Inspection, under the Scheme, would not be carried out in the Foreign Exchange Market, without a prior approval from the Central Bank of Nigeria. The list of goods exempted from Destination Inspection shall be as approved by the Honourable Minister of Finance.
5. The e-Form 'M' and the relevant pro-forma invoice (which shall have a validity period of three months) shall carry a proper description of goods to be imported to facilitate price verification viz;
  - i. Generic product name i.e. product type, category;
  - ii. Mark or brand name of the product, where applicable;
  - iii. Model name and/or model or reference number, where applicable;

- iv. Description of the quality, grade, specification, capacity, size, performance, etc;
  - v. Quantity and packaging and/or packing.
6. e-Form 'M' shall be valid for importation only after registration by the Nigeria Customs Service (NCS). Consequently, Authorized Dealer Banks are to confirm registration of the e-Form 'M' before proceeding with other import processes.
  7. Documents in respect of each import transaction shall carry the name of the product, country of origin, specifications, date of manufacture, batch or lot number, Standards to which the goods have been produced (e.g. NIS, British Standards PD, ISO, IES, Din, etc).
  8. **All goods to be imported into the country shall be labeled in ENGLISH in addition to any other language of transaction; otherwise the goods shall be confiscated.**
  9. Where import items such as food, drinks, cosmetics, drugs, medical devices, chemicals, etc. are required for health or environmental reasons they shall carry EXPIRY dates or the shelf life (minimum of half shelf life at the time of importation) and specify the active ingredients, where applicable.
  10. Electrical appliances (fluorescent lamps, electric bulbs, electric irons and ties, etc) shall carry information on life performance while cables shall carry information on the ratings.
  11. All electronic equipment and instruments shall carry:
    - i. Instructions Manual;
    - ii. Safety information and/or safety signs;
    - iii. A guaranty/warranty of at least six months.
  12. Importation of products not properly labeled shall automatically qualify for seizure and destruction without warning, and subject to prosecution.
  13. Any false or fraudulent misrepresentation of facts will result in impoundment/seizures.
  14. All imports into the country shall be accompanied by the following documents:
    - a. Combined Certificate of Value and Origin (CCVO), which shall contain the following information.
      - i. e-Form 'M' No;
      - ii. Adequate description of goods;

- iii. Port of destination. (The actual port shall be specified e.g. Tin-Can, Apapa, Kano, Onne, etc);
  - iv. Shipment identification, date of shipment, Country of Origin, Country of Supply.
- b. Final/Commercial Invoice
  - c. Packing List.
  - d. Shipped/Clean on Board Bill of Lading/Airway Bill/Railway Bill/Road Waybill.
  - e. Manufacturer's Certificate of production, the Phytosanitary Certificate or Chemical Analysis Report, which shall state standards, where applicable, should be made available.
  - f. Laboratory test certificates for chemicals, foods, beverages, pharmaceuticals, electrical appliances and other regulated products, where applicable.
15. The following procedures shall be adopted for payments:
- i. Letters of Credit transactions: All negotiating documents and/or shipping documents (as may be applicable), must be routed from the Beneficiary/Supplier through his/her bank to the issuing bank. For the avoidance of doubt, on no account must bank endorse or pay on documents that do not comply with the routing outlined above.
  - ii. For Bills for Collection transactions, documents must be routed to the issuing bank either directly from the supplier's bank or through the offshore correspondence of the issuing bank.
  - iii. For 'Not Valid' for foreign exchange transactions, the supplier should forward the documents directly to the applicant bank that validates the e-Form 'M'.
16. For transactions with Post Landing charges, a retention fee of 5-5% of the project cost as agreed between the importer and the overseas supplier shall be indicated on both the Contract Agreement and the Pro-forma invoice which shall form part of the supporting documents for the registration of relevant e-Form 'M'. In addition,
- i. The stated fee shall not be remitted until a satisfactory evaluation of the project has been undertaken by the Industrial Inspectorate Department of the Federal Ministry of Industry, Trade & Investment.
  - ii. The Authorized Dealer Bank shall forward to the Nigerian Customs Service (NCS) Federal Ministry of Industry, Trade & Investment (Industrial Inspectorate Department) and Trade and Exchange Department Central Bank of Nigeria, copies of the Contract Agreement and Pro-forma invoice of such projects for monitoring purposes.



Upon receipt of the e-Form 'M' with other necessary pre-import documents, NCS shall:

1. Carry out a preliminary review of the application, using information provided therein and accept or reject the e-Form 'M' within one working day.
2. If "ACCEPTED", NCS shall register the e-Form 'M' on the system.
3. However, if the e-Form 'M' is "REJECTED", NCS shall state reason(s) for rejection and the e-Form 'M' automatically returned for necessary rectification.
4. After registration of the e-Form 'M' and the receipt of the Final Import documents from the Authorized Dealer Banks, NCS shall generate Pre-Arrival Assessment Report (PAAR) within six (6) hours.

#### **D. RESPONSIBILITIES OF IMPORTER**

1. It shall be the duty of the importer to ensure that the supplier makes available the pro-forma invoice in accordance with the imports procedure of the country. As a result, there must be no ambiguity in the description of the goods.
2. The importer shall also ensure that all the documents to be forwarded to the Authorized Dealer Bank are genuine and verifiable.
3. The importer shall ensure that Final Documents are forwarded to the Authorized Dealer Bank by the Supplier before the arrival of the goods/consignment to facilitate quick clearance.
4. All the requirements listed under the imports procedure must be complied with before documents are submitted to the Authorized Dealer Bank.
5. Upon registration of the e-Form 'M' by NCS, the importer shall advise the supplier to arrange for the shipment of the goods.

#### **E. RESPONSIBILITIES OF THE SUPPLIER**

- i. On consignment of goods for shipment, the overseas supplier shall make available two sets each, of original Combined Certificate of Value and Origin (CCVO); Transport documents (Bill of Lading, Airway Bill, Road Waybill, etc) and Packing list to his/her bank.
- ii. On receipt of the documents listed in (i) above, the supplier's bank shall forward them through the relevant correspondent bank to the Nigerian Authorized Dealer Bank for Letters of Credit transactions.

- iii. For transactions requiring the issuance of Certificate of Capital Importation and/or those involving supplier's credit, documents shall be forwarded by the supplier's bank to the Nigerian bank.
- iv. In the case of Bills for Collection transactions, two sets of original documents should be forwarded to the Nigerian Authorised Dealer Bank through the supplier's bank or the offshore correspondent bank of the processing bank.
- v. For transactions "Not-valid for foreign exchange" two sets of original documents should be forwarded by the supplier directly to the bank that validates the e-Form 'M'.

**F. RESPONSIBILITIES OF AUTHORIZED DEALER BANKS:**

1. Upon receipt of the documents listed in (E) above the Authorised Dealer Banks shall endorse and upload them to Pre-Arrival Assessment Report (PAAR) system for issuance of PAAR.
2. For remittance in respect of imports, only the amount on the CCVO/Commercial Invoice/Final Invoice shall be remitted.
3. Carry out proper Know-Your-Customer (K-Y-C) and be satisfied that all the relevant documents forwarded are genuine.
4. Authorised Dealer Banks are to ensure that shipping documents are received within 21 days after shipment and should retain evidence for the purpose of monitoring by CBN.
5. However, Authorised Dealer Banks are to refer any policy issue of which they are in doubt to the Director, Trade and Exchange Department for clarification in accordance with the provisions of Memorandum 27 (i) of the Foreign Exchange Manual.

**G. RESPONSIBILITIES OF SHIPPING LINES AND OTHER CARRIERS**

1. It shall be the responsibility of Shipping lines and other carriers to ensure that all goods being consigned for shipment to Nigeria are covered by appropriate e-Form 'M'.
2. The e-Form M number MUST be reflected on the Bill of Lading, Airway Bill or Roadway bill for such goods.
3. An advance summary of the manifest of the cargoes must be made available to the NCS electronically immediately the vessel departs the last port of call.

**H. IMPORT DUTY PAYMENT**

1. Importer shall continue to pay an administrative charge of 2% of FoB value of all imports based on the exchange rate on the approved e-Form 'M'.

2. All imports shall continue to be assessed for duty at the C.I.F. value of the goods using the rate of exchange on the approved e-Form 'M'.
3. It shall be the duty of the importer's bank through which the e-Form 'M' was processed to collect the amount of import duty as assessed if it is a designated bank. However, for e-Form 'M' transactions processed by non-designated bank, payment of import duty shall be at any of the designated banks while a copy of the duty payment receipt shall be made available to the processing bank by the importer.
4. For transactions in respect of dutiable personal effects payment of duty can be made at any preferred designated bank.
5. The Designated bank will match printed assessment notice with the electronically received assessment notice for the SGD. If the information tallies, the bank will receive payments and issue signed Bank receipt.
6. The designated bank shall send an e-confirmation message to NCS acknowledging receipt of duty and taxes in respect of the SGD.
7. All payments shall continue to be electronically transferred daily by designated banks to the respective pool accounts with CBN, failing which necessary sanctions shall apply.

**8. Import Duty Dispute Resolution Mechanism**

Dispute arising from import duty payment shall be resolved through the following process:

- i. Any discrepancy on declaration shall be entered into Inspection Act and appropriately modified.
- ii. If dispute persist, the importer shall be allowed to carry his goods on bank guarantee.
- iii. Importer shall thereafter apply for a tariff/valuation decision.
- iv. If not satisfied with the decision, the importer may appeal to the World Customs Organization (WCO), Honourable Minister of Finance, Federal Republic of Nigeria and any Court of competent jurisdiction

**I. DOCUMENTATION REQUIREMENTS FOR IMPORT PAYMENTS UNDER THE DESTINATION INSPECTION SCHEME**

1. Confirmed Letters of Credit
  - i. Registered e-Form 'M'
  - ii. Combined Certificate of Value and Origin (CCVO)
  - iii. Manufacturer's Certificate with standards adopted stated thereon;

- iv. Clean/Shipped on Board Bill of Lading/Airway bill/Roadway bill.
- v. Final/Commercial Invoice
- vi. Packing List
- vii. Letter of Credit instrument.

2. Bills for Collection Transactions

- i. Registered e-Form 'M'
- ii. SGD print out
- iii. PAAR
- iv. CCVO
- v. Manufacturer's Certificate
- vi. Shipped / Clean on Board Bill of Lading/Airways Bill / Road waybill.
- vii. Final/Commercial Invoice.
- viii. Import Duty Payment receipt with SGD No. stated thereon.
- ix. Bill history
- x. Bill of exchange.
- xi. Tally Sheet/Gate Pass.
- xii. Packing List.

**j. DOCUMENTS TO BE SUBMITTED BY THE IMPORTER TO THE PROCESSING BANK AFTER CLEARANCE OF GOODS:**

- i. Pre-Arrival Assessment Report (PAAR).
- ii. Single Goods Declaration (SGD) Print out.
- iii. CCVO
- iv. Packing List.
- v. Import Duty Payment receipt with the SGD number clearly stated thereon.
- vi. Manufacturer's Certificate with Standards adopted stated thereon.
- vii. Laboratory/Phytosanitary Test Certificate for chemicals, food, beverages, etc.
- viii. Terminal Delivery Order/Gate Pass.
- ix. Bill of Lading/Airway Bill/Road Waybill, etc.
- x. DPR Product Certificate for Petroleum products
- xi. SONCAP Certificate for SON regulated products



## K. CLEARANCE PROCEDURES

### a. Preparation of Single Goods Declaration (SGD):

- a. Declarants prepare the SGD with information derived from relevant documents e.g. Final Invoice, CCVO, Bill of Lading/Air way Bill/Road waybill, Packing List, Permits (where necessary), Insurance, e-Form 'M', PAAR etc.
- b. The SGD is prepared using a **Private/Public DTIs\*\*** and:
  - Capture SGD information
  - Assess the SGD
  - Print the SGD and Assessment Notice

**\*\*Direct Trader Input (DTI)** is the unique procedure for submitting electronic declaration to Customs

#### Note:

- While capturing the SGD, specify the bank at which Customs Duty will be paid. It must be the bank indicated as the designated duty collection bank on the e-Form 'M'.
- If e-Form 'M' is not required, as in the case of dutiable personal effects, Importer/Agent can pay at any preferred designated bank.
- Take extreme care that the correct designated bank code as indicated on the e-Form 'M' is captured to enable the system send the Assessment Notice to the appropriate bank.
- After capturing the SGD correctly the Assessment option should be selected, an electronic message will be sent to the designated bank with details of what should be paid as customs duty and other charges.

### 2. Payment at Bank

- a. The Importer/Agent proceeds to the designated bank with the system generated Assessment Notice
- b. The Designated bank will match printed assessment notice with the electronically received assessment notice for the SGD. If the information tallies, the bank will receive payments and issue signed bank's receipt.
- c. The bank then sends an e-confirmation message to NIS acknowledging receipt of duty and taxes in respect of the SGD

### 3. Customs Control

At the customs control, the release of consignment will be subject to selectivity of the Customs's Automated Risk Management System after payment of duty.

**4. Request for Release:**

- a. After payment of import duties and other charges at the bank, Importer/Agent will request for Customs release through DTI
- b. NCS will release after Scanning or Physical examination.

**5. Release of Consignment by Terminal Operator (T/O)**

After Customs have cleared the consignment Terminal Operators shall issue Exit Note to NCS.

6. In the case of personal effects, the applicant shall forward relevant documents to the Nigeria Customs Service. However, where dutiable goods are found to be in excess of the approved passenger concession, they shall be liable to the clearance procedure applicable to commercial goods.

TRADE RELATIONS DIVISION  
HOME FINANCE DEPARTMENT  
FEDERAL MINISTRY OF FINANCE  
CENTRAL AREA, ABUJA  
DECEMBER 2013



**TRADE AND EXCHANGE DEPARTMENT**

**09-61637804**  
**09-61637802**  
E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

**TED/FEM/FPC/GEN/01/011**

**April 24, 2014**

**To: ALL AUTHORISED DEALERS & THE GENERAL PUBLIC**

**INCLUSION OF MEDICAL LABORATORY SCIENCE COUNCIL OF NIGERIA (MLSCN) REGISTRATION AND PRODUCT CERTIFICATION AS PART OF THE CRITERIA FOR IMPORTATION OF IN-VITRO DIAGNOSTICS (IVDs) INTO NIGERIA**

This is to Inform all Authorised Dealers and the general public that importers of In-Vitro Diagnostic products into Nigeria are henceforth required to be registered by the Medical Laboratory Science Council of Nigeria (MLSCN).

Accordingly, documentation in respect of imports of IVDs shall include Certificate of Registration of the importer and Product Certificate issued by the MLSCN. Bonafide importers who intend to import IVDs into Nigeria are therefore advised to apply to the MLSCN for registration.

The MLSCN will therefore be responsible for the issuance of Product Certificate(s) on arrival of goods at the ports as part of documentation for customs clearance.

