# MONETARY, CREDIT, FOREIGN TRADE AND EXCHANGE POLICY GUIDELINES FOR 2002/03

## 1.0 INTRODUCTION

The Central Bank of Nigeria (CBN) will, with effect from 2002 fiscal year, adopt a medium-term perspective monetary policy framework. Unlike earlier programmes, which were designed for one year, the new programme is for a two-year period, beginning January 2002 to December 2003. The shift is in recognition of the fact that monetary policy actions affect the ultimate objectives of policy with a substantial lag. Thus, the current shift will free monetary policy implementation from the problem of time inconsistency and minimise over-reaction due to temporary shocks.

This circular outlines the Monetary, Credit, Foreign Trade and Exchange Policy Guidelines applicable to banks and other financial institutions in Nigeria in 2002/2003. In particular, monetary and credit policy will be implemented within the framework of the medium-term programme. The guidelines will be subject to fine-tuning in the light of developments in monetary and financial market conditions, as well as the performance of the economy, which would be conveyed to the relevant institutions in supplementary circulars as necessary. The circular contains four major sections and four appendices. Following the introduction, which is section 1, section 2 reviews the developments in the economy and policy environment in 2001 and thus provides the background to the policy measures for 2002/2003. Section 3 outlines the monetary and credit policy measures and guidelines for implementation by banks and other financial institutions in fiscal 2002, while the foreign trade and exchange policy measures are highlighted in Section 4. The appendices contain prudential guidelines for licensed banks and reporting formats.

## *SECTION TWO*

## 2.0 REVIEW OF MACROECONOMIC AND POLICY ENVIRONMENT IN 2001

### 2.1 Macroeconomic Developments

Major economic indices indicated mixed macroeconomic performance in 2001. The environment for the conduct of monetary policy was largely unconducive, following the continued expansionary fiscal operations of the three tiers of government, as a result of the monetisation of the excess crude oil receipts and the proceeds from the GSM licence later in the year, as well as the monetary financing of fiscal deficits. This resulted in large injections of liquidity into the economy, which induced rapid monetary growth and intensified inflationary pressures. Interest rates were influenced by the state of bank liquidity as well as policy actions aimed at addressing the problem of liquidity overhang. The average naira exchange rate at the official market, however, remained relatively stable for most of the period, while relative improvement was observed in agricultural and industrial production. The outcome of external sector developments remained favourable up to the third quarter of the year. The fourth quarter, however, witnessed a slide in the export price of crude petroleum, with negative implications for export earnings and government revenue.

Growth in real Gross Domestic Product (GDP) was estimated at 3.8 per cent during the first half of 2001, compared with the 5.0 per cent targeted in 2001. The growth in output reflected the increase in both agricultural and industrial production. Aggregate manufacturing capacity utilization rose marginally by 0.3 percentage point over its level in the first half of 2000 to 35.5 per cent, but was 0.2 percentage point lower than the level in the preceding half year. The upward pressure in inflationary trend, observed since July 2000 continued in the fourth quarter of 2001, with the inflation rate at 18.9 per cent in November compared with 5.8 per cent in the corresponding period of 2000.

The provisional balance of payments for the first half of 2001 indicated an overall surplus of ₦51.1 billion (US$458.9 million) compared with ₦78.3 billion (US$782.4 million) in the corresponding period of 2000. This development reflected the surplus in the current account, which more than offset the deficit in the capital and financial account. The current account position was buoyed mainly by enhanced earnings from crude oil exports, occasioned by high prices of crude oil in the international petroleum market. The value of non-oil exports, however, fell sharply from ₦14.8 billion in 2000 to ₦9.3 billion in June, 2001. Gross external reserves increased from US$9.9 billion (₦1,032.5 billion) at end-December 2000 to US$10.6 billion (₦1,167.8 billion) in June 2001, and declined marginally to US$10.4 billion (₦1,152.2 billion) by November.

The naira exchange rate vis-à-vis the U.S. dollar was relatively stable in the IFEM for most of the year. After the depreciation in the first four months, from ₦110.05 to ₦113.59 = US$1.00, the average

IFEM rate appreciated steadily from ₦113.07 = US$1.00 in May to ₦111.60 = US$1.00 in September and remained at that level in October, 2001. The rate, however, depreciated marginally to ₦111.99 = US$1.00 in November. Similarly, the average parallel market and bureaux de change rates depreciated from ₦123.38 and ₦122.34 = US$1.00 in January to ₦137.26 and ₦137.48 = US$1.00 respectively, in May before appreciating consistently to ₦133.70 and ₦134.05 = US$1.00 in November, respectively. The relative stability achieved was attributable largely to tight monetary policy, reinforced by the 100 per cent destination import inspection at the ports.

The growth in monetary aggregates accelerated rapidly in the first eleven months of 2001, exceeding the prescribed targets for the year by wide margins. Provisional data indicated that broad money ($M_2$) rose by 26.8 per cent, as against the programmed target of 12.2 per cent for the year. The expansion in $M_2$ reflected growths in both the narrow money ($M_1$) and quasi-money components. $M_1$ expanded by 19.9 per cent compared with the 4.3 per cent growth stipulated for the whole year. Monetary growth during the period was driven by the increases in bank credit to the domestic economy and foreign assets (net) of the banking system, following the continued monetization of excess crude oil export proceeds.

Aggregate bank credit to the domestic economy rose significantly by 77.8 per cent, as against the 15.8 per cent growth target for fiscal 2001. The rise reflected the growth in credit to both the government and the private sector. Net claims on Government rose by 132.8 per cent as against the target expansion rate of 2.6 per cent for the entire year. Similarly, credit to the private sector rose by

37.3 per cent, compared with the target of 22.8 per cent for the whole year. The growth in credit to the private sector was, as in the previous year, largely driven by developments in the foreign exchange market.

