



Central Bank of Nigeria

Financial Policy & Regulation Department

Plot 33, Abubakar Tafawa Balewa Way

Central Business District

P.M.B. 0187, Garki, Abuja - Nigeria.

Email: fprd@cbn.gov.ng

Website: www.cbn.gov.ng

Phone: 09-462-37402, 09-462-37404

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CIRCULAR TO ALL STAKEHOLDERS IN THE MORTGAGE REFINANCE AND HOUSING SUB-SECTORS IN NIGERIA

REVISED REGULATORY AND SUPERVISORY GUIDELINES FOR THE OPERATIONS OF MORTGAGE REFINANCE COMPANIES IN NIGERIA - EXPOSURE DRAFT

Pursuant to the powers conferred under Section 56 of the Banks and Other Financial Institutions Act (BOFIA) 2020, the Central Bank of Nigeria (CBN) hereby issues the attached draft revised Regulatory and Supervisory Guidelines for the Operations of Mortgage Refinance Companies in Nigeria for stakeholder comments and/or inputs.

The Guidelines cover a review of the prudential requirements including the refinancing limit, qualified collateral and its assessment as well as the permissible investments of a mortgage refinance company, amongst others. The draft guidelines may be accessed at the CBN website, www.cbn.gov.ng.

Kindly forward your comments to the Director, Financial Policy and Regulation Department, Central Bank of Nigeria, Abuja with soft copies mailed to PolicyandRegulationDivision@cbn.gov.ng by March 18, 2024, please.

A handwritten signature in blue ink, appearing to read 'Haruna B. Mustafa', written over a horizontal line.

HARUNA B. MUSTAFA
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA



**REGULATORY AND SUPERVISORY
GUIDELINES
FOR THE OPERATIONS OF
MORTGAGE REFINANCE COMPANIES
IN NIGERIA**

FEBRUARY 2024

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External Exposure

1.0 INTRODUCTION

The Central Bank of Nigeria (CBN or the Bank), in August 2013, issued the Regulatory and Supervisory Framework for the Operations of a Mortgage Refinance Company (MRC) in Nigeria, with the objective of access to long term liquidity refinancing in the mortgage sub-sector. This is intended to improve availability of mortgage credit, reduce mortgage and related costs and make housing more affordable. The Framework was designed to ensure that an MRC operates in a safe and sound manner, on internationally accepted principles, standards and best practice in mortgage liquidity facilities. The Framework prescribes the basic regulatory requirements for an MRC's principal line of business of re-financing credits to mortgage borrowers on the security of residential mortgage assets and other qualified collaterals.

Further to extensive consultation with stakeholders in the mortgage sub-sector and observed gaps in the operations of the MRC which had resulted in the low impact of the mortgage sub-sector despite its immense potential, the CBN has reviewed the Framework to address these gaps and take cognizance of current developments in the mortgage sub-sector. This Guidelines enhances both the licensing and prudential requirements of an MRC.

The Guidelines is issued in exercise of the powers conferred on the CBN under the Central Bank of Nigeria Act, 2007 (CBN Act) and the Banks and Other Financial Institutions Act, 2020 (BOFIA).

The Guidelines shall be read in conjunction with the provisions of the CBN Act, the BOFIA, other subsidiary legislations made under the Acts, as well as written directives, notices, circulars, frameworks and other guidelines that the CBN may issue from time to time. It supersedes the CBN Regulatory and Supervisory Framework for the Operations of a Mortgage Refinance Company (MRC) in Nigeria issued in August 2013.

2.0 MORTGAGE REFINANCE COMPANY OPERATIONS

2.1 Definition of a Mortgage Refinance Company

A Mortgage Refinance Company (MRC) is a financial institution established to provide liquidity refinancing and guarantee to mortgage loan originators.

2.2 Objective of a Mortgage Refinance Company

The objective of an MRC is to support mortgage originators such as Primary Mortgage Banks (PMBs) and banks to increase mortgage lending by refinancing their mortgage loan portfolios. MRCs shall act as an intermediary between originators of mortgage loans and the capital market.

2.3 Permissible Activities

An MRC shall engage in the following activities:

- a. Refinancing of fully secured mortgage loans.
- b. Investment in debt obligations issued or guaranteed by the Federal Government of Nigeria or any of its agencies, which shall not be less than 50 per cent of the MRC's total investments.
- c. Repurchase agreements on securities, solely for the purpose of raising intermediate funding for refinancing operations prior to issuing bonds in the capital market.
- d. Issuing guarantee for mortgage loans as part of its off-balance sheet engagements.
- e. Issuing bonds and notes to fund the purchase of eligible mortgages.
- f. Other activities as may be prescribed by the CBN from time to time.

2.4 Non- Permissible Activities

An MRC shall NOT engage in the following activities:

- a. Granting consumer or commercial loans.
- b. Origination of primary mortgage loans.
- c. Acceptance of demand, savings and time deposits, or any type of deposits.
- d. Financing real estate construction.
- e. Undertaking of estate agency or facilities management.
- f. Provision of project management services for real estate development.
- g. Management of pension funds/schemes.
- h. All other businesses NOT expressly permitted by the CBN.

3.0 LICENSING REQUIREMENTS

The procedures and criteria to be used in granting a licence to an MRC shall be the same as specified for banks and OFIs under the Banks and Other Financial Institutions Act 2020 (BOFIA) and other regulations issued by the CBN. The application for an MRC licence shall be in two stages: Approval-in-Principle and Final Licence.