For the avoidance of doubt, only products listed in the MLSCN HS codes for In-Vitro Diagnostics (Medical Laboratory Test Kits, Equipment, Reagents, Chemicals & Consumables) MLSCN/IVD/008 of 2014 and as may be updated from time to time shall be accepted for the establishment of Form 'M' by banks.

Authorised Dealers are enjoined to bring the contents of this circular to the attention of their customers for compliance.

**J. O. AJEWOLE**  
**Ag. DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



**CENTRAL BANK OF NIGERIA**

Corporate Head Office  
Central Business District  
P.M.E. 0187, Garki, Abuja, FCT

**TRADE AND EXCHANGE DEPARTMENT**

**09 46237802**

**09 46237804**

**E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)**

**TED/FEM/FPC/GEN/01/009**

**March 21, 2014**

**TO: ALL AUTHORIZED DEALERS  
AND THE GENERAL PUBLIC**

**WITHDRAWAL OF GBP50.0 (JOHN HOUBLON) NOTES FROM  
CIRCULATION BY THE BANK OF ENGLAND ON APRIL 30, 2014**

This is to inform all Authorized Dealers and the general public that the Bank of England will be withdrawing the GBP50.0 bill (with the portrait of Sir John Houblon) from circulation and will cease to be legal tender with effect from April 30, 2014.

In view of this development, Authorised Dealers in possession of the currency note and who wish to repatriate their stock of It may avail themselves of the services of Messrs Travelex Banknotes Ltd.

Thank you.

A handwritten signature in black ink, appearing to read 'Ajevole'.

**J. O. AJEWOLE**  
**Ag. DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



February 5, 2014

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INTERNATIONAL EXCHANGE

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**N. T. IGBA**  
**For: DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



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**EXCHANGE**

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**N. TWIGBA**

**For: DIRECTOR  
TRADE & EXCHANGE DEPARTMENT**



**TRADE AND EXCHANGE DEPARTMENT**

09-61637804

09-61637802

E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

Our Ref: TED/FEM/FPC/GEN/01/004

January 24, 2014

**To: ALL AUTHORISED DEALERS,  
BUREAU DE CHANGE OPERATORS AND  
THE GENERAL PUBLIC**

**DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET: FOREIGN  
EXCHANGE SALES TO BUREAU DE CHANGE (BDC) OPERATORS BY BANKS**

Further to the Circular ref: TED/FEM/GEN/FPC/01/009 dated September 26, 2013 on the above subject, we write to inform all Authorized Dealers and the general public that the provisions of paragraph (1) of the circular under reference has been reviewed with immediate effect.

Consequently, the limit of USD250,000.00 as the maximum weekly forex sales to a BDC is hereby removed in order to shore up liquidity in that segment of the foreign exchange market. Authorized Dealers are therefore free to sell forex to BDCs subject to compliance with the provisions of extant AML/FT laws and regulations in the disbursement of forex. Furthermore all transactions between Authorised Dealers and BDCs as well as the latter and end-users must be supported with appropriate documentation.

In addition, Authorized Dealers and Bureau De Change Operators are to continue to render weekly returns on their transactions to the CBN and other relevant regulatory agencies, failing which appropriate sanctions, including revocation of operating license shall be imposed.

**BATARI MUSA  
DIRECTOR**

**TRADE & EXCHANGE DEPARTMENT**



09 46237804  
09 46237802

TRADE AND EXCHANGE DEPARTMENT

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

TED/FEM/FPC/GEN/01/003

January 20, 2014

**TO: ALL AUTHORISED DEALERS AND GENERAL PUBLIC**

**RE: FISCAL POLICY MEASURES FOR AUTOMOTIVE INDUSTRY**

This is to inform all Authorised Dealers that the Federal Government has approved new Fiscal Policy Measures for the Automotive Industry with effect from October 9, 2013 as follows;

**1. MOTOR VEHICLES**

All e-Forms 'M' and LCs must be established and the last shipment date evidenced by bills of lading dated on or before January 10, 2014.

- (a) Fully Built Unit (FBU) Cars falling under H.S Code 87.03 shall attract a duty of 35% and 35% levy;
- (b) Fully Built Unit (FBU) Commercial Vehicles falling under H.S. Code 87.01,87.02,87.05,87.06,87.07,87.16 shall attract 35% duty without levy
- (c) Local Assembly Plants shall import their
  - i. Completely Knocked Down (CKD) at 0% duty
  - ii. Semi Knocked Down One (SKD) H.S. Code 87.06 at 5% duty
- (d) Local Assembly Plants shall import Fully Built Unit (FBU) Cars at 35% duty and 20% duty for Commercial Vehicles without levy, respectively in numbers equal to twice their imported CKD/SKD Kits.

**2. TYRE INDUSTRY**

In order to revive the tyre industry, the following measures have been approved with effect from 9<sup>th</sup> October, 2013. Form 'M' and Letter of Credit must be established and last shipment date evidenced by bills of lading dated on or before January 10, 2014.

- (a) Duty payable on tyres is now harmonized as below;

*Bank*



- (i) Car tyres H.S. Code 4011.1000.00 20% duty and 5% VAT
  - (ii) Lorry/Bus tyres H.S. Code 4011.2000.00 20% duty and 5% VAT.
  - (b) Importation of machinery and equipment for tyre production is now duty Free;
  - (c) Pioneer status is hereby given to all tyre plants; and
  - (d) Local tyre manufacturing plants are to import tyres at 5% duty in numbers equal to twice their production for two years from the date of commencement of production.
3. To control under declaration of vehicles value to reduce duty paid;
- (a) The Nigeria Customs Service (NCS) shall publish the price of new vehicles annually; and
  - (b) To provide a transparent benchmark to determine the value of used vehicles the Nigeria Customs Service (NCS) shall use the value of a new vehicle depreciated by 10% per annum implying a ten (10) year period for cars and by 7% per annum implying a fifteen (15) year period for commercial vehicles. In either case, depreciation should never be below 30% of the the value of new vehicle equivalent.
4. To effectively combat smuggling, monitoring and control of used and grey vehicles imports, to also facilitate the resolution of consumer complaints, all vehicle dealers and importers for sale to the public shall be licensed by the National Automotive Council of Nigeria.

All Authorised Dealers are required to bring these fiscal policy measures to the attention of their customers for strict compliance.

Please ensure compliance accordingly.

  
**BATARI MUSA**  
**DIRECTOR**  
**TRADE AND EXCHANGE DEPARTMENT**



**TRADE AND EXCHANGE DEPARTMENT**

09-46237804

09-46237811

e-mail:-ted@cbn.gov.ng

Our Ref: TED/FEM/FPC/GEN/01/20

November, 28<sup>th</sup> 2013

**TO: ALL AUTHORISED DEALERS, BUREAU DE CHANGE (BDC)  
OPERATORS AND GENERAL PUBLIC**

**RE: DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET**

In furtherance to the provision of paragraph 4 of the circular Ref. No. TED/FEM/FPC/GEN/01/009 dated September 26, 2013, Authorised Dealers and BDC Operators are notified of the following additional guidelines for compliance with effect from the date of this circular.

1. Authorised Dealers shall continue to sell foreign exchange cash to BDCs subject to a maximum amount of \$250,000.00 (Two hundred and fifty thousand United States Dollars) per week per BDC.
2. The selling rate by the Authorised Dealer to BDCs shall be the prevailing Interbank exchange rate plus a margin not exceeding one (1) per cent;
3. Foreign exchange cash purchased by BDCs from Authorised Dealers (ADs) and the CBN shall be sold to foreign exchange end-users at a rate not exceeding two (2) per cent margin above the buying rate.
4. For the avoidance of doubt, the two (2) per cent margin stated in (3) above shall be applicable to all funds to be retailed by BDCs regardless of sources of the fund.
5. Authorised Dealers shall continue to render weekly returns on sales to BDCs and the latter shall also continue to render weekly returns on purchases from ADs, using the format attached. In addition, BDCs are

*Salle*

enjoined to keep adequate records of foreign exchange sales and purchases for purpose of monitoring by the authorities.

6. Notwithstanding the provisions of paragraph five (5) above, BDCs shall continue to render weekly returns on utilization of funds purchased from all sources to the CBN.
7. The returns in (5) and (6) above shall be submitted to the Director, Trade and Exchange Department, using the mail addresses stated below not later than 10.00 a.m. on the Monday following the week the transactions took place.
  1. [oaolusoji@cbn.gov.ng](mailto:oaolusoji@cbn.gov.ng)
  2. [piechendu@cbn.gov.ng](mailto:piechendu@cbn.gov.ng)
  3. [Hisaadu@cbn.gov.ng](mailto:Hisaadu@cbn.gov.ng)

Accordingly, Authorised Dealers and BDC Operators are required to ensure compliance with the provisions of this circular, failing which appropriate sanctions, including withdrawal of operating license shall be imposed.



**BATARI MUSA**

**DIRECTOR,**

**TRADE AND EXCHANGE DEPARTMENT**







**CENTRAL BANK OF NIGERIA**

Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

**TRADE AND EXCHANGE DEPARTMENT**

**09 46237804**

**09 46237802**

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

**TED/FEM/FPC/GEN/01/016**

**November 14, 2013**

**TO: ALL AUTHORISED DEALERS AND GENERAL PUBLIC**

**RE: TRANSACTIONS IN "FREE FUNDS" BY AUTHORIZED DEALERS**

Further to the circular Ref: TED/AD/29/2004 of March 4, 2004 on the above subject, we observe that some Authorized Dealers have continued to deal in "free funds" without adequate documentation contrary to the provisions of extant regulation.

For the avoidance of doubt, the circular under reference is still in force and all dealings in foreign exchange **MUST** be supported with appropriate documentation and returns rendered to Regulatory Authorities irrespective of the source of such funds.

Consequently, Authorised Dealers are reminded that unrestrained dealing in foreign exchange in the name of "free funds" is inconsistent with prevailing laws/regulations and shall be sanctioned appropriately.

Please ensure compliance.

A handwritten signature in blue ink, appearing to read 'W. D. Gotring'.

**W. D. GOTRING**  
For: **DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



CENTRAL BANK OF NIGERIA

Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

TRADE & EXCHANGE DEPARTMENT

Tel: 09 46237802

Fax: 09 46237809

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

TED/FEM/FIC/GEN/01/009

September 26, 2013

**TO: ALL AUTHORIZED DEALERS,  
BUREAUX DE CHANGE AND THE GENERAL PUBLIC**

**DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET**

**INTRODUCTION:**

Available statistics indicates that Nigeria has become the largest importer of US Dollar due largely to importation of cash by Deposit Money Banks (DMBs). This development has implications for the economy.

In order to address the situation and prevent money laundering, Authorized Dealers and the General Public are hereby notified of the following policy review for compliance:

**1. FOREIGN EXCHANGE MARKET (WDAS)**

The Wholesale Dutch Auction System is hereby suspended and in its place Retail Dutch Auction System (RDAS) is hereby re-introduced with effect from Wednesday, October 2, 2013. The RDAS will take place on Monday and Wednesday of every week and the details of the procedures are hereby attached as Appendix I.

**2. USAGE OF NAIRA DEBIT AND CREDIT CARDS OVERSEAS**

The existing limit of US\$40,000.00 per annum on Naira Debit and Credit Cards has been reviewed upward to US\$150,000.00 (One hundred and fifty thousand US Dollars) per annum subject to monthly rendition of returns by Authorized Dealer banks and Card Issuers (MasterCard and VISA) to the Central Bank of Nigeria. The settlement for the cards shall continue to be with inter-bank funds.

**3. FOREIGN CURRENCY BANKNOTES IMPORTATION BY AUTHORIZED DEALERS**

The importation of foreign currency banknotes by Authorized Dealers shall henceforth be subject to a prior approval of the Central Bank of Nigeria. Any Authorized Dealer intending to import foreign currency cash is required to forward an application, stating the amount and purpose to the Director, Trade & Exchange Department, CBN, Abuja for consideration.

**4. SALES OF FOREIGN EXCHANGE CASH BY AUTHORIZED DEALERS TO BUREAUX DE CHANGE (BDCs)**

Authorized Dealers shall continue to sell foreign exchange cash to BDCs subject to a maximum limit of US\$250,000.00 (Two hundred and fifty thousand US Dollars) per week per BDC. However, Authorized Dealers are required to conduct Know-Your-Customer (KYC) check on BDCs they deal with. Furthermore, BDCs are required to render weekly returns on utilization of funds purchased from all sources to the CBN failing which appropriate sanction shall be imposed.

**5. RECEIPT OF PROCEEDS OF INTERNATIONAL MONEY TRANSFERS**

Recipients of proceeds of International Inward Money Transfers via Western Union, MoneyGram, etc, shall henceforth be paid in Naira only.

The applicable exchange rate for conversion of the proceeds shall be the prevailing interbank rate on the day of payment by the Authorized Dealer. Accordingly, Authorized Dealers are required to conspicuously display foreign exchange rate/Naira in the banking hall and/or via any medium for the guidance of the recipients.

The Consumer Protection Department, CBN has therefore been directed to ensure that recipients are fairly treated by the Authorized Dealers and any case of poor service delivery should be reported promptly to the CBN for appropriate sanction.

**6. PAYMENT FOR SMALL SCALE IMPORTS**

Importers intending to pay for imports of non-regulated products valued not more than US\$250,000.00 (Two hundred and fifty thousand US Dollars) per annum using telegraphic transfers shall only complete e-Form "M" online supported with proforma invoice. However,

*[Handwritten signature]* 2



the relevant shipping documents shall be submitted to the processing bank by the importer not later than 90 days from the date of the transfer. Defaulters in the submission of the final shipping documents should be reported to the CBN monthly by Authorized Dealers for appropriate sanction.

All Authorized Dealers and the general public are to take note of this for compliance.