Reported bank lending rates were generally high during the year, while the deposit rates remained low. By November 2001, the weighted average deposit[1] and maximum lending rates was 11.6 percentage points while that between the average savings deposit and maximum lending rates was 26.1 points. Most deposit rates remained negative in real terms as inflation rate accelerated. During the year, the CBN tightened its monetary policy to stem the liquidity surge, arising from the expansionary fiscal operations of governments. The Bank progressively raised its minimum rediscount rate (MRR) by 650 basis points, from 14.0 per cent in January to 20.5 per cent in September. Similarly, both the cash reserve requirement (CRR) and statutory minimum liquidity ratio (LR) were revised upward from 10.0 and 35.0 per cent to 12.5 and 40.0 per cent, respectively, during the same period. The CBN also introduced its own intervention instrument, CBN Certificate, in February 2001, to complement the traditional treasury bills in addressing the problem of liquidity overhang in the banking system.

[1] The weighted average deposit rate includes the cost of mobilizing: savings, fixed, time, call and demand deposits of various amounts by deposit money banks during the period.

## 2.2 Outstanding Macroeconomic Problems and Policy Challenges for Fiscal 2002/2003

The effect of fiscal federalism exacerbated the problem of excess liquidity with adverse implications for domestic price, exchange and interest rates. The persistence of structural bottlenecks in the economy also continued to constrain economic recovery in 2001. While some macroeconomic indicators showed marginal improvements in 2001 relative to 2000, the overall performance of the economy remained below its potential.

Poverty level remained high as the government's poverty intervention programmes were yet to be fully implemented during the period. Although satisfactory progress had been made in the restoration of normal fuel supply, the full rehabilitation of power plants and other infrastructural facilities were still on-going, while public utilities remained deficient, constraining performance in the productive sectors of the economy. The international crude oil market witnessed a lull during the fourth quarter, as a result of the slow-down in economic activities in the industrialised countries and terrorist attack on the USA – the world leading economy. This and the poor performance of the non-oil sector had implications for the overall performance of the domestic economy.

Against this background, monetary, financial and external sector policies, as well as other economic policy measures have been formulated to ensure price stability and reverse the upward trend in inflation rate, to a desirable single digit recognising that price stability is critical for a sustained long-term economic growth and poverty eradication. In fiscal 2002/2003, the CBN will endeavour to keep the growth in monetary aggregates within targets and sustain the relative stability of the exchange rate. The Bank will also continue to support the Federal Government's poverty reduction initiatives through ensuring enhanced credit to the productive sectors, encouraging financial savings and private sector investment growth and improving financial sector environment.

## SECTION THREE

## 3.0 MONETARY AND CREDIT POLICY MEASURES IN 2002/2003

### 3.1 Objectives and Strategy of Policy

The primary objective of monetary policy in 2002/2003 is the achievement of price and exchange rate stability. Specifically, monetary policy shall seek to subdue inflation to a single digit over the two-year period. Consequently, the central focus will include effective control of anticipated injections that may arise from excessive government spending during the pre-election years of 2002-2003 in order to minimize their negative effects on domestic price and exchange rate. The stance of monetary policy will be non-accommodating, while a more competitive financial environment will be fostered to enhance greater access to credit for the real sector. Furthermore, continued effort will be made in improving the payments system in order to further strengthen the effectiveness of monetary policy. The broad measure of money supply ($M_2$) shall continue to be the intermediate target of monetary policy. An average growth in $M_2$

of about 15.2 per cent during the two-year period, which translates to 15.3 per cent in 2002 and 15.0 per cent in 2003, shall be maintained.

### 3.2 Policy Measures

The conduct of monetary policy will continue to rely on market-based technique in the management of CBN's balance sheet. The primary instrument of policy will continue to be Open Market Operations (OMO), supported by reserve requirements and discount window operations for enhanced effectiveness. The conduct of OMO will be proactive and will require the co-operation of the Federal Ministry of Finance to ensure consistency between monetary and fiscal policies as well as the stability of the financial markets.

#### 3.2.1 Open Market Operations

Open Market Operations (OMO) will be conducted weekly in the secondary market, mainly in short-term government securities of varying maturities, in order to meet the various preferences of participants in the market. OMO will be complemented by reserve requirements and discount window operations, including Repurchase Agreements (REPOs) while discount houses will continue to play the role of principal dealers in the market.

#### 3.2.2 Reserve Requirements

Reserve requirements shall continue to serve prudential and liquidity management policy objectives.

##### 3.2.2.1 Cash Reserve Requirement (CRR)

As in the preceding years, the cash reserve requirement will be used to complement OMO in achieving monetary policy objectives. In this regard, the authorities recognize the need to reduce the current high CRR in order to reduce bank's cost of funds and thus bring down the lending rate. However, this can be achieved only in the medium to long-term when the monetary conditions would have improved. Meanwhile, the existing ratio of 12.5 per cent will remain in force in 2002. As in 2001, the calculation of the CRR will be based on deposit money banks' total deposit liabilities (i.e. demand, savings and time deposits), certificates of deposits, promissory notes held by the non-bank public, and other deposit items.[2] The CBN will continue to ensure efficient administration of the CRR. In this regard, the lag for debiting banks' accounts to meet the specified CRR will not exceed two weeks. For this purpose, the mid-month returns by banks will complement the monthly returns. As amended in 2001, all deposit money banks will be subjected to CRR in 2002. The CBN will continue to impose strict sanctions for non-compliance. However, in order to moderate the adverse effects of CRR on cost of funds of banks, the current policy of paying interest on deposits above the 8.0 per cent rate shall be retained.