3.1 Requirements for Grant of Approval-In-Principle

3.1.1 Upon submission of a letter of intent to apply for MRC licence addressed to the Governor, CBN, the promoters and investors shall be invited to make a pre-licencing presentation to the Director, Financial Policy and Regulation Department covering the underlisted areas:

- a. The business case or model for the MRC;
- b. Profile of the promoters;
- c. The proposed shareholding structure;
- d. Profile of the proposed Directors;
- e. Sources of funds for the minimum capital;
- f. Proposed organizational structure; and
- g. AML/CFT/CPF compliance programme.

3.1.2 Where the CBN is satisfied with the presentation, a letter of No-Objection will be issued to the promoters to submit a formal application for the grant of Approval-in-Principle (AIP) addressed to the Governor of the CBN and accompanied by the list of documents in Appendix 1.

3.1.3 Without prejudice to the provision of Section 3 (2) of BOFIA, provide evidence of deposit of the minimum required regulatory capital of the MRC (as provided in Section 4 of this Guidelines) made through RTGS to a designated account in the CBN.

3.1.4 Where the Bank is satisfied with the application, which includes verifying the capital contributions of the prospective shareholders, it may issue an AIP to the promoters.

3.1.5 The proposed MRC shall not incorporate/register with the CAC until AIP is granted by the Bank in writing, a copy of which shall be presented to the CAC for registration.

3.1.6 Upon grant of AIP, there shall be no amendment to the approved ownership structure and board composition as captured in the AIP without the prior written approval of the Bank.

3.1.7 After incorporation and opening of a corporate account, the proposed MRC may apply for and be paid 20% of its capital deposit to enable it to meet its pre-operational expenses.

3.2 Requirements for Grant of Final Licence

3.2.1 Not later than six (6) months after obtaining the AIP, the promoters of a proposed MRC shall submit an application to the Governor of the CBN for the grant of final licence.

3.2.2 The application shall be accompanied by the supporting documents listed in Appendix 2 of this Guidelines.

3.2.3 Upon satisfactory review of the documents submitted, the CBN shall conduct pre-licensing inspection to assess the readiness of the MRC to commence operations. The inspection shall involve:

- a. Assessing the office building and infrastructure provided for the MRC's business;
- b. Sighting the original of the documents submitted in support of the application for final licence;
- c. Sighting the Shareholders Register;
- d. Sighting the Share Certificates issued to each investor;
- e. Assessing security, fire protection and insurance arrangements; and
- f. Meeting with representatives of the Board and Management team.

3.2.4 Where the pre-licensing inspection is satisfactory, the MRC may be granted final licence upon payment of non-refundable licensing fee of ₦5 million through RTGS to the designated CBN account.

3.3 Requirements for Commencement of Operations

The MRC shall inform the CBN of its readiness to commence operations and such information shall be accompanied with one copy of each of the following:

- (i) Minutes of pre-commencement board meeting;
- (ii) Opening statement of affairs signed by at least two directors and the external auditor(s); and
- (iii) Date of commencement of operations.

3.4 Post-Commencement Requirements

An MRC shall ensure:

- (i) Compliance with all guidelines and regulations issued by the CBN and relevant extant laws.
- (ii) Maintenance of adequate accounting system and records that capture all information which reflect the financial condition of the MRC.

3.5 Refund of Capital Deposit

The minimum capital deposited with the CBN shall be refundable:

- **Where licence is granted**

Refund of the balance of its capital deposit (where it had received a percentage of the capital deposit post AIP) or full sum shall be made to the MRC together with any investment income, which shall be treated as an income of the MRC.

- **Where licence is not granted**

Refund of the capital deposit with any accrued interest (less any administrative charge) shall be made to the applicants using the account from which the deposit originated.

CAVEAT

- a. The CBN may at any time before the grant of a final license, vary or review any condition of a licence or impose additional conditions; and
- b. Where a licence is granted subject to certain conditions, the MRC shall comply with those conditions to the satisfaction of the CBN within such period as may be deemed appropriate in the circumstances. Any MRC that fails to comply with such conditions shall be guilty of an offence under BOFIA 2020.

4.0 FINANCIAL REQUIREMENTS

The financial requirements which may be varied as the CBN considers necessary are as follows:

| | | |
|--------------------------------|---|-------------------------------|
| Minimum capital | - | ₦ 5,000,000,000.00 |
| Non-refundable application fee | - | ₦ 1,000,000.00 |
| Non-refundable licensing fee | - | ₦ 5,000,000.00 |
| Change of Name fee | - | ₦ 500,000.00 |

5.0 CORPORATE GOVERNANCE REQUIREMENTS

5.1 Board of Directors

- 5.1.1 The ultimate responsibility for the operations of an MRC shall be vested in its Board of Directors.
- 5.1.2 The number of directors on the board of an MRC shall be a minimum of seven (7) and a maximum of eleven (11). The non-executive members

shall be more than the number of the executive directors at any point in time.

5.1.3 The CBN shall approve the appointment of each director who meets the requirements as specified by the CBN from time to time.

5.1.4 Executive directors of an MRC shall hold office for a maximum period of twelve (12) years in the same MRC or within a group structure, subject to other applicable tenure limits.

5.1.5 Non-Executive Directors shall serve for a term of not more than 4 years and such term may be renewed only twice, while an Independent Non-Executive Director shall serve for a term of four years and such term may be renewed only once. For the avoidance of doubt a Non-Executive Director shall not serve for a period exceeding 12 years in total, and an Independent Non-Executive Director shall serve for a period not exceeding 8 years in total.

5.1.6 The tenure of an Executive Director (ED) who becomes the MD/CEO of the same MRC before the end of his/her maximum tenure as ED, is subject to a maximum period of twelve (12) years as MD/CEO.