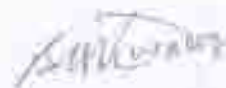
**Batari Musa**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**

## Appendix I

### GUIDELINES FOR THE OPERATION OF THE FOREIGN EXCHANGE MARKET – RETAIL DUTCH AUCTION SYSTEM (RDAS)

In consideration of recent developments in the Foreign Exchange Market, it has become necessary to review the guidelines on the operations of the foreign exchange auction. Accordingly, Authorized Dealers are advised of the following changes:

1. The Central Bank of Nigeria (CBN) shall intervene in the Foreign Exchange Market through the Retail Dutch Auction System (RDAS) with effect from Wednesday October 2, 2013.
2. The CBN shall announce on Mondays and Wednesdays the amount on offer for each auction at 8.30 am. Copies of the announcement may be obtained from the Financial Markets Department of the Central Bank at the following location:  
CBN Head Office  
Central Business District, Abuja  
Tel: 09 46237870, 46237871, 46237836& 46237838
3. All Authorized Dealer banks shall be eligible to participate in the market on behalf of their customers.
4. Authorized Dealers shall submit their customers' bids on Monday and Wednesday. The CBN reserves the right to reject bids that are deemed to be unrealistic and/or any application that contravenes foreign exchange regulations.
5. The Authorized Dealers shall submit their customers' bids using the attached format duly signed by two authorized signatories for any particular auction session between 9.00 am and 11.00 am on the market day. The bids should be submitted in flash (USB) in prescribed Excel spread sheet format (attached) by each bank's branch office in Abuja to Director, Financial Markets Department, CBN Head Office, Abuja. Only bids received in soft copy and in the prescribed format shall



- be treated.
6. The minimum bid amount by an Authorized Dealer shall be US\$100,000.00 and the currencies of transaction shall be the Naira and United States Dollars.
  7. The CBN shall announce the result of each Auction by 4.00 pm on Mondays and Wednesdays. A copy of the result may be obtained from the office mentioned in (2) above.
  8. Successful customers' bids by Authorized Dealers shall be debited at the bid rates on Wednesdays and Fridays (T+2).
  9. Authorized Dealers shall ensure that they have adequate Naira cover in their current accounts with the CBN at the time of the bid. The CBN shall promptly debit the current accounts of banks with the Naira equivalent of the foreign exchange purchased on behalf of their customers, at the bid rates plus 1% commission. The CBN shall deliver US Dollars sold to the banks to their Correspondent Bank Account used for FEM Transactions. The CBN shall effect delivery of foreign exchange purchased by each Authorized Dealer within two business days after the auction. A business day shall be defined as a day in which banking business is carried out in Nigeria.
  10. Funds purchased from CBN at the Auction shall be used for eligible transactions only, subject to stipulated documentation requirements. Such funds shall NOT be transferable in the interbank foreign exchange market.
  11. Authorized Dealers shall return to the CBN any unutilized funds within two (2) business days after delivery, at the rate of purchase.
  12. Interest earned on Letters of Credit established and for which settlement has not been effected, shall be repatriated to the CBN for repurchase at the bid rate the funds were purchased.

**13. SANCTIONS:**

Contravention of any of the Foreign Exchange Market regulations including the



provisions of this circular shall attract appropriate sanctions as spelt out in the provisions of relevant laws and CBN guidelines.

All Authorized Dealers should note and ensure compliance.



**Batari Musa**

**DIRECTOR**

**TRADE & EXCHANGE DEPARTMENT**





TRADE & EXCHANGE DEPARTMENT

Tel: 09-61637804

Fax: 09-61637802

E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

Our Ref: TED/FEM/FPC/GEN/01/008

July 30, 2013

To: ALL AUTHORISED DEALERS,  
NIGERIA CUSTOMS SERVICE,  
SCANNING & RISK SERVICE PROVIDERS AND  
THE GENERAL PUBLIC

NEW STANDARDS ORGANISATION OF NIGERIA CONFORMITY  
ASSESSMENT PROGRAMME (SONCAP)

Further to the Circular ref: TED/FEM/GEN/FPC/01/095 dated June 5, 2009 on the above subject, we write to inform all Authorised Dealers and the general public that the Standards Organisation of Nigeria Conformity Assessment Programme (SONCAP) has been reviewed with effect from 1<sup>ST</sup> February 2013.

Accordingly, four International Accredited Firms have been appointed to carry our inspection, test and certify regulated products on behalf of Standards Organisation of Nigeria (SON) offshore. These are;

1. China Certification and Inspection Company Ltd (CCIC)
2. COTECNA Inspection Nigeria Ltd (COTECNA)
3. Swede Control Intertek International Ltd (INTERTEK)
4. Societe Generale de Surveillance (SGS)

The International Accredited Firms shall be responsible for the issuance of Product Certificate(s) to overseas manufacturers/suppliers/traders and the document shall be a requirement for the registration of Form 'M' for SONCAP regulated products.

Similarly, the Standards Organisation of Nigeria will henceforth be responsible for the issuance of SONCAP certificate(s) on arrival of goods at the ports as part of documentation for customs clearance.

Furthermore, the list of products exempted from SONCAP certification has been updated as follows:

- a. Food products
- b. Drugs (Medicines)
- c. Medicals other than equipment and machines
- d. Chemicals used as raw materials by bonafide manufacturers
- e. Military wares & equipment
- f. Goods classified as contraband by the Federal; Government of Nigeria
- g. Used Products other than automobiles

Bonafide manufacturers who intend to import machinery or related spare parts are advised to apply to SON for a permit to enable them import.

For the avoidance of doubt, only product certificates issued by the approved International Accredited Firms shall be accepted for approval of Form 'M' by banks for SONCAP regulated products with effect from the date of the revision of the SONCAP stated above.

  
**BATARI MUSA**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



09 46237802 TRADE & EXCHANGE DEPARTMENT

Tel: 09 46237809

Fax: E-mail address:ted@cbn.gov.ng

TED/FEM/FPC/GEN/01/007

July 25, 2013

**TO: ALL AUTHORISED DEALERS**  
**NIGERIA CUSTOMS SERVICE**  
**NIGERIA NATIONAL PETROLEUM CORPORATION**  
**DEPARTMENT OF PETROLEUM RESOURCES**  
**ALL OIL & GAS COMPANIES AND THE GENERAL PUBLIC**

**RE: EXTENSION OF CONTRACT FOR PRE-SHIPMENT INSPECTION OF OIL AND GAS AND MONITORING AGENTS**

Further to the Circular Ref: TED/FEM/FPC/GEN/01/012 of May 4, 2012 on the appointment of additional Pre-shipment Inspection Agents for Oil and Gas export under the Nigerian Export Supervision Scheme (NESS), Authorised Dealers and the general public are hereby informed that the **Federal Government has extended the contract for the underlisted Pre-shipment Inspection Agents (PIAs)** for a period of twelve (12) months with effect from June 7, 2013:

S/NO.	INSPECTION AGENT	ASSIGNED TERMINALS
i.	<b>Globalscan Systems Technology Limited</b> No. 22 Lobito Crescent Wuse II - Abuja Tel: 09 - 4134215	<b><u>Oil &amp; Gas Terminals:</u></b> i. Qua Iboe ii. Bonny iii. Pennington
ii.	<b>JBIS Integrated Resources Limited</b> No. 14 Rumuada/Rumuola Road Rumuadaolu Port Harcourt Tel: 08033386167	<b><u>Oil Terminals:</u></b> i. Akpo ii. Agbami iii. Erha iv. Bonga v. EA
iii.	<b>Robinson International Energy Limited</b> Ground Floor, No. 88 Awolowo Road Southwest Ikoyi, Lagos Tel: 08023203045	<b><u>Oil Terminals:</u></b> i. Yoho ii. Brass iii. Oyo iv. Antan



		v. Oso vi. Ebok vii. Okono
iv.	<b>Trobel International Nigeria Limited</b> 57, Aparo Road GRA Phase II Port Harcourt Tel: 08052658642 08131011152	i. Okwori ii. Okoro iii. Ukpokiti iv. Escravos v. Obe
v.	<b>Candid Oil Services Limited</b> 50, Norman Williams Street South-West Ikoyi Lagos Tel: 012717500	i. Abo ii. Usan iii. Forcados iv. Tulja v. Odudu vi. Ima
vi.	<b>Gulf Inspection Services Limited (GAS)</b> No. 19, First Avenue Gwarimpa II-Abuja Tel: 07028694444	All Gas Terminals

In addition, the Federal Government has appointed Monitoring Agents to oversee the activities of the PIAs as reflected below:

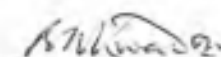
**Messrs Arlington Securitas Limited:**

JBIS Intergrated Resources Limited  
Trobel International Nigeria Limited  
Gulf Inspection Services Limited

**Swede Control Intertek Limited:**

Robinson International Energy Limited  
Global Scan Systems Technology Limited  
Candid Oil Services Limited

All Authorised Dealers, Oil & Gas exporters and the general public are to take note of the provisions of this circular for compliance.



**Batari Musa**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



**TRADE AND EXCHANGE DEPARTMENT**

09-61627804  
09-61627802  
E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

Our Ref: TED/FEM/FPC/01/006

June 17, 2013

To: All Authorized Dealers;  
Service Providers; and  
the General Public

**RE: EXTENSION OF DESTINATION INSPECTION SCHEME FOR  
IMPORTS AND APPOINTMENT OF INSPECTION AGENTS**

Following the extension of Destination Inspection of Imports at the Nigerian Seaports, Airports and Land borders and the appointment of service Providers for a period of six months with effect from June 1, 2013 to November 30, 2013, by the Federal Government of Nigeria, all Authorised Dealer Banks and the general public are hereby notified of the following for compliance:

- (i) Messrs Global Scansystems Limited, Catecna Destination Inspection Limited and Societe Generale De Surveillance (SGS) have been appointed by the Government as Inspection Agents to carry out the assignment during the period.
- (ii) The entry points for imports to Nigeria have been grouped into three Lots and allocated to the Inspection Agents stated in (i) above as follows:

*SM*

S/No.	Global Limited	Scansystems	Cotecna Destination Inspection Limited	Societe Generale De Surveillance
1.	Apapa Sea Port		Tincan Island Sea Port	Port Harcourt Main Sea Port
2.	Murtala Muhammed International Airport		Grimaldi Port (PTML)	Onne Sea Port
3.	Seme Land Border		Abuja International Airport	Port Harcourt International Airport
4.	Idiroko Land Border		Kano International Airport	Port Harcourt Free Trade Zone
5.	Warri Sea Port		Lagos Free Trade Zone	Onne Free Trade Zone
6.	Nil		Jibiya Border Post	Calabar Sea Port
7.	Nil		Banki Border Post	Ilorin International Airport

(iii) The Destination Inspection Agents (DIAs) are expected to assume duty at their new allocated Lots with effect from Friday, June 14, 2013.

(iv) The DIAs are required to complete the processing, including issuance of Risk Assessment Reports (RARs) of all Forms "M"

*Sall*

accepted by them on or before June 13, 2013 in their former Lots.

(v) For the avoidance of doubt, Authorized Dealer banks are to ensure that with effect from June 14, 2013, Forms "M" are routed to the appropriate Destination Inspection Agent based on the assigned Lots stated in paragraph (ii) above.

(vi) This circular supersedes that of December 28, 2005 with reference number TED/AD/150/2005 as far as the allocation of Lots is concerned.

All Authorised Dealers are requested to bring the content of this circular to the attention of their customers for compliance.



**BATARI MUSA**  
**DIRECTOR,**  
**TRADE & EXCHANGE DEPARTMENT**



09-46237804

TRADE & EXCHANGE DEPARTMENT

Tel: 09-46237811

Fax:

e-mail:-ted@cbn.gov.ng

April 19, 2013.

Our Ref: TED/FEM/FPC/GEN/01/004

TO: ALL AUTHORISED DEALERS AND IMPORTERS

**UNCOLLECTED RISK ASSESSMENT REPORT (RAR)**

It has been observed that some Risk Assessment Reports (RARs) issued by the Scanning Service providers had remained uncollected by importers from their processing banks. The implication of this is that import duties may not have been paid by such importers, thus denying government of the revenue.

In view of this development, the owners of all Uncollected RARs issued on or before 31<sup>st</sup> December 2012, and which remained uncollected till date are hereby requested to collect the RARs from their banks and pay all necessary duties, taxes and penalties. This should be done not later than 30<sup>th</sup> April, 2013.

For the avoidance of doubt, failure to collect the outstanding RARs and pay the duty, taxes and other charges associated with the underlying import transactions, will result in the imposition of appropriate sanctions which include suspension from the foreign exchange market by the Central Bank of Nigeria until all outstanding RARs are accounted for. However, where duties, taxes and penalties have been paid, owners of the uncollected RAR should provide evidence of utilisation of the RAR which should include SGD Registration No and date as well as the amount paid.

Meanwhile, Authorised Dealers are hereby required to render returns (in both hard and soft copies) in excel format on all Uncollected RARs issued on or before 31<sup>st</sup> December 2012 on a month by month basis, using the following format.

- Form M No;
- Importer's Name;
- Description of goods;
- Whether or not the transaction is valid or not valid for foreign exchange;
- RAR No;
- Date of issuance of RAR;
- If duty has been paid, state Assessment No., Value paid., SGD Registration No and date;
- Service Provider.

The returns, which should be on such RARs that remain uncollected after the expiration of the deadline stated above, should be forwarded to Director, Trade and Exchange Department, Central Bank of Nigeria, Abuja not later than 7<sup>th</sup> May, 2013.

The soft copy returns should be forwarded to the e-mail address stated below:

1. [jsbima@cbn.gov.ng](mailto:jsbima@cbn.gov.ng)
2. [piechendu@cbn.gov.ng](mailto:piechendu@cbn.gov.ng)

Authorised Dealers are enjoined to ensure compliance failing which appropriate sanctions shall be imposed.

  
BATARI MUSA  
DIRECTOR,  
TRADE AND EXCHANGE DEPARTMENT



**CENTRAL BANK OF NIGERIA**

Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja. FCT

**TRADE AND EXCHANGE DEPARTMENT**

**09-46237804**

**09-46237802**

E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

**TED/FEM/FPC/GEN/01/003**

**March 22, 2013**

**TO: ALL AUTHORISED DEALERS,  
IMPORTERS/TRADERS AND  
THE GENERAL PUBLIC**

**SELF-SUBMISSION OF e-FORM 'M' BY IMPORTERS/TRADERS**

Following the successful deployment of the e-Form M on the Nigerian Single Window for Trade portal, the Central Bank of Nigeria wishes to announce the commencement of self-submission of the e-Form 'M' on the Trade portal by the importers/traders.

The e-Form 'M' is web based and allows the importers/traders to initiate the Form from their offices/homes and submit same to the Authorized Dealer bank.

Accordingly, all Nigerian importers/traders are hereby advised to begin self-submission of the e-Form "M" on the Trade portal in line with the design and objective of the System.

All Authorized Dealer banks are enjoined to inform their customers of this development for compliance.

  
**W. D. GOTRING**  
For: **DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



**CENTRAL BANK OF NIGERIA**

Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

09-46237804  
09-46237802

TRADE AND EXCHANGE DEPARTMENT

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

**TED/PFO/FPC/GEN/01/002**

**March 21, 2013**

**TO: ALL AUTHORISED DEALERS,  
SERVICE PROVIDERS AND  
THE GENERAL PUBLIC**

**INTRODUCTION OF FEE CHARGE ON e-FORM 'M'**

Following the successful deployment of the e-Form 'M' on the Nigerian Single Window Trade portal and the commencement of on-line submission of the Form 'M' on December 6, 2012, all Authorized Dealer banks (ADB's) and the General Public are hereby informed of the introduction of fee to be charged for accessing the e-Form 'M', as follows:

1. A charge of **N1,500.00** as fee per declaration for e-Forms will be applied with effect from December 6, 2012 and henceforth;
2. Recovery of the cost of e-Form 'M' used by processing banks since December 06, 2012 when the e-Form 'M' was deployed. The cost recovery is pursuant to all e-Forms 'M' utilized when the pre-paid hard copy Forms 'M' ceased to be used; and
3. Direct debit of the processing bank's current account for each declaration which should be recovered from the customer by the bank.