#### 3.2.2.2 Liquidity Ratio (LR)

The existing minimum liquidity ratio of 40.0 per cent for all deposit money banks is retained, but would be reviewed in line with developments in monetary conditions during the programme period. The base for calculating the LR requirement will, as in the previous years, comprise all deposit liabilities (demand, savings and time) as well as certificates of deposit (CDs), promissory notes held by the non-bank public and other deposit items. Placements with and takings from Discount Houses shall be offset against each other and any surplus of assets or liabilities shall be applied as the case may be

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[2] Other deposit items will include revenue collections not remitted to CBN within the stipulated period.

in computing the LR requirement. Only inter-bank placements, which are fully collateralized by eligible instruments and readily rediscountable at the CBN, shall qualify as eligible liquid assets. Uncollateralised placements as well as money-at-call shall not constitute part of liquid assets, but shall continue to be treated as loans and advances. The mandatory deposits with the CBN to meet the CRR shall not qualify for inclusion in computing the LR. The requirement that discount houses should invest at least 60.0 per cent of their total deposit liabilities in treasury bills will continue in 2002.

**3.2.3 Discount Window Operations**

In line with the objective of maintaining monetary stability and promoting the development of the money market, the CBN shall, in 2002 and 2003, continue the use of discount window operations as a policy instrument to signal the desired direction of interest rates and in accordance with its role as lender-of-last-resort. Transactions will be conducted in the form of short-term overnight loans, collateralized by the borrowing institutions' holdings of government debt instruments and other eligible instrument as stipulated by the CBN. Changes in the rediscount rate will continue to be made in a dynamic manner to complement other policy initiatives and to reflect developments in the money market.

**3.2.4 CBN Certificate**

CBN certificates were issued for the first time in 2001 to mop up the excess liquidity which was generated by the rapid monetisation of the windfall gains from crude oil receipts. In 2002, CBN certificates will be issued as the need arises, to complement traditional monetary policy tools to contain growth in liquidity to the desired level.

### 3.2.5 Interest Rate Policy

In 2002, interest rates will continue to be market-driven. In this regard, the CBN will influence the level and direction of interest rate movements through changes in the Minimum Rediscount Rate (MRR) to reflect the prevailing market condition. The current spread between the deposit and lending rates of banks is unacceptably wide and has serious implications for savings and investment growth. To address this problem, a more competitive financial environment will be engendered, through improved enlightenment of the investing public on alternative investment opportunities in the financial market. Furthermore, the CBN shall vigorously pursue initiatives to strengthen community banks, finance houses and development finance institutions (DFIs) with a view to enhancing their efficiency and public confidence in those institutions for the promotion of financial savings.

Specific procedures on interest rate procedures to be observed by banks in 2002 are as follows:

(a) Banks shall continue to pay interest on current account deposits at rates of interest negotiated between them and their customers. Where deposits for special purposes are held for more than seven days, banks shall pay interest on such deposits and the rate of interest shall also be subject to negotiation between them and their customers.

(b) The reducing balance method shall continue to be used for calculating interest charges on loans repayable instalmentally. The use of any other method, whatsoever, for loans payable in agreed installments such as the discount method or the simple interest straight line method that would result in a higher effective rates than the contracted rate, is disallowed.

(c) Statements of account to each current account holder shall be rendered promptly on monthly basis and shall include the following:

(i) Commission on turnover (COT); and

(ii) Rate of interest on over-drawn accounts, the amount and the period.

(d) Interest on savings accounts shall continue to be calculated on the customer's account as at the end of each quarter and accrued interest paid shall be reflected at the time of calculation.

(e) The amount of deposits in a personal savings account on which the interest is payable shall not be subject to any ceiling.

(f) Banks shall continue to design their pass books in such a way that the following information will be clearly shown when calculating the interest earned on savings deposits: interest rate applied, the amount of savings on which the calculation is based and the period for which interest is calculated.

(g) The Inspectorate Department of each bank shall continue to have the responsibility for cross-checking bank charges and interest rates payable on deposit accounts. Where the Inspectorate Department of a bank discovers non-payment or under-payment of interest on deposits or other entitlement or excessive interest and bank charges, a return thereon shall be made to the Central Bank. Under-payment and/or excessive interest and other charges shall be refunded with interest at the prevailing CBN minimum rediscount rate, along with a letter of apology to the customer within two weeks. Any bank which fails to refund excess charges or under-payment of interest on deposits within two weeks of the discovery of such error shall, in addition to the refund to the customer, be liable to a penalty amounting to 100 per cent of the amount involved.

(h) Banks shall, in accordance with the provisions of BOFI Act No. 25 of 1991, as amended, and amendments to Monetary Policy Circular No. 30 of 1996, continue to display at their offices their current lending and deposit rates, as well as publish such rates in the national newspapers.

**3.2.6 Remittance of VAT and Duty Collections**

It has been observed that some banks do not comply with the requirement that they should remit VAT and custom duties collected on behalf of the federal government to the CBN within the stipulated seven days. These sources of cheap funds have influenced banks to discourage small savers by insisting on unrealistic minimum deposit base while constituting a leakage in the monetary transmission process. With effect from 2002, banks which keep these deposits for more than the stipulated seven days shall pay interest on such deposits as directed by the CBN. In addition, such deposits which are not remitted within the stipulated period shall form part of banks' base for the purpose of computing their cash reserve requirement (CRR).

### 3.2.7 **Framework for determining Banks' Cost of Funds**

In accordance with best international banking practice, banks are required to adopt the weighted average cost of funds computation framework from 2002 fiscal year. Thus, the existing simple average method of computing cost of funds is hereby discontinued. The cost items in the new framework will include banks' interest cost for the different types of deposit liabilities, borrowings from the inter-bank funds market, payment in respect of deposit insurance premium and cost due to cash reserve requirement. For the avoidance of doubt, the new framework excludes banks' overheads. The guideline for the computation of weighted cost of funds framework will be issued in due course.

### 3.2.8 National Savings Certificate

The introduction of the National Savings Certificate (NSC), a medium to long-term security, will be vigorously pursued in 2002. The NSC, whose yield will be market-determined, is intended to broaden and offer alternative investment options to the investing public, including banks and the non-bank public, thereby supplementing current efforts at managing, on a more sustainable basis, the persistent excess liquidity in the economy, while facilitating savings and investment growth.