5.2 **Minimum Qualification for Board Members**

The minimum qualifications and experience for persons who may occupy Board positions are as follows:

5.2.1 The positions of Managing Director/Chief Executive or executive members of the Board:

- a recognized university degree or its equivalent in any discipline. A professional qualification in banking, finance or other related fields may be an added advantage.
- at least 20 years post qualification experience in banking or related industry for the Managing Director and 15 years for the Executive Director.

5.2.2 The positions of Non-Executive members of the Board:

- a recognized university degree or its equivalent in any discipline. A professional qualification in banking, finance or other related fields may be an added advantage.
- at least 5 years post qualification experience.

5.3 **Functions of the Board of Directors**

The Board of Directors shall:

- 5.3.1 Ensure that the MRC establishes and maintains an effective internal control system in line with the provisions of the Nigerian Code of Corporate Governance (NCCG) 2018 and the CBN Code of Corporate Governance for Mortgage Refinancing Companies (MRCs) in Nigeria, 2018, that addresses at a minimum, the control environment, risk assessment, control activities, information and communication, and monitoring.
- 5.3.2 Appoint external auditors for the MRC, which shall be approved by the CBN. The auditors shall meet the qualifications and have the duties, responsibilities, and authorities as specified in the BOFIA 2020.
- 5.3.3 Establish, document, and communicate an organizational structure 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, one of which must be an audit committee. The Board of Directors shall specify the scope of the committees' powers and responsibilities, and their structures, processes and membership requirements.

5.4 **Duties of Directors**

Directors shall have the duty to:

- 5.4.1 Act in good faith, in a manner they believe to be in the best interest of the MRC, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.
- 5.4.2 Administer the MRC's affairs fairly and objectively without discrimination in favour of, or against, any shareholder or borrower.

5.4.3 Direct operations in conformity with the requirements set forth in this regulations and other such requirements and directives as the CBN may issue from time to time.

5.4.4 Review, at least every three (3) years, the following MRC's plans and policies:

- Business Plan;
- Capital Plan;
- Credit Policy;
- Asset and Liability Management Policy;
- Financial Management Policy; and
- Code of Ethics and Business Conduct.

5.4.5 Prepare and publish annual reports, including Audited Financial Statements (AFS).

5.4.6 Approve annual budgets, financial projections, and proposed pay-outs of dividends.

6.0 SOURCES OF FUNDS

The sources of funds for an MRC shall consist of the following:

- a. Paid-up share capital and reserves.
- b. Long term loans.
- c. Debentures and bonds.
- d. Loans from national and supra-national governments and other bodies.
- e. Funds from development partners.
- f. Gifts and donations.

7.0 RENDITION OF STATUTORY RETURNS

7.1 Rendition of Returns

The following returns shall be submitted to the CBN by an MRC:

- i. Monthly Returns including statements of assets and liabilities, income and capital compliance and leverage.
- ii. Anti-Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing of Weapons of Mass Destruction in Financial Institutions Returns: An AML/CFT/CPF return shall be made

to the Head, Nigeria Financial Intelligence Unit (NFIU) and CBN in line with the frequency specified in the Money Laundering (Prevention and Prohibition) Act, 2022, Terrorism (Prevention and Prohibition) Act, 2022, CBN (Anti-Money Laundering, Combatting the Financing of Terrorism and Countering Proliferation Financing of Weapons of Mass Destruction in Financial Institutions) Regulations, 2022 (AML/CFT/CPF) and all relevant AML/CFT/CPF regulations and circulars. Where there are no qualifying transactions, a NIL return must be filed.

- iii. Quarterly Returns including statements of cash flow, capital, investments, outstanding advances and commitments, outstanding liabilities, and shareholders' stock holdings.
- iv. Annual audited financial statements prepared in accordance with International Financial Reporting Standards (IFRS) including the auditors' management letter and a statement on the effectiveness of internal controls signed by the Board of Directors.

These returns shall be submitted to the Director, Other Financial Institutions Department, CBN or any other department as may be prescribed by the CBN from time to time.

7.2 Deadline for Submission of Returns

An MRC shall submit the required returns within the following specified period or any other time as may be prescribed by the CBN from time to time:

- i. Monthly Returns – not later than five (5) days after the end of each month.
- ii. Quarterly Returns- not later than five (5) days after the end of each quarter.
- iii. Annual Audited Financial Statements - not later than three (3) months after the end of a financial year.

7.3 Domestic Report & Audit Opinion on Going-Concern Status

7.3.1 In accordance with Section 28 (11) of BOFIA, the approved auditor is to forward to the CBN, two copies of the domestic report (management letter) on the MRC's activities, not later than 3 months after the end of its financial year. The domestic report should contain the MRC's management responses to issues raised by the auditor.

7.3.2 Every audited financial statement (AFS) of an MRC shall contain opinion on the ability of the institution to continue as a going concern into the foreseeable future

7.3.3 Every AFS must bear the auditors' signature, seal and certification stamp.

7.3.4 Any auditor that fails to comply with the requirements of this Section shall be penalized in line with the provisions of Section 28 (12) of BOFIA 2020.

7.4 Publication of Audited Financial Statements

In accordance with the provisions of Section 26 (1) of BOFIA 2020:

7.4.1 An MRC shall not later than three (3) months after the end of its financial year, submit its AFS and the abridged version of the accounts to the Director of Other Financial Institutions Supervision Department for approval before publication.

7.4.2 An MRC shall not later than seven (7) days after approval for publication:

- i. Publish its AFS in not less than two (2) national daily newspapers printed and circulating in Nigeria; and
- ii. Exhibit its AFS, in a conspicuous position in its Head Office, branches and website.

7.4.3 Every published AFS shall disclose in details penalties paid as a result of contravention of the provisions of BOFIA 2020, and other extant policies during the financial year and the auditors' report shall reflect such contravention(s).