For avoidance of doubt, the charge on the customer for the e-Form 'M' should be separated from other bank charges.

All Authorized Dealer Banks are enjoined to inform their customers of this development.

  
**W. D. GOTRING**  
For: **DIRECTOR**  
**TRADE AND EXCHANGE DEPARTMENT**





**CENTRAL BANK OF NIGERIA**  
Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

**TRADE & EXCHANGE DEPARTMENT**

Tel: 09 46237804

Fax: 09 46237802

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

TED/FEM/FPC/GEN/01/42

January 28, 2013

**TO: ALL AUTHORISED DEALERS**

**RE: EUROPEAN INVESTMENT BANK'S (EIB) INVESTMENTS IN NIGERIAN BANKS  
FOR PERIOD JANUARY 2008 TO DECEMBER 2012**

You are hereby requested to submit returns on the above subject, to the Central Bank of Nigeria.

The report which should be in the attached Excel format, should reach the Director, Trade and Exchange Department, Abuja, not later than 12.00noon on Tuesday, January 29, 2013. You are required to make NIL return where appropriate.

Please ensure compliance with the format and time-line to avoid sanctions which may include suspension from the foreign exchange market.

A handwritten signature in blue ink, appearing to read 'N. T. Igba', written over a horizontal line.

**N. T. IGBA**  
**FOR: DIRECTOR**  
**TRADE AND EXCHANGE DEPARTMENT**



**TRADE AND EXCHANGE DEPARTMENT**

09 46237804

09 46237802

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

TED/FEM/FPC/GEN/01/041

January 15, 2013

**TO: ALL AUTHORISED DEALERS,  
BDC OPERATORS & THE GENERAL PUBLIC**

**REVOCATION OF OPERATING LICENCE OF 236 BDCs**

This is to inform all Authorised Dealers and Buyers (BDC Operators) and the General Public that the operating licence of the Bureaux De Change companies stated below is hereby revoked with effect from January 14, 2013:

S/N	NAME
1	A.F.A BDC
2	A.I.A BDC
3	ACCLAIM BDC
4	AFRICAN SHELTER BDC
5	AFRINVEST BDC
6	ALL AFRICA BDC
7	ALLSTATES BDC
8	AL-RIMA BDC
9	ALWAYS BDC
10	ALWAYS FINANCE & INVESTMENT CO LIMITED (BDC)
11	AMD BDC
12	AMIRA BDC
13	AMJIGAR BDC
14	AMX BDC
15	ARIJO BDC
16	ATETE BDC
17	ATLANTIC MEDITERANEAN LIMITED (BDC)
18	ATRAYS BDC
19	BEDFORD BDC
20	BELLVIEW TRAVELS (NIG) LIMITED (BDC)

21	BEN BDC
22	BENEDON BDC
23	BETNADU INVESTMENT NIGERIA LIMITED (BDC)
24	BEXLEY BDC
25	BINEZ BDC
26	BOJEDOR BUREAU DE CHANGE LIMITED (formerly Adoney BDC)
27	BTC BDC
28	BTS SECURITIES LIMITED (BDC)
29	CALVARY BDC
30	CBL BDC
31	CCP BDC
32	CEDAR BDC
33	CELTIC FINANCE LIMITED (BDC)
34	CHAMO BDC
35	CHIIK FINANCE & SECURITIES LIMITED (BDC)
36	CHOMEX BDC
37	CIRCULATED BDC
38	COMPASS INVESTMENT & FINANCE LIMITED
39	CONSOLIDATED BDC
40	CONSOLIDATED FIN. SERVICES LTD. (BDC)
41	CONTINENTAL FINANCE LIMITED (BDC)
42	CORE TRUST (CT) BDC
43	CORPORATE FOCUS BDC
44	CRITERION BDC
45	CROSSRATE BDC
46	DABI BDC
47	DADDY ABUBAKAR (DAMCO) BDC
48	DAN' AZUMI BDC
49	DANCO BDC
50	DEKOL Bdc
51	ECNL BDC
52	EMB BDC
53	EXECUTIVE BDC
54	FA'IDA BDC
55	FAIREX BDC
56	FAITH BDC
57	FCT BDC
58	FEZEL BDC
59	FIAAM RESOURCES BDC
60	FOREX TRUST BDC

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61	FOREXEXCHANGE LIMITED (BDC)
62	FOREXFIELD BDC
63	FOREXPOINT BDC
64	GBUJAS BDC
65	GEONNASONS TRAVELS LIMITED (BDC)
66	GILT & EDGE FINANCE LIMITED (BDC)
67	GLE FINANCE LIMITED (BDC)
68	GOLD PACKAGE BDC
69	GOLDEN TRUST BDC
70	GOLDFINGER FINANCE & INVESTMENT LIMITED
71	GOLDWORTH BDC
72	GOMBAI BDC
73	GREATWALL GOLDEN BDC
74	GYRUSS BDC
75	HALAL BDC
76	HANKASURA BDC
77	HOLD TRADE BDC
78	HOLMENS INVESTMENT COMPANY LIMITED (BDC)
79	IAS BDC
80	IBN UMMERAH BDC
81	IMPERIAL BDC
82	INTERFOREX BDC
83	INTERNATIONAL CURRENCIES BDC
84	IPMS EXCHANGE HOUSE BDC
85	JAMA'A BDC
86	JAYCE BDC
87	JOHNES FINANCE & MGT CONST LTD
88	JOHNMAT BDC
89	JUBILEE BDC
90	KANO AGENCY BDC
91	KANZUL BDC
92	KATINGA BDC
93	KENNETH MICHAEL BDC
94	KINE BDC
95	KINGTRADE BDC
96	KUNGU BDC
97	LANA SECURITIES & INVESTMENT BDC
98	LINDEL ASSOCIATE BDC
99	LIST BDC
100	M. CHRIS BDC

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101	MALINA BDC
102	MASABA BDC
103	MASS BDC
104	MAZZUCO BDC
105	MERRLYN FINANCE LIMITED (BDC)
106	MOLAY INVESTMENT LIMITED
107	MONEY MART BDC
108	MULTI GOLD BDC
109	NAIRA CHEQUE BDC
110	NASUDE INTERNATIONAL BDC
111	NEGRIS BDC
112	NEWDAWN BDC
113	NIIMA BDC
114	NISEL BDC
115	NUSAC NIGERIA LIMITED (BDC)
116	OKEBIZ MERCHANTILE LIMITED (BDC)
117	OMF BDC
118	OPTIMAL BDC
119	PARALLEX BDC
120	PEOPLE'S CHOICE FINANCE LIMITED (BDC)
121	PETER KING & SONS BDC
122	PLANET BDC
123	PLANET ONE BDC
124	POLY ENGINEERING NIGERIA LIMITED (BDC)
125	PRIME LINKS BDC
126	PUBLIC FINANCE LIMITED (BDC)
127	REALISTIC EQUITY INVESTMENT LIMITED
128	RESTORATION BDC
129	RISKH BDC
130	RITZ CARLTON BDC
131	RIVERBOUND BDC
132	NEW ROUTE BDC
133	ROCKFINANCE CURRENCY ISSUES BDC
134	ROLAND BDC
135	RUTAM TRAVELS LIMITED (BDC)
136	SAFE BDC
137	SAFE LINK FINANCE COY LIMITED (BDC)
138	SAFEPOINT (BENTOMI) BDC
139	SAJIK BDC
140	SALFRON BDC
141	SELPAK BDC
142	SHA'ADA FAS BDC

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143	SHEFA BDC
144	SHOLAWA BDC
145	SILVER BDC
146	SODEC BDC
147	SOLVENT BDC
148	SOUTHERN MERCHANT LIMITED (BDC)
149	SOVEREIGN MERCHANT LIMITED (BDC)
150	STAR TOURISM LIMITED (BDC)
151	STARLIGHT BDC
152	STB BDC
153	STONEHILL BDC
154	SUNLIGHT BDC
155	TAHA BDC
156	THIRD WORLD BDC
157	TOMARE BDC
158	TONEMA ENTERPRISES LIMITED (BDC)
159	TRANSFOREX BDC
160	TRAVELLERS BDC
161	TREASHOLD OF TRUST BDC
162	TREASURY TECH RESOURCES LIMITED (BDC)
163	TRUST TRANSACTIONS LIMITED (BDC)
164	TUBS BDC
165	VINTAGE BDC
166	WORLDWIDE BDC
167	YOMENI BDC
168	YONGA PAN BDC
169	ZEETO BDC
170	ZETAC BDC
171	A.G.Y.L BDC
172	ABDUYUSH BDC
173	ABSAN BDC
174	AISHA BDC
175	AL-GULAM BDC
176	AL-QURAYSH BDC
177	AL-TASAWUQ BDC
178	ALYASAN BDC
179	AMAS ULTIMATE ROSE BDC
180	AMIBUKAR BDC
181	ASIRU BDC
182	ASK BDC
183	AUYO BDC
184	BASIC CONCEPTS BDC

*6/2/2017*

185	BEAR TRACK BDC
186	BLUE-AXIS BDC
187	BSY BDC
188	BULHAJA BDC
189	CADLAM BDC
190	CAMBIO BDC
191	CHADDERI BDC
192	DANAZUMI & GARBA BDC
193	DANKOLI BDC
194	DAYSTAR BDC
195	DUAL CURRENCY
196	EARN OUT BDC
197	FARSMAN BDC
198	FBN BDC
199	FOREX FUTURE BDC
200	FST BDC
201	G.R. UMAR INT'L BDC
202	GAGARAFABA BDC
203	GREAT LARADRI
204	GURUSS BDC
205	GWAZAYE BDC
206	H.B.A BDC
207	HAK BDC
208	KAFINGA BDC
209	KAN FOREX BDC
210	KANDUB BDC
211	KANGU BDC
212	KANO COOPERATIVE BDC
213	LATE BABA SANI BDC
214	LEADER BDC
215	LUKO BDC
216	M.B.IKO BDC
217	MAISHINKU BDC
218	MAK BDC
219	NAHAULA BDC
220	NASARAWA-KIFI BDC
221	NATION BASE BDC
222	PERFECT BDC
223	RANO BDC
224	ROYAL TRUST BDC
225	RUAYAB BDC
226	SABON RUWA BDC

*Rulk*

227	SANYAK BDC
228	SEA BDC
229	SGG BDC
230	SHOKURA BDC
231	TANGARAN BDC
232	TC & T BDC
233	UMSAD BDC
234	VOSTRO BDC
235	YHRAB BDC
236	YAR-ABBA BDC

Consequently, all Authorised Dealers/Buyers and the General Public are advised that with effect from January 14, 2013, any foreign exchange transactions, including sale to and purchases from these BDCs as well as transfer of funds through them and or on their behalf is illegal.

Please ensure compliance accordingly.

  
**Batari Musa**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**





09 462 37804      **TRADE AND EXCHANGE DEPARTMENT**

09 462 37802

E-mail Address: [ted@cenbank.org](mailto:ted@cenbank.org)

**REF: TED/FEM/FPC/GEN/01/34**

**December 7, 2012**

**TO: ALL AUTHORISED DEALERS,  
NIGERIA CUSTOMS SERVICE,  
SCANNING SERVICE PROVIDERS AND  
THE GENERAL PUBLIC**

**AUTOMATION OF FOREX FORMS ON THE TRADE  
MONITORING SYSTEM (SINGLE WINDOW SYSTEM FOR  
TRADE)**

Further to our circular ref: TED/FEM/FPC/GEN/01/031 in respect of the above, all Authorized Dealers, Scanning Service Providers, the Nigeria Customs Service (NCS) and the General Public are hereby informed that the commencement date for the full implementation of Taxpayer Identification Number (TIN) on the trade portal scheduled for 6<sup>th</sup> December, 2012 has been extended to 13<sup>th</sup> December, 2012.

During the period of the extension, from 6<sup>th</sup> to 12<sup>th</sup> December, 2012, the following are to be complied with:

1. Submission of the e-Form 'M' will be done electronically by all banks with or without TIN validation from 6<sup>th</sup> December, 2012;
2. The non-pilot banks to request their customers to validate their TIN before 13<sup>th</sup> December 2012;
3. Scanning Service Providers(SSPs) to accept e-Form 'M' with or without TIN validation and Address; and

4. Importers to ensure that address on Pro-forma Invoice (PFI) to be Head Office address (not branch office address) and should agree with the address used for TIN and that in the NCS database.

All Authorized Dealers are, therefore, required to continue the on-line submission of the Forms 'M' using either the TIN or RC Numbers until 13<sup>th</sup> December, 2012.

Please ensure compliance accordingly.



**N. T. IGBA**  
**for: DIRECTOR,**  
**TRADE & EXCHANGE DEPARTMENT**



**TRADE & EXCHANGE DEPARTMENT**

Tel: 09-46237804

Fax: 09-46237802

E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

Our Ref: TED/FEM/FPC/GEN/01/031

November 21, 2012

**To: ALL AUTHORISED DEALERS,**  
**NIGERIA CUSTOMS SERVICE,**  
**SCANNING & SERVICE PROVIDERS AND**  
**THE GENERAL PUBLIC**

**AUTOMATION OF FOREX FORMS ON THE TRADE MONITORING SYSTEM (SINGLE WINDOW SYSTEM FOR TRADE)**

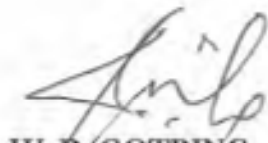
This is to inform all Authorized Dealers, Destination Inspection Service Providers, the Nigeria Customs Service and the General Public that the Pilot run of the Automation of Forex Forms on the Trade Monitoring System (Single Window System for Trade) is scheduled to run from November 22 to December 5, 2012 with the under listed banks,

- i. Diamond Bank
- ii. Zenith Bank
- iii. Unity Bank
- iv. Wema Bank
- v. Guaranty Trust Bank
- vi. Standard Chartered Bank
- vii. First Bank of Nigeria

Consequently, all authorised dealers are required to ensure as follows;

- I. Effective from the commencement of the pilot run on November 22, 2012, all Form 'M' applications must be initiated electronically on the Single Window System, while non-pilot banks are to continue to process paper Forms 'M' until December 6, 2012 when the System will go live for all banks.
- II. Banks' customers are required to obtain a valid Tax Identification Number (TIN) from the Federal Inland Revenue Service (FIRS). The TIN is a prerequisite for customers to access the Single Window System for Form 'M' application.
- III. Effective from November 22, 2012, the use of a valid TIN on Form 'M' application is compulsory. Non-pilot banks are required to indicate the customer's TIN on any paper Form 'M' completed between November 22 and December 5, 2012. For the avoidance of doubt, any paper Form 'M' processed without a valid TIN written on the face of the form will be rejected.

Please ensure compliance accordingly.