### 3.2.9 Federal Government Development Stocks

Initiatives to resume the floatation of Federal Government Development Loan Stocks, suspended since the 1980s, shall continue to be explored. Besides, the reintroduction of this instrument would encourage government to source its long-term financing need from the capital market.

### 3.2.10 Minimum Balances on Personal Savings and Current Accounts

The amount required for savings account by most banks has remained unduly high and out of tune with present personal income realities in Nigeria. The observed trend has the potential to discourage savings and the banking habit, and is inconsistent with the desired macroeconomic objective of promoting savings and investment growth. Although the CBN has since discontinued with the policy of stipulating a mandatory minimum amount for opening a savings deposit account in line with the prevailing deregulated financial environment, there is an urgent need to prevent a reversal of the progress made over the years to promote savings and enhance the savings culture. Banks are, therefore, enjoined to reduce their minimum savings deposit requirement to ₦5,000 from 2002 fiscal year.

### 3.2.11 Other Policy Measures

#### (a) Financing the development of SMEs

The role of Small and Medium-scale Enterprises (SMEs) in employment generation, skill acquisition, output growth, enhancement of local technology and the mitigation of rural-urban drift cannot be over-emphasised. In this regard, the Federal Government initiated and actualised some policy measures for the attainment of these goals. These included the establishment of sector-specific development finance institutions (DFIs). During year 2001, the Federal Government approved the merger of the Family Economic Advancement Programme, People's Bank of Nigeria and the Nigerian Agricultural and Co-operative Bank (NBCI) into a single bank – Nigerian Agricultural, Co-operative and Rural Development Bank (NACRDB) and Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI) and National Economic Reconstruction Fund (NERFUND) into a new Bank for Industry.

In addition, the Bankers' Committee decided that 10 per cent of profit before tax of every bank would be set aside and channelled to equity investment in small and medium-scale industries. To ensure the effectiveness of the programme, banks are expected to identify, guide and nurture enterprises to be financed under the scheme. The Small and Medium Industries Equity Investments Scheme (SMIEIS) was launched in August 2001. The activities targeted under the scheme include agro-allied, information technology, telecommunications, manufacturing, educational establishments, services, tourism and leisure, solid minerals and construction. With the introduction of the scheme, it is expected that improved funding will facilitate the achievement of higher economic growth. Banks are required to render to the CBN, on quarterly basis, their investment report under the scheme.

**(b) CBN Rediscounting and Refinancing Facility (RRF) for medium to long-term credit**

Available statistics on the maturity structure of deposit money bank's credit to the domestic economy revealed that the bulk of aggregate credit was of short-term, and such loans were channelled mainly to general commerce and trade. The need to encourage medium to long-term lending to the productive sectors of the economy has, therefore, become very compelling, if the production base of the Nigerian economy is to be expanded and diversified.

In this regard, and consistent with the provision of Section 27 (1) (c & d) of the CBN Act, 1991 as amended, the CBN will, with effect from January 2002, adopt a refinancing facility at concessionary interest rate to support medium to long-term bank lending to the productive sectors of the economy.

Under the facility, deposit money banks can issue Promissory Notes, based on their loans and advances with maturities of not less than 5 years, for agricultural production, semi-manufacturing and manufacturing, solid minerals and information technology. The characteristics of the RRF are as follows:

(i) The Promissory Notes shall be issued by banks that have complied fully with prudential requirements.

(ii) The Notes shall have a maximum maturity of 90 days, exclusive of days of grace from the date of acquisition.

(iii) The Notes shall be rediscountable at the CBN at a rate which is two percentage points below the minimum rediscount rate (MRR).

(iv) The Notes shall bear two valid and authorised signatures acceptable to the CBN.

(v) The banks shall access up to 60.0 per cent of qualifying loans.

(vi) The RRF will apply to loan portfolio that must have been held for not less than one year.

(vii) Access to the facility shall be limited to once in 12 calendar months.

The RRF is designed to provide temporary relief to banks which face liquidity problems as a result of having committed their resources to long-term financing of the specified productive sectors.

**(c) <u>Revitalising the Community Banks</u>**

The community banking initiative is part of the intervention action aimed at redressing the lack of adequate and efficient facilities for savings for productive activities among the less privileged members of the society. However, the operations of the banks have been undermined by both endogenous and exogenous factors. In order to address these problems through proper institutional and regulatory framework, the CBN took some measures which included the creation of the Other Financial Institutions Department (OFID). Furthermore, the CBN will continue to support capacity-building in Community Banks by providing free training for their personnel from 2002.

**(d) <u>Orderly Development of the Banking System</u>**

The CBN will sustain efforts at facilitating the orderly development of the financial sector, and will continue to involve the operators in the conduct of monetary policy, in support of policy objectives. To this end, the following measures shall apply in 2002 fiscal year:

**(i) Increase in Minimum Paid-up Capital Requirement**

The minimum paid-up capital requirement for new banks was raised from ₦1.0 billion to ₦2.0 billion in 2001 fiscal year. Accordingly, existing banks are required to raise their capital base to ₦1.0 billion by end-2002 in order to strengthen their operations.

**(ii) Transparency in Banking Operations**

In order to promote transparency in the banking sector, the CBN shall in 2002 intensify the process of regular monitoring of the operations of the banks to ensure compliance with regulations. The CBN will continue to encourage self-regulation in the banking industry in order to enhance ethical standards and transparency in banking operations. It is hoped that the recently-published code on banking ethics will facilitate the sanitisation of the system. Appropriate sanctions will be imposed on erring banks and other financial institutions in line with the provisions of BOFI Act and other relevant legislations.