7.4.4 Copies of the newspapers in which the AFS were published shall be forwarded to the CBN

7.4.5 The AFS submitted for approval must be accompanied with:

- i. The abridged version of the AFS;
- ii. Copies of all relevant certificates of deposit, placement and sums on call from the respective correspondent banks.

7.5 Report on Internal Control

7.5.1 Every MRC shall, as part of its AFS, include a statement on the effectiveness of the internal control signed off by the Board of Directors.

- 7.5.2 The internal control adopted by an MRC shall comprise the following areas of internal control: control environment, risk assessment, control activities, information and communication and monitoring.
- 7.5.3 Every MRC shall provide annually an independent assessment report on the adequacy of its risk management policy and procedures.

8.0 PRUDENTIAL REQUIREMENTS

8.1 Capital Adequacy Requirements

- 8.1.1 An MRC shall commence operations with, and maintain at all times, a minimum capital of ₦5.0 billion, or such amount as the CBN may prescribe from time to time.
- 8.1.2 Every MRC shall maintain, a minimum ratio of Tier 1 capital to total assets (leverage ratio) of not less than 5.0 per cent.
- 8.1.3 Tier 1 capital shall consist of paid-up capital and reserves plus retained earnings, statutory reserves, other reserves and published current earnings, less goodwill and other intangible assets and identified losses, or as defined by the CBN.
- 8.1.4 An MRC shall maintain a minimum ratio of qualifying capital to its risk-weighted assets of not less than 10.0 per cent.
- 8.1.5 Asset risk weights to be used for this computation shall be those prescribed by the CBN.
- 8.1.6 Capital requirements for off-balance sheet exposures shall be computed according to extant CBN regulations.

8.2 Liquidity Requirements

- 8.2.1 An MRC shall maintain sufficient liquid assets for meeting maturing obligations in amounts that comply with the minimum liquidity ratio as specified by the CBN.
- 8.2.2 An MRC shall adopt and implement sound and prudent liquidity management and funding policies that are consistent with the liquidity requirements and principles as specified in BOFIA and extant regulations.
- 8.2.3 The liquidity policies of an MRC shall be described in detail in a policy document and be overseen by a Management Committee.

8.2.4 An MRC's liquidity management should include:

- a. Techniques and procedures that effectively identify, measure, monitor and manage liquidity risk.
- b. Periodic analyses of net funding requirements under alternative scenarios
- c. Contingent liquidity planning and funding

8.3 **Mortgage Refinancing**

8.3.1 An MRC shall only refinance mortgages of borrowers in good standing. MRC shall deem a borrower **not** to be in good standing if the borrower fails to satisfy any of the following conditions:

- a. receives a qualified opinion on the borrower's most recent AFS
- b. is unprofitable for four consecutive quarters
- c. fails to meet its capital adequacy or liquidity ratio requirements as prescribed by the CBN
- d. is delinquent on its payment obligations at any time (for existing obligors)

8.3.2 An MRC's credit shall be fully secured by pledged qualified collateral at all times, with each borrower providing a specific listing of otherwise unencumbered collateral that secures each advance.

8.3.3 A credit shall be deemed fully secured when the value of the pledged qualified collateral exceeds at least 125 per cent of the refinanced amount.

8.3.4 An MRC shall not extend total outstanding credit of more than 50 per cent of its shareholders fund unimpaired by losses to a single customer, without prior approval of the CBN.

8.3.5 An MRC, in its discretion, may require delivery of a borrower's title documents to the pledged collateral to its own custodian for safekeeping.

8.3.6 An MRC's refinancing shall be made with clearly disclosed, non-preferential terms and conditions

8.4 **Qualified Collaterals**

8.4.1 Qualified collaterals shall be limited to the following assets:

- a. First lien mortgages on residential and commercial properties that:
 - i. meet the uniform underwriting standards as recognized by the Bank for all MRCs;
 - ii. are fully insured against common real property perils; and
 - iii. have not had any arrears over the past six months.
- b. Securities issued, insured or guaranteed by the Federal Republic of Nigeria or any of its agency.
- c. Bank deposits.
- d. Other assets as specified in an MRC's Credit Policy.

8.4.2 An MRC shall assess the value of the collateral that is to secure the advances before refinancing, and at least within every twenty-four months thereafter for all outstanding advances.

8.4.3 An MRC shall require borrowers to provide substitute qualified collateral if any security or residential mortgage securing an outstanding advance matures, prepays, defaults, or becomes more than 90 days delinquent.

8.5 Management of Interest Rate Risk

Every MRC shall be required to match-fund its long-term advances to borrowers with obligations of similar characteristics and duration so as to maintain minimal risk exposure.

8.6 Permissible Investments and Restrictions

8.6.1 The following assets shall be the only permissible investments for MRCs:

- a. Debt obligations issued, insured, or guaranteed by the Federal Republic of Nigeria or any of its agency.
- b. Demand deposits, term deposits, or certificates of deposit in licensed banks.
- c. Deposits and reserves held at the CBN.
- d. Other investments specifically permitted by the CBN.

8.6.2 At no time, except in the first two years of the MRCs operations, shall more than 20% of the face value of all outstanding bonds issuance be in other permissible investments

8.6.3 No MRC shall incur any foreign exchange, commodity, or equity risks, or use financial derivatives except as hedging instruments.

8.7 Maintenance of Statutory Reserves

Every MRC shall maintain a reserve fund and shall out of its net profit after taxation and before any dividend is declared, transfer to the statutory reserve as follows:

- i. Where the reserve fund is less than the paid-up share capital, a minimum of 30.0 per cent of the net profit.
- ii. Where the reserve fund is equal to or in excess of the paid-up share capital, a minimum of 15.0 per cent of the net profit.
- iii. No transfer to the reserve fund shall be made until all identifiable losses have been written off.