**W.D. GOTRING**  
for DIRECTOR  
TRADE & EXCHANGE DEPARTMENT



09 46237825 TRADE & EXCHANGE DEPARTMENT

Tel: 09 46237802

Fax: E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

TED/FEM/FPC/GEN/01/023

October 12, 2012

To: ALL AUTHORISED DEALERS,  
DESTINATION INSPECTION SERVICE PROVIDERS,  
NIGERIA CUSTOMS SERVICE, AND  
THE GENERAL PUBLIC

**RE: REVISED SPECIFICATION FOR GALVANISED CORRUGATED STEEL SHEETS – NIS 180:2012 AND PROFILE ALUMINIUM ROOFING SHEETS – NIS488:2004**

This is to inform all Authorised Dealers, Destination Inspection Service Providers, the Nigeria Customs Service and the General Public that the provisions of circular reference No: TED/FEM/GEN/FPC/01/163 of November 13, 2009 has been amended.

In line with the specification of the revised standard of the minimum nominal thickness for Steel Sheet, **only Galvanised Corrugated Roofing Sheets and Cold Rolled Steel Coils of thickness 0.15mm and above are acceptable in Nigeria.**

Also, the specification for profile Aluminium Roofing Sheets – NIS488:2004 has been revised to NIS488:2010 while the specified minimum nominal thickness is revised from 0.50mm to 0.40mm. **Consequently, only Profile Aluminium Sheets of thickness 0.40mm and above are acceptable in Nigeria.**

For the avoidance of doubt, only Corrugated Roofing Sheet, Cold Rolled Steel Coils and Profile Aluminium Sheets that meet the above stated specifications shall qualify for the establishment of Form 'M'.

This circular takes effect from August 7, 2012 and replaces circular reference number TED/FEM/FPC/GEN/01/020 of August 8, 2012.

**O. L. AHUCHOGU (MRS)**  
FOR: DIRECTOR  
TRADE AND EXCHANGE DEPARTMENT



TRADE & EXCHANGE DEPARTMENT

Tel: **09 46237804**

Fax: **09 46237802**

E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

**TED/FEM/FPC/GEN/01/022**

**September 26, 2012**

**TO: ALL AUTHORISED DEALERS**

**REQUEST FOR SOURCE OF FOREIGN EXCHANGE FOR TRANSACTIONS  
ON NAIRA CARDS FOR THE PERIOD 2010 TO 2011**

All Authorized Dealers are required to urgently forward hard copies of their returns on FX transactions in respect of Naira denominated cards, showing the source of funds on a month by month basis for years 2010 and 2011.

In addition, a soft copy of the same information in the hard copies should be forwarded to the email addresses stated below.

[isbima@cbn.gov.ng](mailto:isbima@cbn.gov.ng)

[tgallu@cbn.gov.ng](mailto:tgallu@cbn.gov.ng)

[asjibrin@cbn.gov.ng](mailto:asjibrin@cbn.gov.ng)

In both cases, the information should be received in Trade & Exchange Department, CBN HQTRS, Abuja on or before close of business on Friday September 28, 2012.

Please ensure compliance accordingly, failing which appropriate sanction shall be imposed.

  
**BATARI MUSA**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**





TRADE & EXCHANGE DEPARTMENT

Tel: **09 46237804**

Fax: **09 46237802**

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

**TED/FEM/FPC/GEN/01/019**

**July 26, 2012**

**TO: ALL AUTHORISED DEALERS**

**REQUEST FOR DATA ON WHEAT IMPORTATION FOR THE YEAR 2011**

All Authorized Dealers are required to urgently forward soft copies of wheat importation for the year 2011 in the format attached to the following e-mail addresses not later than July 31<sup>st</sup>, 2012:

1. [sfnjokko@cbn.gov.ng](mailto:sfnjokko@cbn.gov.ng)
2. [piechendu@cbn.gov.ng](mailto:piechendu@cbn.gov.ng)
3. [jaciroma@cbn.gov.ng](mailto:jaciroma@cbn.gov.ng)
4. [wcnwogu@cbn.gov.ng](mailto:wcnwogu@cbn.gov.ng)
5. [msahmed@cbn.gov.ng](mailto:msahmed@cbn.gov.ng)

Please ensure compliance as any breach shall attract appropriate sanctions, including suspension from the foreign exchange market.

  
**BATARI MUSA**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



Bank: .....

INFORMATION ON WHEAT IMPORTATION FOR YEAR 2011

S/N	CUSTOMER NAME	ADDRESS	FORM 'M' NO	DATE	VOLUME (METRIC TONNES)	SOURCE OF FUND	COUNTRY OF ORIGIN	FOB VALUE (US\$)	FREIGHT (US\$)	TOTAL* VALUE (US\$)
1										
2										
3										
4										
5										
6										
7										
8										
9										
10										
11										
12										
13										
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24										
25										
26										
27										
28										
29										

Prepared By: .....  
 Name: .....  
 Date: .....

Approved By: .....  
 Name: .....  
 Date: .....

\* TOTAL VALUE = FOB + FREIGHT

*Southern*



CENTRAL BANK OF NIGERIA  
Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

TRADE & EXCHANGE DEPARTMENT

Tel: **09 46237804**

Fax: **09 46237802**

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

TED/FEM/FPC/GEN/01/018

July 24, 2012

**TO: ALL AUTHORISED DEALERS**

**REDUCTION OF FOREIGN EXCHANGE NET OPEN POSITION  
(NOP) LIMIT OF BANKS**

The Monetary Policy Committee (MPC) at its meeting held from 23<sup>rd</sup> – 24<sup>th</sup> July, 2012 reviewed the foreign exchange Net Open Position (NOP) limit of Authorised Dealer banks.

Accordingly, the current limit of three percent (3%) has been reduced to **one percent (1%) of net shareholders' funds** with effect from the date of this circular.

This circular supersedes the one Ref: TED/FEM/FPC/GEN/01/024 of October 20, 2011 on the subject.

All Authorised Dealers are required to ensure compliance as any breach shall attract appropriate sanctions, including suspension from the foreign exchange market.

  
**BATARI MUSA**  
**DIRECTOR**

**TRADE & EXCHANGE DEPARTMENT**



**TRADE & EXCHANGE DEPARTMENT**

Tel: 09 46237804

Fax: 09 46237809

E-mail address: ted@cenbank.org

**TED/FEM/FPC/GEN/01/016**

**July 05, 2012**

**To: ALL AUTHORISED DEALERS**

**UTILIZATION OF FUNDS PURCHASED FROM CBN (WDAS) WINDOW**

In order to enhance transparency and efficiency in the use of WDAS funds, Authorised Dealers are hereby informed of the following guidelines for noting and compliance.

With effect from Monday, July 09, 2012 funds sourced from the WDAS shall be utilized within two (2) working days.

Any unutilized funds after the two working days from the date of settlement shall be refunded to the CBN for repurchase at the prevailing rate or the rate the funds were purchased whichever is lower.

Authorized Dealers are required to ensure compliance failing which the following sanctions shall apply:

- a. The refund of the amount to the CBN with interest at LIBOR+5%;
- b. Payment of monetary fine in accordance with the provisions of BOFIA 1991 (as amended); and
- c. Any other appropriate penalty.

This circular supersedes the provisions of paragraph 13 of the one Ref No. FMD/FED/CIR/GEN/01/082/10 dated December 29, 2010 on the subject.

**BATARI MUSA**

**DIRECTOR**

**TRADE AND EXCHANGE DEPARTMENT**



**TRADE & EXCHANGE DEPARTMENT**

Tel: **09 46237830**

Fax: **09 46237802**

E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

**TED/FEM/FPC/GEN/01/017**

**July 04, 2012**

**TO: ALL AUTHORISED DEALERS AND  
ALL BDC OPERATORS**

**FOREIGN EXCHANGE CASH SALES TO LICENSED BUREAUX DE  
CHANGE BY THE CBN**

This is to inform all Authorized Dealers and BDCs that the amount of weekly foreign exchange sales to BDCs has been reviewed.

Consequently, the maximum amount of foreign exchange cash sales to each BDC per week shall be US\$50,000.00 (Fifty Thousand United States Dollars) with effect from Monday July 09, 2012.

This circular supersedes the one Ref No: TED/FEM/FPC/GEN/01/07 dated March 15, 2012 on the subject.

Please ensure compliance accordingly.

  
**BATARI MUSA**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



**TRADE & EXCHANGE DEPARTMENT**

Tel: **09 46237804**

Fax: **09 46237802**

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

**Our Ref: TED/FEM/FPC/GEN/01/014**

**June 22, 2012**

**TO: ALL AUTHORISED DEALERS**  
**CUSTODIANS, STOCKBROKERS**  
**AND GENERAL PUBLIC**

**CERTIFICATE OF CAPITAL IMPORTATION (CCI) ISSUING PROCESS  
FOR INFLOW IN RESPECT OF SECURITIES LENDING**

Following the introduction of Securities Lending (SL) in the Nigerian Market, Authorised Dealers and the general public are hereby notified of the following processes for issuance of Certificate of Capital Importation (CCI) for Securities Lending transactions.

Certificates of Capital Importation (CCI) shall continue to be issued in respect of foreign exchange inflow for loans, investments and/or capital subject to existing guidelines as specified in the Foreign Exchange Manual.

For Securities Lending purposes, CCI processes shall be considered under the following scenarios:

- A. A foreign investor (foreign lender) lends to a foreign investor (foreign borrower)
- B. A foreign investor (foreign lender) lends to a local investor (local borrower)
- C. A local investor (local lender) lends to a foreign investor (foreign borrower)
- D. A local investor (local lender) lends to a local investor (local borrower)

The following CCI processes shall apply under each scenario listed above:

**A. A foreign investor (foreign lender) lends to a foreign investor (foreign borrower)**

- i. The foreign lender shall be issued a CCI upon importation of capital to purchase securities to be lent
- ii. The foreign borrower shall be issued a CCI upon importation of capital for the purchase of collateral securities.  
The foreign borrower reserves the discretion to keep the cash collateral in Nigeria in foreign currency. In this situation, no CCI shall be issued for the collateral.
- iii. At the lending stage, appropriate notes shall be made on the back of the foreign lender's CCI to indicate the SL transaction
- iv. Simultaneously, the foreign borrower's CCI for the collateral shall be transferred to the foreign lender or split should the investment value on the CCI exceed the collateral value
- v. The foreign borrower shall utilise the foreign lender's CCI to repatriate proceeds of sale of the borrowed securities and the foreign lender's CCI shall be marked down accordingly
- vi. At maturity, the foreign borrower shall import capital to buyback borrowed securities but no CCI shall be issued
- vii. On repayment, the foreign lender's CCI shall be marked up accordingly
- viii. Simultaneously, the foreign borrower's CCI earlier transferred to the foreign lender shall be returned to him
- ix. If the foreign borrower defaults, his collateral shall be disposed of or repossessed by the foreign lender and the foreign borrower's CCI earlier transferred to foreign lender shall be utilised to repatriate sale proceeds of the collateral.

**B. A foreign investor (foreign lender) lends to a local investor (local borrower)**

- i. The foreign lender shall be issued a CCI upon importation of capital to purchase securities to be lent
- ii. At the lending stage, the foreign lender's CCI shall be marked down to indicate the value of the Securities Lending transaction
- iii. On repayment, the foreign lender's CCI shall be marked up as the collateral earlier received from the local borrower is returned
- iv. If the local borrower defaults, the collateral earlier deposited with the foreign lender shall be disposed of or repossessed by the foreign lender and his CCI shall be marked up accordingly

**C. A local investor (local lender) lends to a foreign investor (foreign borrower)**

- i. The foreign borrower shall be issued a CCI upon importation of capital for the purchase of collateral securities.  
The foreign borrower reserves the discretion to keep the cash collateral in Nigeria in foreign currency. In this situation, no CCI shall be issued for the collateral.
- ii. At the lending stage, the foreign borrower's collateral shall be transferred to the local lender and appropriate notes shall be made on the back of the foreign borrower's CCI to indicate the value of the Securities Lending transaction.
- iii. The foreign borrower shall repatriate the sale proceeds of borrowed securities utilising his collateral CCI and the CCI shall be marked down accordingly
- iv. At maturity, the foreign borrower shall import capital to buyback borrowed securities and his collateral CCI shall be marked up accordingly
- v. On repayment, the foreign borrower's collateral earlier released to the local lender shall be returned to him

- vi. If the foreign borrower defaults, his collateral shall be disposed of or repossessed by the local lender and the foreign borrower's CCI shall remain unaltered.

**D. A local investor ( local lender) lends to a local investor (local borrower)**

- i. No CCI shall be required

Authorised Dealers are enjoined to bring this to the notice of their customers and to ensure strict compliance with the provisions of the circular.



**N. T. IGBA**  
**for:DIRECTOR**  
**TRADE AND EXCHANGE DEPARTMENT**





**TRADE & EXCHANGE DEPARTMENT**

Tel: 09 46237802  
09 46237804

Fax: E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

**TED/FEM/FPC/GEN/01/013**

**May 18, 2012**

**TO: ALL AUTHORIZED DEALERS  
AND THE GENERAL PUBLIC**

**FOREIGN LOAN REPAYMENT FROM THE NIGERIAN FOREIGN  
EXCHANGE MARKET**

This to inform all Authorized Dealers and the general public that from the date of this circular, the following guidelines shall apply to foreign loan repayment and interest payment:

1. Repayment of principal and interest payment on loan contracted for the purpose of Raw Materials, Plant and Machinery can be funded from the WDAS.
2. For a foreign loan that is not for the purposes stated in (1) above, funds for its repayment and interest payment shall be sourced from the inter-bank market.
3. Ancillary charges arising from contracting foreign loans shall be paid with inter-bank funds.

In all cases, the Authorized Dealer shall ensure that the transactions are supported with CCI and other relevant documentation before effecting remittance.

Please be guided and ensure compliance accordingly, failing which appropriate sanctions shall apply.