**(iii) Moral Suasion**

The CBN will continue to engage in moral suasion through regular dialogue with banks and other financial institutions, under the aegis of the Bankers' Committee and other communication channels, in order to encourage enhanced efficiency in the financial sector, especially with respect to interest and exchange rate management.

**(e) Improving the Payments System**

**(i) Introduction of higher denomination**

In order to ease the problem of cash transactions in the economy, the CBN in 1999 identified the need for adequate supply of fifty naira (₦50) currency notes, as well as the introduction of higher denominations. Consequently, a one hundred naira note (₦100) was introduced into the system in the third quarter of 1999, while a two hundred note (₦200) was launched in November 2000 and five hundred naira note (₦500) introduced in the first half of 2001. The monetary authorities will continue to ensure that the security and quality of the notes are of high standards.

(ii) **Improving the use of Cheques**

As in year 2001, CBN will continue to promote the use of cheques towards the improvement of the payments system and enhancement of business transactions. Government will be encouraged to lead in popularising the use of this instrument, by accepting cheques for debt settlements in all government ministries and parastatals. In this regard, the CBN will, in consultation with the Accountant-General of the Federation (AGF), encourage government agencies to accept cheques for services rendered as practiced all over the world.

### 3.2.12 Bank Credit Expansion

Only banks, which meet the following criteria, shall be permitted to grant new credit facilities in 2002/2003.

(a) specified cash reserve requirement;

(b) specified liquidity ratio;

(c) prudential guidelines;

(d) statutory minimum paid-up capital requirement;

(e) prescribed capital adequacy ratio; and

(f) sound management policy.

The position of each bank shall continue to be examined on a monthly basis with respect to the above criteria, and banks which fail to meet the requirements will not be allowed to grant further credit until compliance is achieved.

### 3.2.13 Grace Periods on Loans to Agriculture

Without prejudice to the on-going liberalization in the financial sector, there is need for financial institutions to continue to observe appropriate grace periods on agricultural loans in recognition of the differences in gestation periods of various agricultural products. In this regard, banks are enjoined to always allow borrowers adequate grace periods for repayment on agricultural loans.

### 3.2.14 Prudential Guidelines for Licensed Banks

All the existing prudential guidelines on early recognition of losses and adequate provisioning for bad and doubtful debts shall remain in force in 2002 and 2003. Accordingly, banks are enjoined to continue to strictly observe the prudential guidelines outlined in CBN Circulars No.BSD/DO/23/VOL.1/11 of 7th November, 1990 and No BSD/CS/23/Vol.1/8 of 15th May 1991 (Appendix 1). Also, the provisioning requirement on credit accommodation to all tiers of government (by which banks are required to make a 50 per cent provision on performing credits and 100 per cent for classified credits) as contained in CBN Circular No. BSD/DO/CIR/Vol.1/2001/13 of 10th July, 2001, shall remain in force in 2002 fiscal year.

### 3.2.15 Capital Funds Adequacy

In keeping with international standards, the minimum ratio of capital to total risk-weighted assets shall remain at 8.0 per cent in 2002 and 2003. Furthermore, at least 50.0 per cent of the components of a bank's capital shall comprise paid-up capital and reserves, while every bank shall maintain a ratio of not less than one to ten (1:10) between its adjusted capital funds and its total credit net of provisions.

### 3.2.16 Abolition of Foreign Guarantees/Currency Deposits as Collateral for Naira Loans

The abolition of foreign guarantees for naira-denominated loans as contained in the Monetary Policy Circular No.23, Amendment No.3 of April 1989 is lifted in fiscal 2002 and 2003. However, any request for such guarantees will be subject to prior approval by the CBN.

### 3.2.17 Rules for Currency Transactions

Pursuant to the provisions of Section 21 of Foreign Exchange (Monitoring and Miscellaneous Provisions) Act No.17 of 1995, persons who import currency up to US$10,000.0 and above by cash and lodge such money in a domiciliary account with an authorized dealer, can only make cash withdrawals from the account. Also, by virtue of the provision of Section 22 of the same legislation, no person in Nigeria shall make or accept cash payment, whether denominated in foreign currency or not, for the purchase and acquisition of landed properties, stocks, shares, debentures, all forms of negotiable instruments and motor vehicles. Payments for those items shall be made by means of bank transfers or cheques drawn on banks in Nigeria. In order to ensure full compliance with the law, all banks are required, as in the previous year, to appoint Compliance Officers whose duty shall be to ensure that the provisions of the law are complied with. The Compliance Officers shall report all breaches of the law to the CBN, through the Chief Executive Officer of each bank, in such a manner as the CBN may prescribe.

### 3.2.18 Responsibilities of Banks' External Auditors to the Supervisory Authorities

Existing Central Bank directives to all banks to instruct their auditors to forward two copies of their domestic reports to the CBN not later than three months after the end of the bank's financial year shall remain in force in 2002/2003. In addition, reports on frauds and forgeries committed during the accounting year shall accompany the audited reports. Furthermore, each bank shall continue to communicate to the CBN, the appointment, re-appointment, termination and resignation of the bank's external auditors, stating the reason for such action. Where a bank fails to comply with this requirement, the CBN reserves the right to withhold the approval of such requests, thereby attracting the stipulated penalty for non-compliance. In recognition of the complementary role of external auditors, banks are required to ensure that their external auditors are in attendance at the presentation of Bank Examination Reports to their Board of Directors by the Supervisory Authorities.

### 3.2.19 Banks Operating Subsidiary Companies Offering Financial Services

Banks with subsidiary companies offering financial and related services shall continue, as in the previous years, to report on the operations of such companies along with their Monthly Returns to the Central Bank of Nigeria.

### 3.2.20 Public Complaints Desk at the Central Bank of Nigeria

The Central Bank shall continue to maintain a Public Complaints Desk at its Head Office and each of its branches to enable the public to lodge any complaints they may have against their banks. Where the case against any bank is proved, the banks shall be required to make necessary amends and pay appropriate penalties. This measure is aimed at encouraging banking habit, promotion of efficiency in the delivery of financial services and, thereby, boost public confidence in the system.