8.8 Uniform Underwriting Standards

An MRC shall uphold the underwriting standards for mortgages and commercial real estate financing as shall be jointly agreed with the members of Mortgage Banking Association of Nigeria (MBAN), commercial banks, other primary mortgage originators and the CBN from time to time.

9.0 OTHER REGULATORY APPROVALS

9.1 Appointment of External Auditors

9.1.1 An MRC shall appoint an Audit Firm approved by the Bank as its auditor.

9.1.2 The duties of the auditor shall include the issuance of a report to the shareholders on the financial statements of the MRC and such other information that may be prescribed from time to time by the CBN.

9.1.3 The report of the auditor shall be read together with the report of the directors at the annual general meeting of the shareholders of the MRC.

9.1.4 Auditor of an MRC shall be subject to tenure rules and limits as stipulated by the CBN.

9.1.5 The approved auditor shall satisfy the following requirements:

- i. Membership of a recognized professional accountancy body in Nigeria;
- ii. Approved by the CBN;
- iii. Resident in Nigeria;

- iv. Carrying on a professional practice in Nigeria as an accountant and/or auditor.

9.1.6 No person shall be appointed as the auditor of an MRC if:

- i. He has any interest whatsoever, in the MRC
- ii. He is a director, officer or agent of the MRC
- iii. His firm is one in which a director of that MRC has any interest as partner or director

9.1.7 Any auditor who, after appointment, is subsequently affected by Section 9.1.6 (i- iii) shall immediately cease to continue as an auditor of the MRC.

9.1.8 The approved auditor in the course of his duties as an auditor of an MRC shall be required to report immediately any matter to the Central Bank of Nigeria where he 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 MRC or any of its officers; or
- ii. Losses have been incurred by the MRC which substantially reduce its capital funds; or
- iii. Any irregularity which jeopardizes the interest of creditors of the MRC or any other irregularity has occurred; or
- iv. He is unable to confirm that the claims of creditors are covered by the assets of the MRC.

9.1.9 The auditor shall also forward to the CBN, a copy of the domestic report on the activities of the MRC not later than three [3] months after the end of its financial year.

9.1.10 The auditor shall have the right of access at all reasonable times to all books, accounts and vouchers of the MRC and shall be entitled to require from the directors, managers and officers, all information and explanations that is considered necessary for the performance of the audit.

9.1.11 Where an MRC fails to appoint or fill a vacancy for an approved auditor within 90 days of the exit of the former auditor, the Bank shall appoint a suitable person for that purpose and fix the remuneration to be paid by the MRC to such auditor.

9.1.12 The appointment of an auditor shall not be determined without a prior written approval of the CBN.

9.1.13 Any 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 not less than ₦2,000,000 and a determination of his status as an approved auditor to all financial institutions under the supervisory purview of the CBN.

9.1.14 An auditor shall hold office for a continuous period not exceeding 10 years

9.2 **Branch Expansion, Relocation and Closure**

9.2.1 No MRC shall open, relocate or close a branch without the prior approval of the Bank.

9.2.2 Every application for the opening of a new branch shall be accompanied with the following documents:

- i. A copy of Board resolution approving the proposed branch
- ii. A detailed feasibility report on the branch showing:
 - Rationale for the branch.
 - Initial capital outlay for the branch.
 - Projected income and expenditures for a 3-year period.
 - Proposed organisational structure of the branch.
 - Staffing requirements.
 - Assumption for the financial projection in the Report.

9.2.3 Every MRC seeking approval for the opening of a new branch must have record of good financial performance, regularity in the rendition of all returns and compliance with laws and extant regulations.

9.2.4 An application for the closure of a branch shall be accompanied with:

- i. A copy of the Board Resolution authorising the closure.
- ii. Reasons for the closure with relevant evidence.

9.3 **Changes in Ownership Structure**

Except with the prior written consent of the Bank, no MRC shall enter into an agreement or arrangement:

- a. which results in a change in the control or ownership of the MRC. Shareholders shall not sell or transfer their shares without the prior written consent of the Bank;
- b. for sale, disposal or transfer of the whole or any part of the business of the MRC;

- c. for the amalgamation or merger of the MRC with any other company;
- d. for the reconstruction of the MRC; and
- e. to employ a management agent or to transfer its business to any such agent.

10.0 EXAMINATION, REPORTING AND OFF-SITE SUPERVISION

10.1 Examination

10.1.1 An MRC shall be subject to examinations, following the same procedures and protocols applicable to banks and other financial institutions.

10.1.2 An MRC shall make its books and records available for inspection and other supervisory purposes within a reasonable period of time upon request by the Bank.

10.2 Reporting and Off-site Supervision

An MRC shall be subject to the Bank's off-site monitoring and shall make periodic reports in accordance with Section 7 of this Guidelines.

11.0 SANCTIONS

Without prejudice to the penalties and actions prescribed by the BOFIA, the CBN may impose one or more of the following sanctions where any of the provisions of this Guidelines are contravened:

- i. Monetary penalties on an MRC, its directors, officers or employees responsible for non-compliance in such amounts as may be determined by the Bank.
- ii. Prohibition from declaring or paying dividends.
- iii. Suspension of access to the credit facilities of the Bank.
- iv. Suspension of lending and investment operations, capital expenditure, and/or debt issuance.
- v. Suspension or removal from office of the offending director, officer or employee.
- vi. Disqualification from holding any position or office in any licensed bank, MRC or other financial institution in Nigeria.
- vii. Revocation of licence.