  
**BATARI MUSA**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



**TRADE & EXCHANGE DEPARTMENT**

Tel: **09 46237802**

Fax: **09 46237809**

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

**TED/FEM/FPC/GEN/01/012**

**May 4, 2012**

**TO: ALL AUTHORISED DEALERS  
NIGERIA CUSTOMS SERVICE  
NIGERIA NATIONAL PETROLEUM CORPORATION  
DEPARTMENT OF PETROLEUM RESOURCES  
ALL OIL & GAS COMPANIES AND THE GENERAL PUBLIC**

**RE: APPOINTMENT OF PRE-SHIPMENT INSPECTION AGENTS AND MONITORING AGENTS FOR NIGERIAN EXPORT SUPERVISION SCHEME (NESS) AND THE REVIEW OF NESS LEVY FOR OIL AND GAS EXPORT**

Further to the Circular Ref: TED/FEM/FPC/GEN/01/005 of February 11, 2011 on the appointment of additional Pre-shipment Inspection Agents for Oil and Gas export under the Nigerian Export Supervision Scheme (NESS), Authorised Dealers and the general public are hereby informed that the **Federal Government has re-appointed the underlisted Pre-shipment Inspection Agents (PIAs)** for a contract tenor of ten (10) months with effect from April 4, 2012:

<b>S/NO.</b>	<b>INSPECTION AGENT</b>	<b>ASSIGNED TERMINALS</b>
<b>I.</b>	<b>Globalscan Systems Technology Limited</b> No. 22 Lobito Crescent Wuse II - Abuja Tel: 09 - 4134215	<b>Oil &amp; Gas Terminals:</b> i. Qua Iboe ii. Bonny Oil iii. Okoro iv. Forcados v. Pennington vi. Usan

ii.	<b>JBIS Integrated Resources Limited</b> No. 14 Rumuada/Rumuola Road Rumuadaolu Port Harcourt Tel: 08033386167	<b>Oil Terminals:</b> i. Escravos           ix. E.A ii. Erha                x. Ima iii. Akpo             xi. Obe iv. Bonga            xii. Odudu v. Abo                 xiii. Okwori vi. Ukpokiti vii. Agbami viii. Ebok
iii.	<b>Robinson International Energy Limited</b> Ground Floor, No. 88 Awolowo Road Southwest Ikoyi, Lagos Tel: 08023203045	<b>Oil Terminals:</b> i. Brass River ii. Okono iii. Yoho iv. Antan v. Oyo vi. Oso

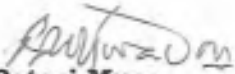
In addition, the Federal Government has appointed **Messrs Arlington Securitas Limited** as a Monitoring Agent for Oil & Gas export for a contract tenor of ten (10) months, with effect from April 4, 2012.

However, the appointment of **Messrs Colbalt International Services Limited** which used to be a PIA for oil has run its course and expired.

**REVISED NESS FEES:**

Furthermore, the Federal Government has reviewed downward the NESS fees for Oil and Gas exports from 0.2% of the FOB value to 0.12%, with effect from May 1, 2012.

All Authorised Dealers, Oil & Gas exporters and the general public are to take note of the provisions of this circular for compliance.

  
**Batari Musa**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**



CENTRAL BANK OF NIGERIA

Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

TRADE & EXCHANGE DEPARTMENT

Tel: **09 46237800**  
**09 46237802**

Fax: \_\_\_\_\_

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

TED/FEM/FPC/GEN/01/011

April 26, 2012

**TO: ALL AUTHORISED DEALERS**

**REQUEST FOR INFORMATION ON FOREIGN AIRLINES REMITTANCES  
FOR THE PERIOD 1999 TO 2011**

Authorised Dealers are hereby required to urgently submit information on remittances in each year from January 1999 to December 2011, on behalf of Foreign Airlines. The information should be submitted both in hard and soft copies, using the attached template.

The soft copies should be submitted using the email addresses below, while the hard copies should be submitted to the Director, Trade & Exchange Department, CBN Abuja. In both cases, the information should be received on or before close of business on Thursday May 3, 2012.

[asjibrin@cbn.gov.ng](mailto:asjibrin@cbn.gov.ng)

[isbima@cbn.gov.ng](mailto:isbima@cbn.gov.ng)

Please ensure compliance accordingly, failing which appropriate sanction shall be imposed.

  
**Batari Musa**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**





09 46237827

TRADE & EXCHANGE DEPARTMENT

Tel: 09 46237802

Fax: E-mail address: [ted@cbn.gov.ng](mailto:ted@cbn.gov.ng)

TED/FEM/FPC/GEN/01/010

April 10, 2012

**TO: ALL AUTHORISED DEALERS**

**REQUEST FOR INFORMATION ON WHEAT IMPORTATION FOR THE PERIOD 2009 TO DATE**

All Authorized Dealers are required to urgently forward hard copies of the following documents, in respect of wheat importation from January 2009 to date:

1. Form 'M'
2. Proforma and Final invoices
3. Bill of Lading
4. Duty payment
5. SGD
6. LC, etc.

In addition a soft copy of the above information as highlighted on the attached schedule should be forwarded to reach the Director, Trade and Exchange Department, CBN HQTRS Abuja by Thursday April 12, 2012.

Please ensure compliance accordingly, failing which the appropriate sanction shall be imposed.

  
**N. T. IGBA**  
For: **DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**





09 46237804  
09 46237802

TRADE & EXCHANGE DEPARTMENT

Tel:

Fax: E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

TED/FEM/FPC/GEN/01/009

April 2, 2012

**TO: ALL AUTHORISED DEALERS  
AND THE GENERAL PUBLIC**

**RE: LIBERALIZATION OF UNCONFIRMED LETTERS OF CREDIT**

Authorised Dealers are hereby informed that from the date of this circular, the restriction on the use of WDAS to negotiate Unconfirmed Letters of Credit (ULC) has been reviewed.

Consequently, WDAS funds can be used to negotiate ULC established for the importation of Raw Materials, Plant and Machinery only.

For the avoidance of doubt, funds for the negotiation of ULC established for importation of general merchandise shall be from the Interbank market.

This circular supersedes the one with reference: TED/FEM/FPC/GEN/01/036 of November 24, 2010,

Please note and ensure compliance as any breach will be sanctioned appropriately, including suspension from the foreign exchange market.

**Batari Musa**  
**DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**





**CENTRAL BANK OF NIGERIA**  
Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

**TRADE & EXCHANGE DEPARTMENT**

Tel: 09 46237804

Fax: 09 46237802

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

TED/FEM/FPC/GEN/01/007

March 15, 2012

**TO: ALL AUTHORISED DEALERS,  
ALL BDC OPERATORS AND  
THE GENERAL PUBLIC**

**FOREIGN EXCHANGE CASH SALES TO LICENCED BDCs BY THE CBN**

This is to inform all Authorised Dealers, BDC Operators and the General Public that effective from the week starting March 18, 2012 the amount of foreign exchange cash to be sold to BDCs by the Central Bank of Nigeria shall be USD75,000.00 (Seventy five thousand US dollars only) per week per BDC.

This Circular supersedes the earlier one referenced TED/FEM/FPC/GEN/01/015 dated August 15, 2011 on the same subject.

Please ensure compliance, accordingly.

  
**BATARI MUSA**  
DIRECTOR  
TRADE AND EXCHANGE DEPARTMENT



CENTRAL BANK OF NIGERIA  
Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

TRADE & EXCHANGE DEPARTMENT

Tel: 09-46237804

Fax: 09-46237811

[e-mail--ted@cbn.gov.ng](mailto:e-mail--ted@cbn.gov.ng)

March, 15, 2012.

Our Ref: TED/FEM/FPC/GEN/01/006

TO: ALL AUTHORISED DEALERS,

**REQUEST FOR INFORMATION/DATA ON LETTERS OF CREDIT-  
PETROLEUM PRODUCTS IMPORTATION FOR THE PERIOD 2006-2011**

All Authorised Dealers are required to urgently submit information/data on Letters of Credit on Petroleum products importation carried out from year 2006-2011. The information should be in both hard and soft copies, using the two templates attached. The soft copies should be forwarded to the e-mail addresses stated below:

[wdogtring@cbn.gov.ng](mailto:wdogtring@cbn.gov.ng)


[lahuchogu@cbn.gov.ng](mailto:lahuchogu@cbn.gov.ng)

[qaolusoji@cbn.gov.ng](mailto:qaolusoji@cbn.gov.ng)

However, the hard copies should be delivered to the Director, Trade and Exchange Department, Central Bank of Nigeria, Abuja.

In both cases, the information should be delivered on or before Monday, 19<sup>th</sup> March, 2012 by 11.00 a.m.

Please ensure compliance, failing which appropriate sanction shall be imposed.

  
BATARI MUSA,  
DIRECTOR,

TRADE AND EXCHANGE DEPARTMENT

**SUMMARY OF OIL IMPORTATION: 2006 - 2011**

YEAR	BMS (m3)		AGO (m3)		USK (m3)		JET AT (m3)		YEAR TOTAL	
	QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE	QUANTITY	VALUE
2006										
2007										
2008										
2009										
2010										
2011										
<b>GRAND TOTAL</b>										

**Notes**

- All values are in USD





TRADE & EXCHANGE DEPARTMENT

Tel: 09 46237804  
Fax: 09 46237802

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)

TED/FEM/FPC/GEN/01/005

February 20, 2012

**TO: ALL AUTHORISED DEALERS AND  
THE GENERAL PUBLIC**

**FISCAL POLICY MEASURES 2012**

This is to inform all Authorised Dealers that the Federal Government has approved the release of the following Fiscal Policy Measures for 2012:

**With effect from 31<sup>st</sup> January, 2012:**

- i) Agricultural machinery and equipment shall attract zero per cent (0%) duty in order to support the development of agricultural sector;
- ii) Equipment and machinery in the power sector shall attract zero per cent (0%) duty, to create a robust power sector and provide an enabling environment for investment.

**With effect from 31<sup>st</sup> March, 2012:**

- i) Importation of cassava flour shall be prohibited, to encourage the substitution of high quality cassava flour for wheat flour in bread-making;
- ii) Corporate tax incentive rebate of 12% shall be enjoyed by Bakers on attainment of 40% cassava blend within a period of 18 months;
- iii) All equipment for processing cassava flour for composite flour blending shall be imported duty free.

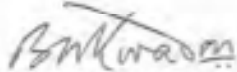
In order to encourage the purchase and utilisation of locally produced commodities, the under-listed measures are hereby introduced **with effect from 1<sup>st</sup> July, 2012:**

- i) Wheat flour shall attract a levy of 65% and 35% duty rate;
- ii) Wheat grain shall attract a levy of 15% and 5% duty;
- iii) Husked brown rice shall attract a levy of 25% and duty rate of 5%;
- iv) Imported polished rice shall attract a levy of 40% and duty of 10%.

**Concessions:**

In order to expand domestic production, boost exports, generate employment and create a level playing field, concessions and waivers shall be granted only on sectoral basis.

All Authorised Dealers are required to bring to the attention of their customers these measures for strict compliance.



**BATARI MUSA**  
**DIRECTOR**  
**TRADE AND EXCHANGE DEPARTMENT**



**TRADE & EXCHANGE DEPARTMENT**

Tel: **09 46237825**

Fax: **09 46237802**

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)  
**TED/FEM/FPC/GEN/01/003**

**January 20, 2012**

**TO: ALL AUTHORISED DEALERS  
ALL BUREAUX DE CHANGE OPERATORS  
AND OTHER REPORTING INSTITUTIONS(RI's)**

**CONNECTIVITY BETWEEN CBN AND EXTERNAL STAKEHOLDERS**

This is to inform all Authorised Dealers, Bureaux de Change Operators, Oil & Oil Service Companies, Discount Houses and all Authorised Buyers of foreign exchange that the CBN HAS CHANGED its Internet Link used for connecting stakeholders with effect from January 1, 2012.

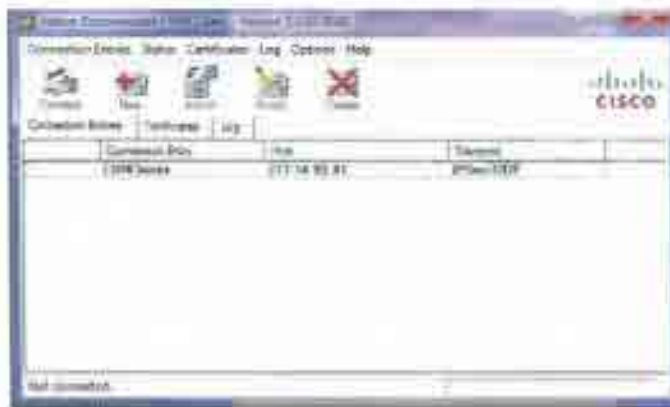
Stakeholders connecting to CBN using the Internet option are required to change the Virtual Private Network (VPN) connection parameters by using the attached procedure to enable them continue to connect. For the avoidance of doubt, the current VPN Connection with the entries {217.14.92.41, 217.14.92.42 or 217.14.92.43} are no longer valid.

For further clarification on the procedure for changing VPN Connection entry, please contact the IT Service Centre on Tel: 09 46238164 or [itdomdsco@cbn.gov.ng](mailto:itdomdsco@cbn.gov.ng)

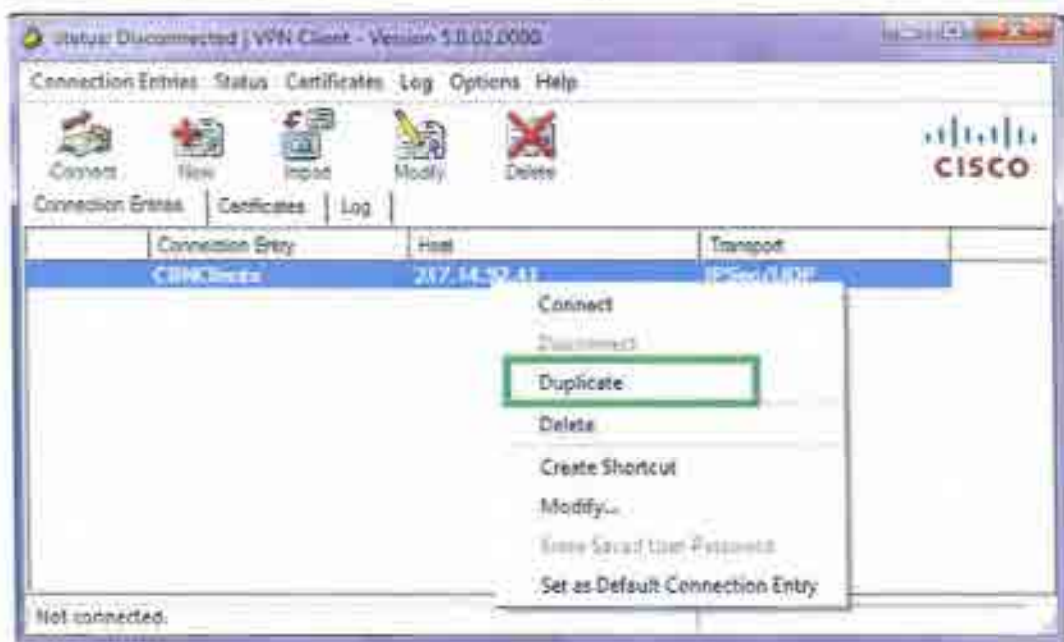
Please be guided accordingly.

**ONYINYE L. AHUCHOGU (MRS.)**  
for: **DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**

## PROCEDURE FOR THE CHANGE OF IP ADDRESS OF VPN CLIENT



**STEP 1.** The Present screenshots of the VPN Client. The IPs are either of **217.14.92.41**, **217.14.92.42** or **217.14.92.43**. Any of the listed IP address should be changed.