3.2.21 **Agricultural Credit Guarantee Scheme (ACGS)**

In pursuit of its development function and increased effort to ensure the sustainance of the Agricultural Credit Guarantee Scheme Fund and the flow of credit to the agricultural sector, the authorized share capital of the Scheme was reviewed upward from ₦100 million to ₦3.0 billion in 1999. Following the increase, the loan limits under the Scheme were raised from ₦5,000.0 to ₦20,000.0 for unsecured loans, and ₦100,000.0 to ₦500,000.0 for secured loans to individuals, as well as from ₦1.0 million to ₦5.0 million for corporate borrowers. The refinancing scheme adopted by the CBN to cater for the medium and large credit segments shall continue to be pursued in 2002/2003.

**3.2.22 Returns from Banks**

All banks in the country are required to report accurately, faithfully and promptly on their activities in the prescribed formats for the mid-month, monthly, quarterly and semi-annual returns. Such designated returns (in diskette and hard copy) shall be forwarded to the Banking Supervision, Bank Examination, Trade & Exchange and Research Departments of the CBN as well as the Nigeria Deposit Insurance Corporation (NDIC), not later than 5 days after the 15$^{th}$ day of each month for mid-month returns, 10 days after the end of each reporting month in the case of monthly returns, and 14 days after the end of each quarter in the case of quarterly returns (see Appendices II, III & IV). Copies of the returns, duly signed, as applicable to the relevant departments, shall be submitted to Directors of Banking Supervision, Research, Bank Examination Departments of the CBN and the Director, Off-Site Supervision Department of the NDIC.

Banks are also enjoined to send monthly and mid-month returns on public sector account balances with them to the CBN Director of Banking Operations.

3.2.23 **Penalties for Default**

As in the previous years, the CBN shall, in 2002/2003, continue to enforce all the stipulated penalties for non-compliance with the Bank's guidelines and provisions of the CBN Act 1991 and Banks and Other Financial Institutions Act 1991, as amended. In serious cases of default, the CBN may suspend or revoke any licences issued to the defaulting bank. The Bank shall sustain its surveillance activities during the two year period and invoke the relevant provisions of the existing laws, as deemed appropriate, in order to enhance the safety, soundness and efficiency of the banking system. For the avoidance of doubt, sanctions shall be applied as follows:

(i) Banks that do not meet the criteria for the expansion of credit (vide item 3.2.12 of these guidelines), but expand their credit beyond the specified level as at 31st December, 2001, or beyond the current level in the case of erstwhile healthy banks, shall in each case deposit an amount equivalent to the excess with the CBN. Such deposits shall earn no interest and shall not be eligible for inclusion in the defaulting banks' liquid assets holdings for the purpose of meeting the statutory cash and liquidity ratios. Such funds shall be lodged on quarterly basis and held with the CBN for a minimum period of three months, and shall thereafter remain with the Bank for as long as the default lasts.

(ii) A bank whose cash reserve ratio falls below the stipulated minimum and any bank whose liquidity ratio falls short of the prescribed minimum, shall be liable to appropriate sanctions under the CBN Act 1991, and the Banks and Other Financial Institutions Act 1991, as amended. Where a bank increases its loans and advances or credit facilities without the approval of the Central Bank during the period of deficiency in the respective reserve ratios, such a bank shall pay a fine as may be determined by the CBN within the provisions of the relevant Acts, as amended. In addition, the CBN shall withdraw all privileges or facilities that are normally accorded to the bank.

(iii) A bank shall be liable to appropriate fine, as determined by the CBN or such other penalties as provided under the CBN Act 1991 and the Banks and Other Financial Institutions Act 1991, as amended for:

(a) failure to display at its banking hall and publish in the national newspapers its current lending and deposit rates or render information on such rates as specified from time to time by the CBN;

(b) failure to send its returns to the CBN 5 days after the 15th day of each month for mid-month returns, 10 days after the last day of each month in the case of monthly returns, and 14 days after the end of each quarter in the case of quarterly returns;

(c) failure, without good reason, to supply information within the prescribed period, in such forms as the CBN may from time to time direct, relating to or concerning matters affecting the economy of Nigeria.

(d) rendition of false information or supplying information recklessly without regard for its accuracy; and

(e) publication of audited accounts by the Chief Executive Officer of a bank without prior authorization by the CBN.

(iv) Banks shall be penalized under Section 60 (1) of BOFI Act 1991, as amended, if the credit status of a customer is not sought from the Credit Bureau, under the Credit Risk Management System (CRMS), before credit is granted or when credit is granted to a delinquent customer or if a delinquent credit is not reported.

### 3.3 Other Financial Institutions

The CBN, in 2001, established a department to oversee the on-site and offsite surveillance of other financial institutions. Finance companies, discount houses, mortgage institutions, development banks, community banks, and bureaux de change operating in the country are hereby reminded that, in conformity with existing regulatory provisions, it is mandatory for them to render regularly to the CBN, accurate and timely returns on their operations, and any other information as may, from time to time, be required by the CBN. The supervisory framework for these institutions will be further strengthened, while other complementary measures necessary to enhance the effectiveness of CBN surveillance activities, and the orderly development of the financial market, will be pursued in the current year. The institutions are also to render to the CBN their audited annual accounts for approval before publication, in accordance with the provisions of the CBN and BOFI Acts and other existing or revised operating guidelines. Specific guidelines that apply to these institutions are outlined below:

### 3.3.1 Finance Companies

In 2002/2003, continued efforts shall be made to monitor the performance of licensed finance companies with a view to checking further spread of distress in the financial sector, as well as ensure the overall effectiveness of CBN's monetary, credit, and financial policies. Consequently, all licensed finance companies in the country shall continue to submit to the CBN quarterly returns on their operations, including statements of assets and liabilities; total credit granted, with details of sectoral utilisation; investments and money market transactions; non-performing credits; and interest rate structure. A copy, each, of such returns shall reach the CBN Director of Other Financial Institutions and Director of Research, in Lagos and Abuja, or the Lagos Liaison Office of the Research Department in Lagos not later than 14 days after the end of each quarter. Bi-annual returns shall also be rendered to the CBN Director of Other Financial institutions in Lagos not later than 14 days, following the end of each half-year. The directive to the effect that finance companies shall display their daily rates of interest in conspicuous places in their head offices and branches will remain in force in fiscal 2002/2003. Furthermore, finance companies are enjoined to comply with the prudential guidelines as contained in the revised Guidelines of July 1993 and December 1994, respectively.