The Bank may also issue cease and desist orders on an MRC, or on any director or employee, that is engaging in, has engaged in, or the Bank has probable cause to believe is about to engage in, an unsafe and unsound practice in conducting the MRC business, or in any conduct that violates any provision of this Guidelines or any other applicable laws and directives.

12.0 LIST OF ABBREVIATIONS

| ACRONYM | MEANING |
|--------------------|---|
| AIP | Approval-in-Principle |
| AML/CFT/CPF | Anti-Money Laundering/Combating the Financing of Terrorism/ Combating Proliferation Financing |
| BOFIA | Banks and Other Financial Institutions Act 2020 |
| CAC | Corporate Affairs Commission |
| CBN | Central Bank of Nigeria |
| CTC | Certified True Copy |
| CV | Curriculum Vitae |
| IFRS | International Financial Reporting Standards |
| MBAN | Mortgage Banking Association of Nigeria |
| MEMART | Memorandum and Articles of Association |
| MRC | Mortgage Refinancing Company |
| SWOT | Strength, Weakness, Opportunities & Threats |

**FINANCIAL POLICY AND REGULATION DEPARTMENT
FEBRUARY 2024**

ANNEXURE I: Risk Weights for Assets

To compute its risk-based capital requirements, MRC'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 MRC's total risk-weighted assets shall be the summation of the products from multiplying the value of each asset, or group of assets, multiplied by its corresponding risk-weighting factor.

1. Cash and demand deposits, including:

- Vault cash and balances at the CBN.
- Marketable obligations of the Federal Government of Nigeria or any of its agency

Risk weighting for these assets shall be 0 per cent.

2. Other liquid assets and investments, including:

- Demand deposits in Nigerian banks
- Term deposits or certificates of deposit maturing in less than 12 months in Nigerian banks.
- Any other investments qualifying as liquid assets under BOFIA or as may be defined by CBN from time to time.

Risk weighting for these assets shall be 20 per cent.

3. Advances, mortgage assets and other defined investments:

- Advances.
- Mortgage assets.
- All other bank deposits maturing in five years or less.
- All other deposits or investments that qualify as liquid assets under BOFIA or as may be defined by the CBN from time to time.

Risk weighting for these assets shall be 50 per cent.

4. The risk weighting for all other assets and items shall be 100 per cent.

ANNEXURE 1

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 major shareholder or member of the board/top 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

1) Name of Institution

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2) Name of the appointee/major shareholder

.....

3) Please specify your relationship with the institution

.....

4) Current employment

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5) Occupation

.....

6) Date of birth

.....

7) Place of birth

.....

8) Nationality

.....

9) Entry/resident permit (foreigners)

.....

10) Parental history

.....

B. COMPETENCE AND CAPABILITY

1) Give details of educational institutions attended, academic and professional qualifications obtained with dates, in the format below: (Please attach evidence)

| S/N | Educational Institution/Professional Body | Academic/ Professional Qualification(S) | Dates | |
|-----|---|---|-------|----|
| | | | From | To |
| | | | | |

2) Give your Employment history in the format below:

| S/N | Name(s) and address(es) of Employer(s) | Dates | | Position(s) Held | Duties | Reason(s) for leaving | Two (2) Referees from your former employer(s) |
|-----|--|-------|----|------------------|--------|-----------------------|---|
| | | From | To | | | | |
| | | | | | | | |

If not in employment, please give your business history in the format below:

| S/N | Name(s) and address(es) of Company (ies) | Type(s) of business (es) | Dates | | Position(s) Held | Two (2) Referees |
|-----|--|--------------------------|-------|----|------------------|------------------|
| | | | From | To | | |
| | | | | | | |

C. HONESTY, INTEGRITY, AND REPUTATION

1) 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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- 2) 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.

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.....

- 3) 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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- 4) 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:

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5) 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:

.....

6) Has there been any civil action in court or petition by anybody against you to any regulator in pursuance of personal debts or other obligations whether in Nigeria or elsewhere? If yes, please give details:

.....

7) Give the details of all your local and foreign bankers, including the names and numbers of personal and business accounts maintained over the past six years in the format below:

Local

| S/N | Bank | Address | Acct. Name | Acct. No. | Bank No. | Ver. | Date Opened |
|-----|------|---------|------------|-----------|----------|------|-------------|
| | | | | | | | |
| | | | | | | | |

Foreign

| S/N | Bank | Address | Acct. Name | Acct. No. | Bank No. | Ver. | Date Opened |
|-----|------|---------|------------|-----------|----------|------|-------------|
| | | | | | | | |

8) Have you any immediate relative (spouse, children, siblings, in-laws etc.) who holds a top management position (AGM and above) or significant shares (5% and above) in the institution to which this questionnaire relates or in any entity affiliated to it? If so, please state the nature of the relationship and other details:

.....
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.....
.....

9) 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:

.....
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.....
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.....

10) Please list below and give details of all the societies, clubs, associations and groups (organized and unorganized) either in school or thereafter, which you are or have been a member:

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.....
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.....

