

CENTRAL BANK OF NIGERIA



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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:

a) *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:

- i) 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.
- ii) 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.
- iii) 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.

b) *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)
- iii) Effectiveness of Credit Policies and Procedures.
- iv) Governance issues – effectiveness of the board and board committees, as well as management and staff.
- v) Fraud and forgeries and attempted fraud.
- vi) Internal controls in place
- vii) 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.

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