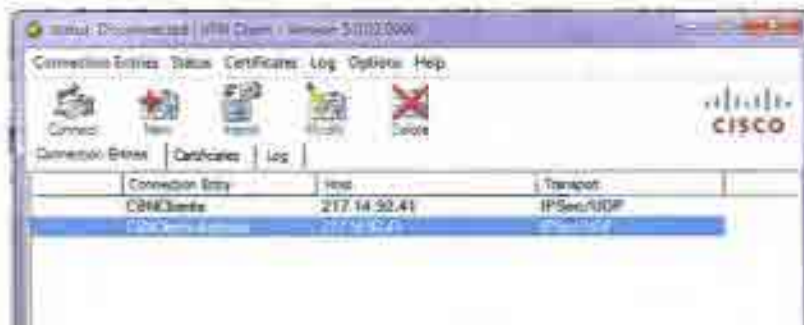


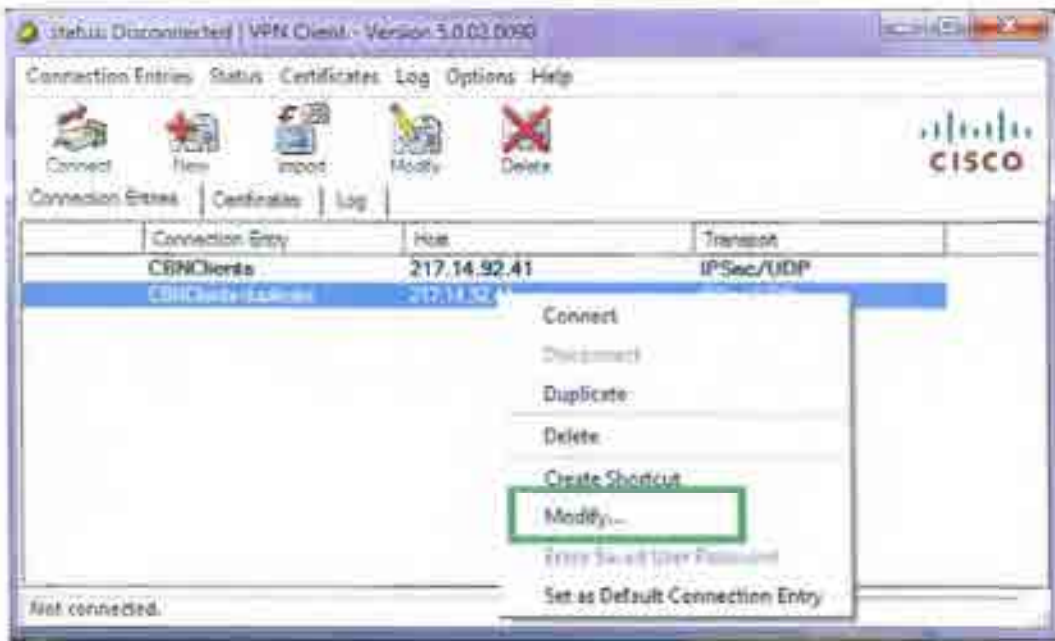


**STEP 2.** Right Click the **CBNCLients** as shown above

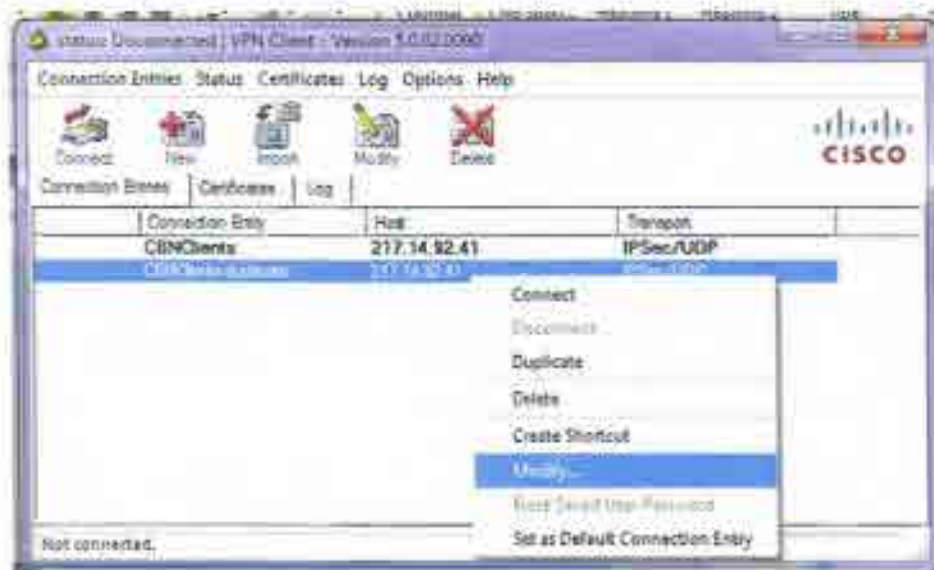


**STEP 3.** Click **Duplicate**. Another **CBNCLients-Duplicate** will be created as shown below.

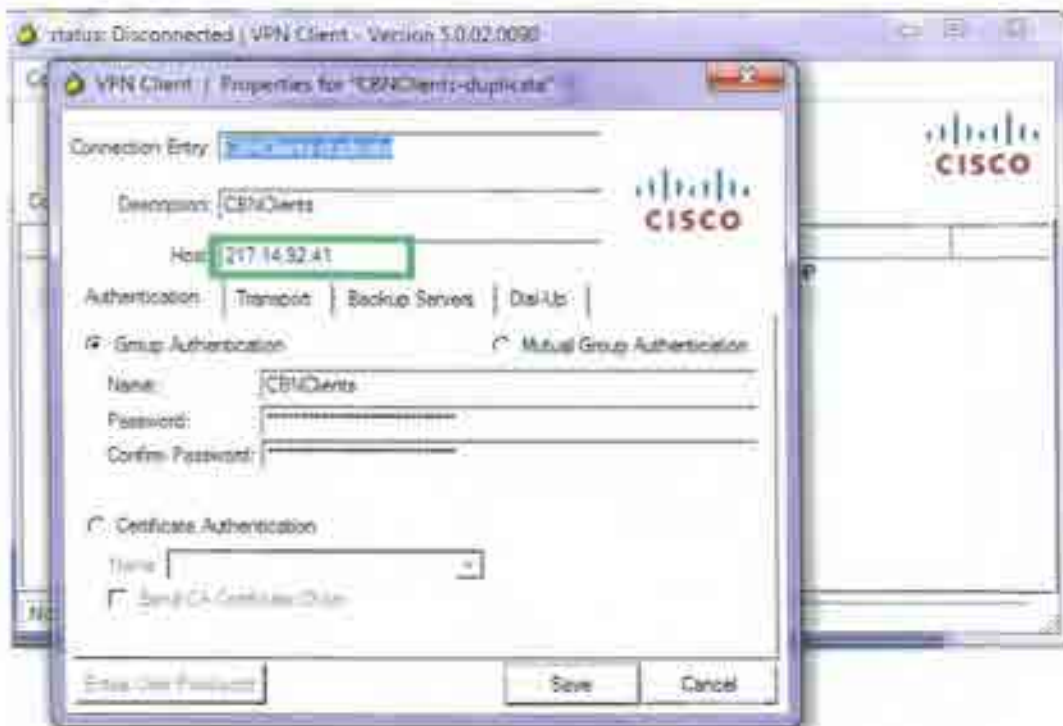




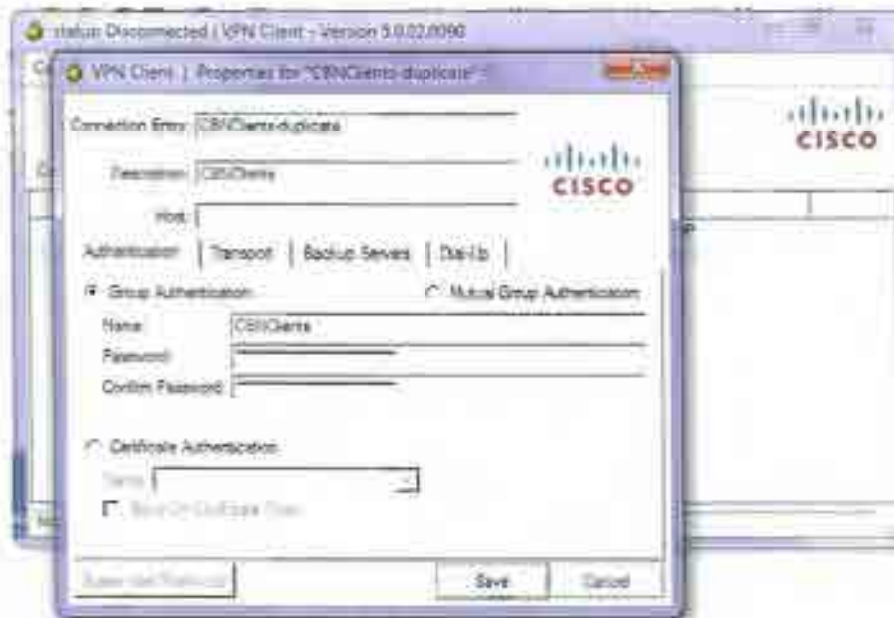
**STEP 4. Now Right Click on the CBNClints-duplicate**



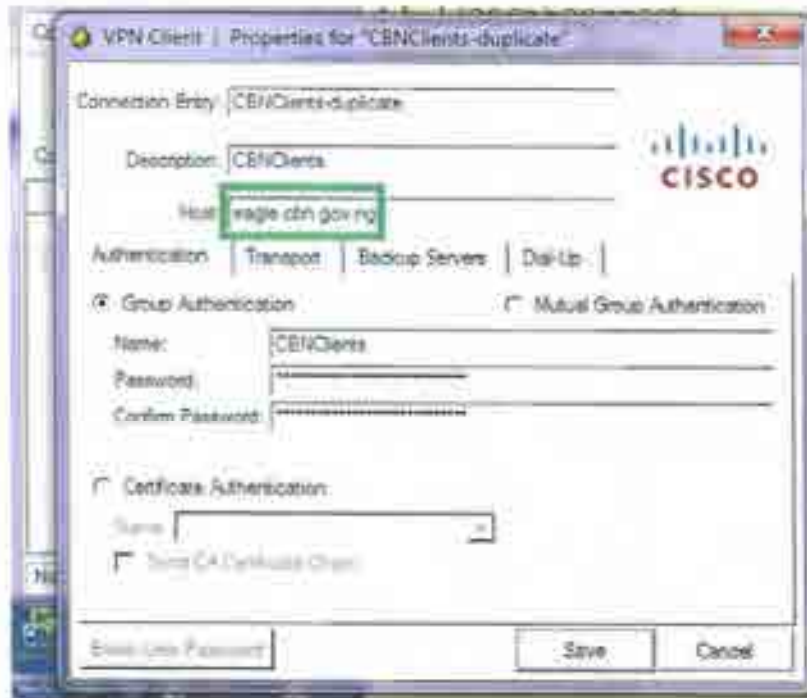
**STEP 5.** Click **Modify** as shown above. A new window will open as shown below.



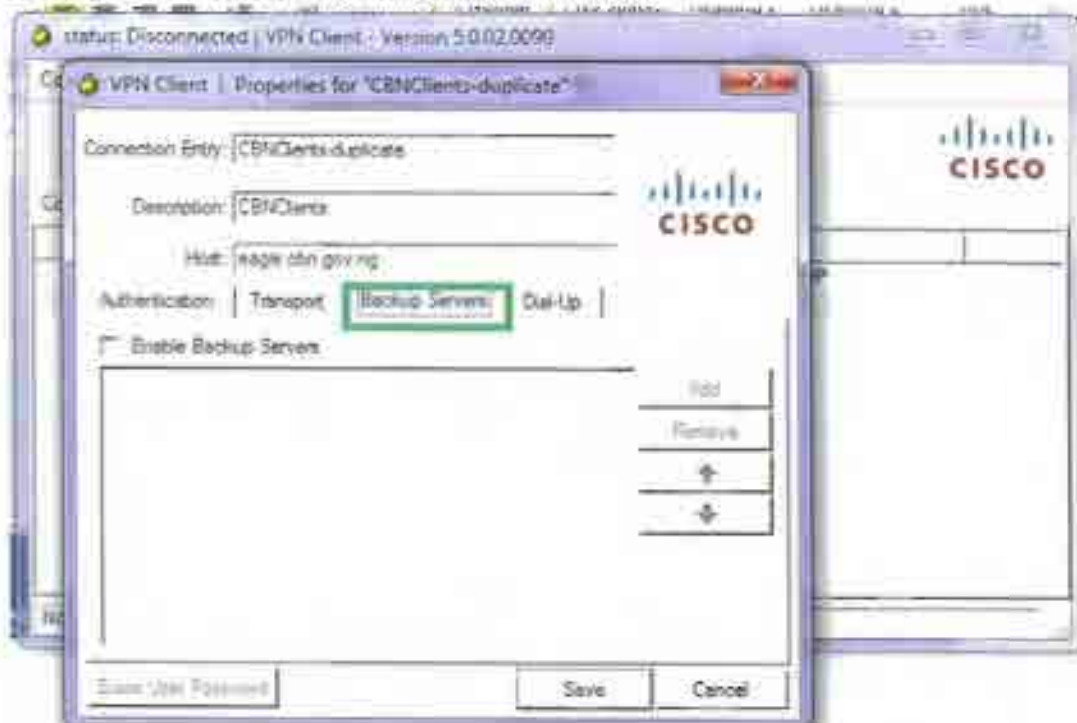
**STEP 6.** Take note of the **Host – 217.14.92.41** - That is what we are changing



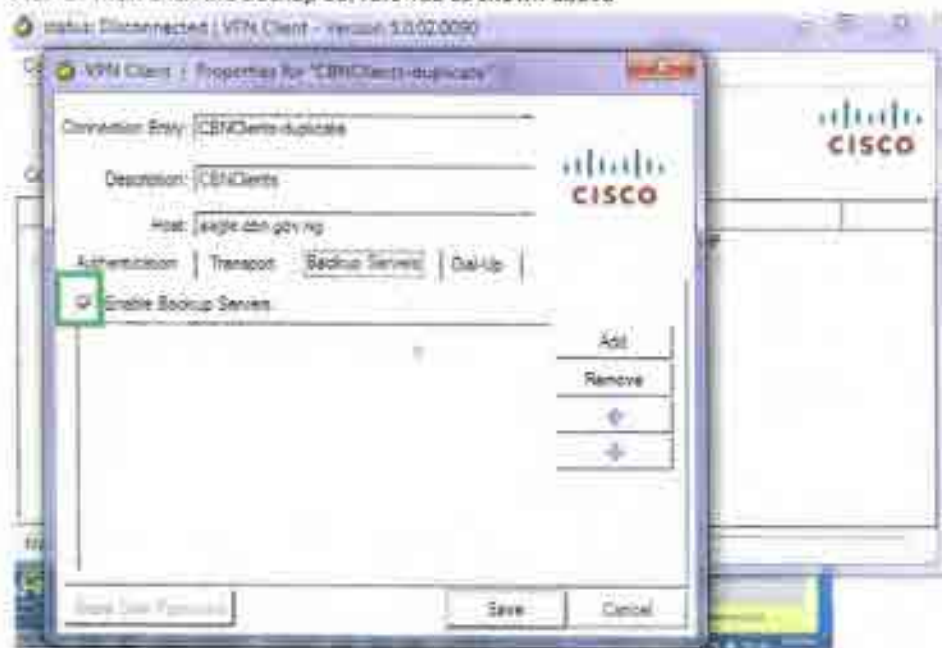
STEP 7. Delete (or backspace) the entry in the Host row as shown above