11) 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:

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12) Provide any other information (if any), that would be of relevance to the CBN in determining your suitability or otherwise, for the appointment/position:

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D. FINANCIAL SOUNDNESS AND /OR SOLVENCY

You are please required to attach the following to this questionnaire:

1) A statement of your net worth comprising assets (in Nigeria and abroad) at current values and total liabilities as at the date of appointment, which must be accompanied by a sworn affidavit. The statement would be presented in the format below:

| S/N | DESCRIPTION | CURRENT VALUE (₦) | DATE |
|-------|---|-------------------|------|
| i. | Cash | | |
| ii. | Land and Buildings | | |
| iii. | Factory and other Enterprises | | |
| iv. | Vehicles, Boats and other means of Transport | | |
| v. | Household Furniture | | |
| vi. | Government Securities | | |
| vii. | Investments (shares, debentures and other securities) | | |
| viii. | Any other assets (Please specify) | | |
| ix. | Total Assets (i-viii) | | |

| | | | |
|----|---|--|--|
| x. | Total Liabilities (as at date of appointment) | | |
|----|---|--|--|

- 2) Your bankers' declaration that you are not in any way indebted to them. If you are, the outstanding amount of the debt(s) should be stated clearly indicating its (their) performance status (whether performing or nonperforming) and whether it (they) is (are) adequately secured or not as well as the nature and type of security (ies) offered.
- 3) A copy of your tax clearance certificate for the last three years.
- 4) Any other information that could assist the CBN in determining your financial stability.

E. MISCELLANEOUS

1. Is any of the under-listed member (s) of your family, connected persons and/or company (ies) in any relationship with the institution to which this questionnaire relates? If yes, please state the nature of relationship and other details?

- Spouse
- Children
- Siblings
- In-laws
- Key Employees
- Related Companies
- Others (please specify);...

2. Are you a serving Director or top management staff? If yes, please state your first appointment date and your last interview and/or recertification date.

.....

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.....

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3. Please state the number of board meetings you have attended since your appointment in the following format:

| Year | Number of meetings attended |
|-------|-----------------------------|
| | |

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.....
.....
4. What percentage of the financial institution's shares do you directly and/or indirectly own?

.....
.....
.....

5. 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 yes, 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 49 of BOFIA, 2020, 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 should be disqualified from the appointment being sought and subsequent appointments by any financial institution under the purview of the CBN. In addition, I should be prosecuted for false declaration in line with the laws of the Federal Republic of Nigeria.

Signature of Appointee/Major Shareholder:

.....

Date.....

In the presence of (Managing Director of requesting institution):

.....

Date

APPENDIX 1

LIST OF SUPPORTING DOCUMENTS - APPLICATION FOR GRANT OF APPROVAL-IN-PRINCIPLE

1. Evidence of reservation of the proposed name of the MRC with the Corporate Affairs Commission (CAC). The words, MRC, must be included as part of the reserved name;
2. List of proposed shareholders in tabular form, showing their email, business and residential addresses; names and addresses of their bankers, their bank verification numbers (BVNs) for individuals or tax identification numbers (TINs) for corporates, and percentage shareholding.
3. Verifiable evidence of capital contributed by each of the prospective shareholders of the proposed MRC.
4. Evidence of payment of non-refundable application fee of ₦1,000,000.00 [One Million Naira only] made through Real Time Gross Settlement System (RTGS), to a designated account in the CBN (details of the account will be included in the No-Objection letter);
5. List of proposed directors in tabular form, showing their email, business and residential addresses, names and addresses of their bankers, and their BVNs.
6. List of companies/businesses related to the proposed shareholders and directors, if any, indicating the nature of the relationship and size of shareholding, where applicable.
7. Draft copy of the proposed Memorandum and Articles of Association (MEMART) of the MRC.
 - a. At the minimum, the draft MEMART of the MRC shall contain the following information:
 - (i) Proposed name of the institution;
 - (ii) Object clauses;
 - (iii) The minimum issued share capital;
 - (iv) Subscribers;
 - (v) Procedure for amendment;
 - (vi) Procedure for share transfer or disposal; and
 - (vii) Appointment of directors
 - b. The MEMART shall clearly state that:
 - (i) No change, alteration, variation or amendment shall be made to the MEMART without the prior written approval of the Bank;

- (ii) Any change in the membership of the board or top management (Assistant General Manager and above) of the MRC shall require the prior written approval of the Bank;
- (iii) Where a corporate entity that is a significant shareholder in the MRC amends its shareholding structure for any reason, such significant shareholder shall notify the MRC immediately; and the MRC shall inform the Bank in writing within 30 days of such a change along with details of the new shareholding structure;
- (iv) Any change in shareholding that will result in change of control or that will result in a shareholder becoming a significant shareholder (having up to 5% of the equity of the MRC) shall require the prior written approval of the Bank; and
- (v) The MRC shall not carry out any activity classified as non-permissible by the Bank from time to time.

8. Detailed business plan or feasibility study, including:

- a. The objectives and aims of the proposed MRC;
- b. The need for the services of the MRC;
- c. The product(s) or services the MRC will offer to its intended customers;
- d. Ownership structure in tabular form showing name of proposed investor(s), their occupations, and percentage shareholding;
- e. Explanation of the proposed sources of equity contribution from each investor;
- f. A five-year financial projection for the operation of the MRC, indicating its expected growth and profitability and details of the assumptions upon which the financial projection has been made;
- g. The branch expansion programme (if any) within the first five (5) years;
- h. The proposed training programme for staff and management succession;
- i. The proposed ICT requirements and applications to be deployed;
- j. A management succession plan;
- k. SWOT Analysis of the proposed MRC; and
- l. The organizational structure of the MRC, setting out in detail, the functions and responsibilities of the top management team.

9. For each proposed director of the MRC:

- a. Copy of letter of offer of appointment;

- b. Personally signed letter of consent to serve as director of the proposed MRC, addressed to the Director, Financial Policy and Regulation Department;
- c. Personally signed and dated curriculum vitae (CV);
- d. Personally completed, signed and dated Fitness and Propriety Questionnaire;
- e. Copy of valid means of identification;
- f. Bank verification number;
- g. Notarised statement of net worth;
- h. Tax clearance certificate for the immediate past (3) years;
- i. Letter(s) from the proposed director's bankers, indicating the status of any facility extended to such director;
- j. Reports from at least two (2) private credit bureaux on the director;
- k. Three (3) letters of reference from persons of reputable standing in Nigeria;
- l. For a proposed director that is resident in Nigeria, a police clearance certificate/statement from the Nigerian Police Force;
- m. For a non-resident proposed director, a certificate/statement of good conduct from the police service (or other appropriate authority) in the country of residence;
- n. A statement clarifying other directorships held by the proposed director;
- o. Confirmation of his/her direct and indirect shareholding interest in other CBN-regulated financial institutions; and
- p. A statement clarifying the interest the proposed director will represent on the board.