**3.3.2 Discount Houses**

Discount houses shall, in fiscal 2002/2003 continue to render daily, weekly and monthly returns on their operations to the CBN, in line with existing operational guidelines as well as the provisions of the CBN Act of 1991 and the Banks and Other Financial Institutions Act of 1991, as amended. Every discount house shall display its daily rates of interest in conspicuous positions in all its offices. Discount Houses shall continue to invest at least 60.0 per cent of their total deposit liabilities in treasury bills.

**3.3.3 Development Banks**

Development banks shall continue to render to the CBN their balance sheet statements quarterly as well as returns on their credit and interest rate operations. These returns, which shall be furnished accurately and in a timely manner on the prescribed forms, as well as other supplementary information as may, from time to time, be required by the CBN, shall be submitted not later than 14 days after the end of each quarter to the Directors of Research and Other Financial Institutions, Central Bank of Nigeria.

**3.3.4 Bureaux de Change**

The operational framework of the IFEM shall be reformed in 2002 to allow bureaux de change to source their foreign exchange requirements for BTA/PTA from the IFEM. This further deregulation will enhance public access to foreign exchange and minimize speculative arbitrage. All licensed bureaux de change are, therefore, enjoined to continue to adhere strictly to all existing and revised guidelines on their operations in 2002, to facilitate the achievement of desired objectives.

### 3.3.5 Primary Mortgage Institutions and Community Banks

The supervisory and regulatory framework for other financial institutions, including primary mortgage institutions and the community banks, has been strengthened, with the take-off of the Other Financial Institutions Department (OFID) in CBN. Efforts will be sustained in 2002/2003 to ensure the viability and soundness of the institutions, as well as enhance their effectiveness.

### 3.3.6 Penalties for Default

All institutions are enjoined to comply fully with the provisions of the relevant legislations and guidelines. Any financial institution that fails to comply with the existing and revised guidelines issued by the CBN as well as other directives as the CBN may issue from time to time, or fails to furnish within the stipulated time any statistical and other returns as the CBN may, from time to time prescribe, shall be liable to appropriate fines as determined by the CBN or such other penalties as provided for by the enabling law.

## 3.4 Policy on Transparency in Financial Transactions

In line with the statement of the Basle Committee on Banking Regulations and Supervisory Practices, all financial institutions are required to continue to observe the following standards in the interest of transparency in financial transactions.

### 3.4.1 Customer Identification

Financial institutions are enjoined to intensify efforts to determine the true identity of all customers requiring their services. In particular, financial institutions should not, as a matter of policy, conduct business transactions with customers who fail to provide evidence of their identity.

### 3.4.2 Compliance with the Law

Licensed banks and other financial institutions shall observe high ethical standards as well as the laws and regulations governing their operations. In particular, banks are required to ensure full compliance with the Guidance Notes and other relevant circulars on Money Laundering Surveillance, issued by the CBN, in order to enhance the effectiveness of the provisions of the Money Laundering Act, 1995. It has been observed that the level of compliance by the institutions with the provision of the Act had been unsatisfactory due largely to lack of understanding of the crucial role of the Act. Efforts should be made to ensure full compliance in terms of disclosure of relevant information of depositors as stipulated in the Act, including strict observance of the "know your customer" principle, to ensure that illegally acquired funds are prevented from being injected into the financial system. Appropriate sanctions have been put in place for breaches of this law.

### 3.4.3 Co-operation with Law Enforcement Authorities

Banks and other financial institutions are required to give full cooperation to law enforcement authorities within the limits of the rules governing confidentiality. In particular, where financial institutions are aware of facts which lead to a reasonable presumption that the funds lodged in an account or transactions being entered into derive from criminal activity or intention, they should observe the stipulated procedures for disclosure of the suspicious transactions in reporting to the law enforcement authorities.

Any contravention of the above-stated guidelines by any financial institution shall attract penalties as stipulated in the Banks and Other Financial Institutions Act, 1991, as amended, or the Money Laundering Act, 1995, as appropriate.

## SECTION FOUR

## FOREIGN TRADE AND EXCHANGE POLICY MEASURES

### 4.1 New Policy Measures for 2002/2003

#### 4.1.1 Inter-bank Foreign Exchange Market (IFEM)

In a continued effort to stabilize the exchange rate, as well as ensure a single exchange rate for the naira, the IFEM is further deregulated in 2002. To this end, the operational framework of the IFEM shall be reformed to allow bureaux de change to source their foreign exchange requirements (in TCs) from the IFEM. Details of the reform package will be issued in due course.

Furthermore, incentives will be extended to non-oil exporters to boost autonomous foreign exchange supply. The current port reform and the re-introduction of destination inspection, will not only ensure that goods imported into the country attract the appropriate duty rates; they are expected to diminish the incentive to patronize the parallel foreign exchange market as well as minimize the arbitrage premium.