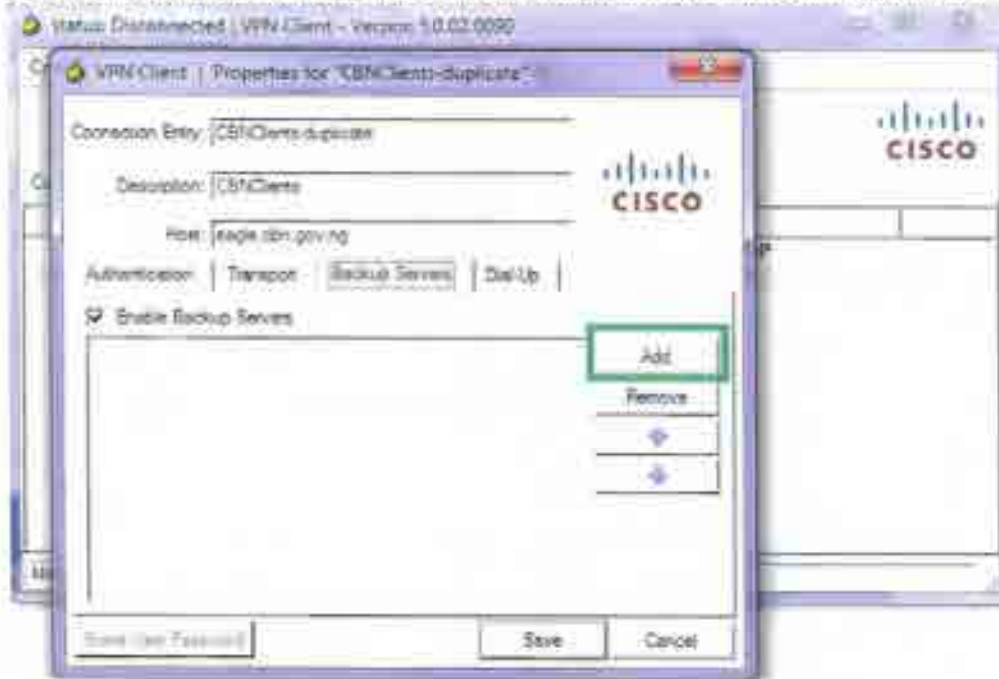
STEP 8. In the Host row, type eagle.cbn.gov.ng as shown above



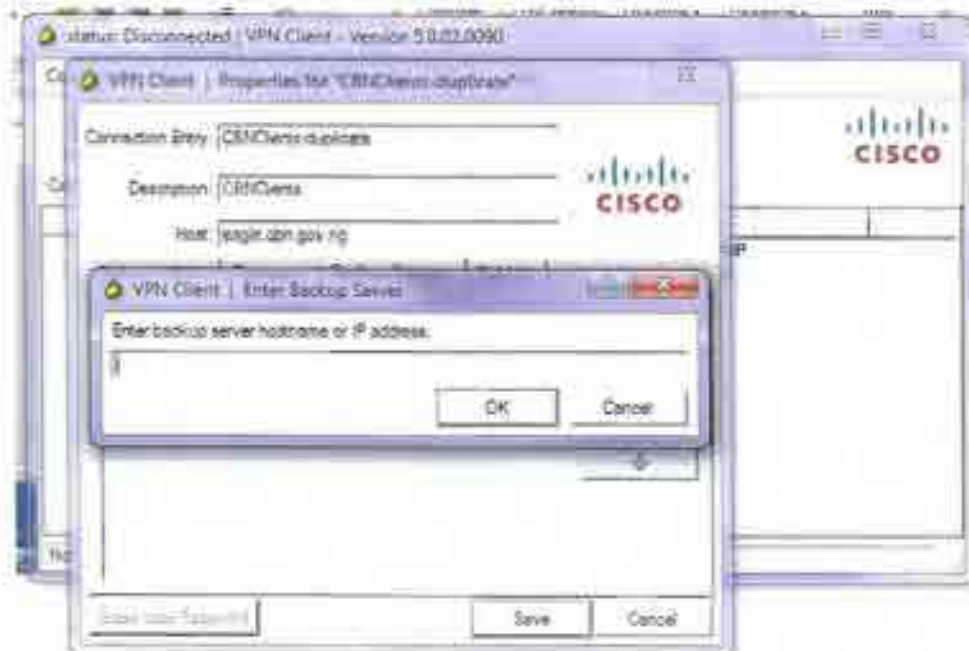
STEP 9. Then Click the Backup Servers Tab as shown above



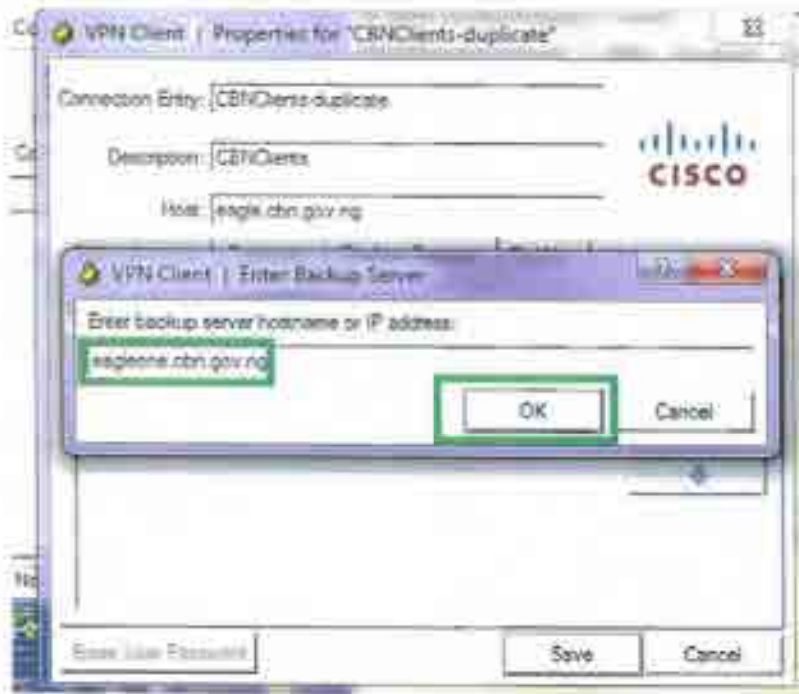
**STEP 10. Select ( ) Enable Backup Servers (Notice the Add & Remove buttons are now available)**



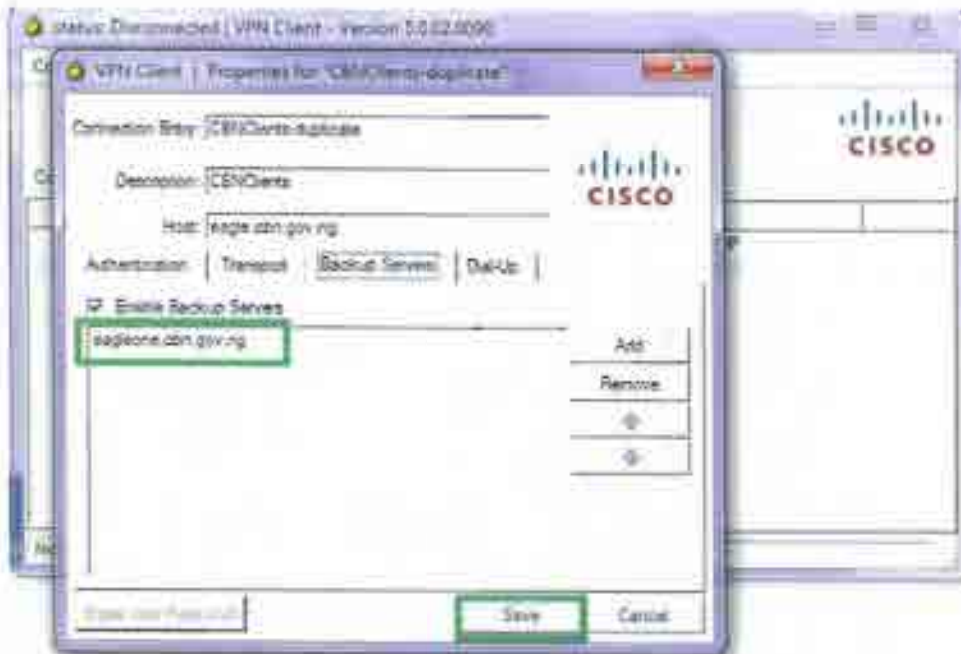
**STEP 11. Click the Add buttons as shown above.**



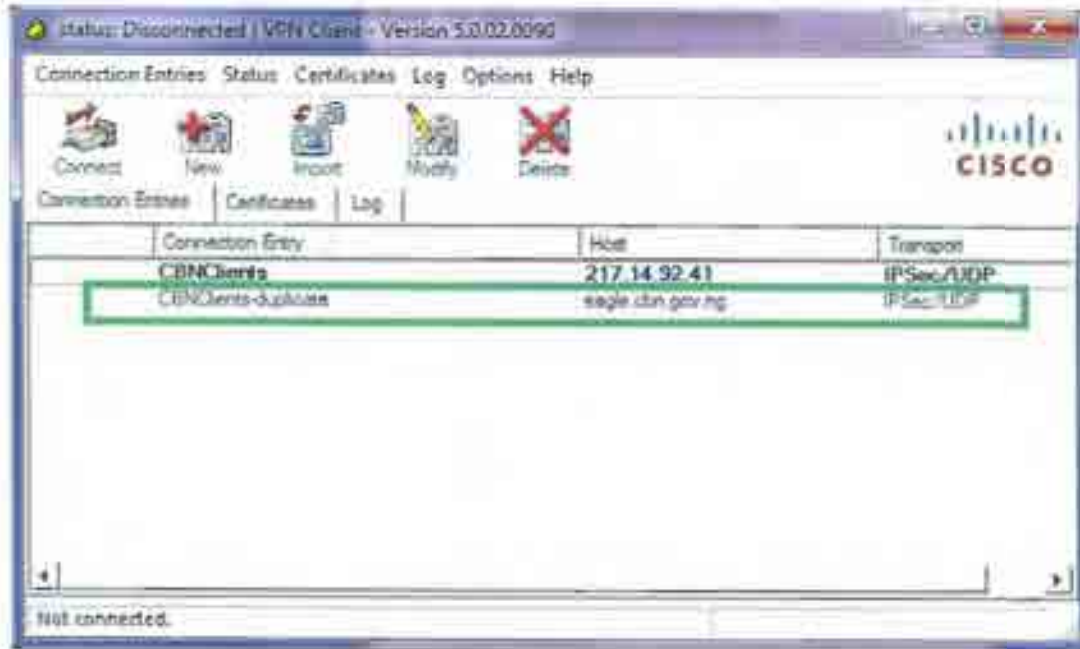
**STEP 12.** When the Add button is clicked, the Enter Backup server hostname or IP address.



**STEP 13.** Type , type eagleone.cbn.gov.ng as shown above and click OK



STEP 14. The eagleone.cbn.gov.ng will be added as the Backup Server. Then Click Save.



STEP 15. The CBNClient-duplicate with eagle.cbn.gov.ng will now be added as shown above.





CENTRAL BANK OF NIGERIA  
Corporate Head Office  
Central Business District  
P.M.B. 0187, Garki, Abuja, FCT

TRADE & EXCHANGE DEPARTMENT

Tel: **09 46237825**  
Fax: **09 46237802**

E-mail address: [ted@cenbank.org](mailto:ted@cenbank.org)  
TED/FEM/FPC/GEN/01/004

January 20, 2012

**TO: ALL AUTHORISED DEALERS**

**RE: REQUEST FOR INFORMATION ON PETROLEUM PRODUCTS IMPORTATION FOR THE PERIOD 2006 AND 2007**

Further to the circular reference No: TED/FEM/FPC/GEN/01/022 of October 17, 2011, Authorised Dealers are required to urgently submit information on Petroleum Products importation carried out during the period 2006 to 2007 and from October to December 2011.

The information should be submitted using the attached template, to reach the Director, Trade & Exchange Department, Abuja on or before close of business on Wednesday January 25, 2012.

Please ensure compliance accordingly, failing which appropriate sanction shall be imposed.

A handwritten signature in black ink, appearing to be 'Onyinye L. Ahuchogu', written over a light blue circular stamp.

**ONYINYE L. AHUCHOGU (MRS.)**  
for: **DIRECTOR**  
**TRADE & EXCHANGE DEPARTMENT**

### Schedule of Petroleum Products Importation Transaction

S/N	Item	Description
1	Form "M" No	
2	Form "M" Registration Date	
3	Transaction Ref. No.(LC No or BC No)	
4	Importer RC No	
5	Name and Address of Importer	
6	Form "M" Value (\$)	
7	BC/LC Value (\$)	
8	Total Negotiated Amount (\$)	
9	Source of Funds	
10	Details of Collection Order for Bills for Collection	
11	Product Description on Form "M"	
12	Volume Specification on Form "M"	
13	Date of DPR Permit	
14	Volume Specification on DPR Permit	
15	Expiration Date of DPR Permit	
16	Country of Supply	
17	Port of Loading	
18	Port of Discharge	
19	Bill of Lading No	
20	Bill of Lading Date	
21	Consignee Details on Bill of Lading	
22	Volume Specification on Bill of Lading	
23	Name of Vessel	
24	Ship to Ship (STS) Details	
25	SGD Date	
26	Product Specification on SGD	
27	Volume Specification on SGD	
28	Product Specification on Product Certificate	
29	Volume specification on Product Certificate	
30	Delivery Date on Product Certificate	
31	Discharge Depot	
32	Address of Discharge Depot	
33	Supporting Document Tag No(s) (e.g 1,2,3)	

*Signature*

## Note

a.	Photocopies of the supporting documents listed below should be forwarded in a ring folder
Supporting Document Tag No	Description
1	Form "M"
2	DPR Permit
3	Bill of Lading (Mother and Daughter Vesse) where applicable)
4	Single Good Declaration (SGD)
5	Product Certificate
b.	The tag number(s) of supporting document(s) forwarded should be stated in each of the rows of this schedule. (e.g. if Form "M", Bill of Lading and Product Certificate are contained in the folder for each of the importation, tag numbers 1, 3 and 5 should be recorded in the last column of the schedule)
c.	Each page in the folder containing the above listed supporting documents should be numbered
d.	Total numbers of pages should be stated in the covering letter to CBN

*AswKuraDm*