10. Draft Shareholders' Agreement providing for disposal or transfer of shares as well as authorisation, amendments, waivers, and reimbursement of expenses, among others;

11. Draft manuals and policies, including:

- a. Manual of operations
- b. Anti-Money Laundering, Combating Financing of Terrorism and Countering Proliferation Financing of Weapons of Mass Destruction in Financial Institutions Policy;
- c. Enterprise-wide Risk Management Framework;
- d. Whistle Blowing Policy;
- e. Code of Ethics and Business Conduct;
- f. Draft Board and Board Committee Charters
- g. Business Continuity Plan; and
- h. Internal Control Policy
- i. HR Policy

12. Any other documents/information that the Bank may require from time to time.

Additional Requirements

1. For each significant shareholder (holders of 5% equity and above in the MRC) that is a natural person, the following shall be submitted:
 - a) Personally signed letter of intent to invest, addressed to the Director, Financial Policy and Regulation Department, CBN;
 - b) Personally signed and dated curriculum vitae (CV);
 - c) Personally completed, signed and dated Fitness and Propriety Test Questionnaire;
 - d) Copy of valid means of identification;
 - e) Bank verification number;
 - f) Notarised statement of net worth;
 - g) Tax clearance certificate of the immediate past three (3) years;
 - h) Letter(s) from the shareholder's bankers, indicating the status of any facility extended to the shareholder;
 - i) Reports from at least two (2) private credit bureaux on the shareholder;
 - j) For a shareholder resident in Nigeria, a police clearance certificate/statement from the Nigerian Police Force;
 - k) For a non-resident shareholder, a certificate/statement of good conduct from the police service (or other appropriate authority) in the country of residence;
 - l) Evidence of share capital contribution;
 - m) Explanation of the source(s) of funds used for share capital contribution;
 - n) Confirmation of the shareholder's direct and indirect shareholding interest in other CBN-regulated financial institutions; and
 - o) A statement clarifying the interest represented by the shareholder.
2. For institutional investors, promoters shall forward the following additional documents:
 - a) Profile of the investor(s);
 - b) Certificate of Incorporation, Status Report, MEMART, and CTC of other relevant incorporation documents issued by the CAC;
 - c) Resolution of shareholders approving the decision to invest in the equity shares of the proposed MRC;
 - d) Names and addresses (business and residential) of owners, directors and their related companies, if any;
 - e) Audited financial statements for the immediate past three (3) years;
 - f) Tax Clearance Certificate for the immediate past three (3) years;
 - g) Names and details of the beneficial owners of the company;
 - h) Completed and personally signed Beneficial Owners Declaration Form;

- i) Names, addresses, profiles, and bank details including BVN/TIN of the beneficial owners of the company;
 - j) For corporate shareholders that are regulated entities, an approval or a 'No-Objection' letter from the appropriate regulatory agency;
 - k) A statement confirming its direct and indirect shareholding interest in other CBN-regulated financial institutions, if any; and
 - l) All of the above (a – k) for any corporate shareholder of the investor company.
3. For regulated foreign institutional investors, promoters shall forward the following documents in addition to those required in paragraph 2 above:
- a) An approval or a 'No-Objection' letter from the appropriate regulatory authority in the home country;
 - b) Certificate of Capital Importation (CCI) on the imported capital; and
 - c) Evidence that its home regulator has an MoU with the Bank.

APPENDIX 2

LIST OF SUPPORTING DOCUMENTS FOR APPLICATION OF GRANT OF FINAL LICENCE FOR AN MRC

1. A Certified True Copy (CTC) of the Certificate of Incorporation of the MRC.
2. CTC of MEMART of the MRC.
3. A copy of CAC Status Report of the MRC.
4. Evidence of payment of stamp duty on the share capital.
5. A copy of the Shareholders' Register in which the equity interest of each shareholder is properly reflected.
6. Evidence of ownership of shares:
 - a. For private limited liability companies - copy of the share certificate issued to each shareholder; and
 - b. For public limited liability companies – a confirmation letter from the Registrar of the Plc for equity shareholding of five per cent (5%) and above).
7. Evidence of location of Head Office (rented or owned) for the commencement of business.
8. Evidence of CBN's approval of changes in the Board and Shareholding after the grant of AIP, if any.
9. Duly executed Shareholders' Agreement.
10. List of senior management staff (Assistant General Manager [AGM] and above); their personally signed, detailed, and updated curriculum vitae stating their qualifications, experience, accomplishments; letters of offer and acceptance of employment; means of identification; tax clearance certificate; and BVNs.
11. A written and duly executed undertaking by the shareholders that the proposed MRC and its subsidiaries will always be adequately capitalized for the nature and volume of their businesses.
12. Evidence of provision of office and ICT equipment.
13. Service level agreement (SLA) with relevant vendor(s).
14. Demonstration of capacity to connect with, and render returns to, the CBN's returns rendition system.
15. Commencement Plan, including the timelines for key activities.
16. A copy of the proposed logo/brand identity for the MRC and its subsidiaries.
17. Submission of letter of undertaking issued by the board that the MRC shall comply with all CBN regulations and guidelines relating to MRCs.