The other new measures are as follows:

i) The initial validity of Form 'M' established in respect of plant and machinery made to specification shall be one year subject to extension for another 180 days by the processing bank without recourse to the CBN. Thus, the maximum life span of an approved Form 'M' for importation of machinery, plant and equipment is one and half years (540 days).

ii) Approval for duty exemption shall be obtained before shipment of relevant consignment to avoid unnecessary delay and transit of goods at the ports.

iii) Payment of import duty and other charges shall be made through the processing bank provided that it is a designated bank.

**4.2 <u>Existing Policy Measures Retained/Amended in 2002</u>**

**4.2.1** The two-way quote system introduced in October, 1999 shall remain in force in 2002 fiscal year.

**4.2.2 Inter-bank Foreign Exchange Market (IFEM)**

(i) The Inter-bank Foreign Exchange Market (IFEM) shall continue to operate freely. However, no individual or organisation shall deal in foreign exchange except as provided by the relevant laws and regulations.

(ii) Foreign exchange purchased from CBN at IFEM shall be used for eligible transactions and is not transferable in the Inter-bank Foreign Exchange Market.

(iii) Mixing of funds purchased from the CBN with any other acquired from the IFEM shall be allowed, provided they are duly segregated and properly recorded to ease reconciliation. Consequently, banks shall continue to render appropriate returns on sources of funds and utilisation to the CBN.

(iv) Holders of ordinary domiciliary account shall continue to have unfettered access to funds in their accounts. In other words, the instructions of the account holder shall be sufficient to access funds in the account irrespective of the payment mode required.

(v) Utilisation of funds in the Non-Oil Export domiciliary accounts shall continue to be subject to eligible transactions.

(vi) All oil and oil service companies shall continue to sell their foreign exchange brought into the country to meet their local expenses to any bank of their choice including the CBN. Monthly returns by both the oil companies and banks on such sales and purchases shall be rendered to the CBN, using the approved format.

(vii) All applications whether or not valid for foreign exchange, visible or invisible trade transactions shall continue to be approved by banks, subject to stipulated documentation requirements, before remittance of funds.

(viii) Current transactions involving the use of bills for collection shall be allowed provided relevant documents are passed through Authorised Dealers. Transactions executed on private sector initiative, shall carry no government guarantee or obligations. The remittances may be made through the IFEM subject to the prevailing conditions for payment. For the avoidance of doubt, the use of Open Accounts is hereby abolished.

(ix) The payment of Bills for collection transactions shall continue to be limited to 180 days from the date of Bill of Lading.

(x) Payment of interest in respect of (ix) above shall continue to be on the tenor of the Bill but not exceeding 180 days at a maximum of 1% above the prime lending rate prevailing in the country of the beneficiary (e.g. LIBOR in the UK).

(xi) The maximum amount which bureaux de change can sell is retained at $5,000.00 per transaction.

(xii) Foreign exchange transactions shall continue to be subject to minimum documentation requirements largely for statistical purposes.

(xiii) All requests for foreign exchange by the public sector shall continue to be processed by the CBN in accordance with existing guidelines.

(xiv) Funding of Business Travel Allowance (BTA) and Personal Travel Allowance (PTA) shall be eligible in IFEM, subject to the maximum ceiling of US$2,500.00 per quarter for BTA and US$2,000.00, per six months (twice a year) for PTA for beneficiaries above 12 years old. Relevant documents (i.e passport and ticket) should be endorsed accordingly. For travels to countries in the ECOWAS sub-region, the sale of BTA and PTA should be issued in ECOWAS Travellers' Cheques.

4.2.3 **Form 'M' Procedure**

(i) The initial validity of an approved Form 'M' for general merchandise shall be 180 days. The validity of approved Form 'M' and related Letters of Credit may be extended more than once by Authorised Dealers provided that, with the extension, the validity of the Form 'M' does not exceed the maximum life span of 360 days.

(ii) Charges for services rendered by non-resident experts in respect of the design, installation and commissioning of projects shall continue to be treated as an integral part of the total cost of such projects and the prescribed procedures for Form 'M' shall apply. They shall also be subject to verification by the National Office for Technology Acquisition and Promotion (NOTAP). No direct or separate remittances on Form 'A' in respect of such charges shall be allowed.

4.2.4 **Preshipment Inspection**

i) All goods, except personal effects, used motor vehicles and perishables, i.e., day-old chicks, human eyes, human remains, vaccines, yeast, periodicals/magazines, imported into the country shall be subject to pre-shipment inspection in the country of supply and issuance of an appropriate Clean Report of Inspection (CRI).

**ii)** Whether exempted from pre-shipment inspection or not, **importation of all goods into the country shall require the completion of Form 'M'.**

iii) To minimise price variations, Authorised Dealers and importers are to ensure that the invoices submitted at the time of registration of the Form 'M' are "valid" and remain so as at the date of shipment of goods.

4.2.5 **Import Duty Payment Procedures:**

(i) Import duty payable on all registered Form 'M' transactions, whether or not valid for foreign exchange, shall be calculated on the basis of the prevailing exchange rate in the IFEM on the day preceding the inspection of good.

(ii) The banks designated to receive import duty payments shall continue to be used for that purpose on confirmation of the completion and registration of Form 'M' for the imports.

(iii) Payment of import duty shall be on the basis of bank cheque/draft duly issued by the importer's bank and made payable to the "**Federal Government Import Duty Account.**" All such cheques and drafts shall, in the first instance, be paid to any of the designated banks and cleared before receipt evidencing payment is issued and other relevant shipping documents are released to the importers.

(iv) The designated banks are required to transfer all Customs revenue collected by them to the nearest CBN

Branch or Currency Centre on the Monday following the week collection was made, using CBN cheques.

4.2.6 **Export Trade and Promotion:**

(i) Repatriated non-oil export proceeds and other inflows shall be held in Domiciliary Accounts maintained with Authorised Dealers. Banks shall continue to maintain two types of Domiciliary Accounts, namely, Exports Domiciliary Accounts and Ordinary Domiciliary Accounts. Holders of Domiciliary Accounts shall continue to have easy access to the funds maintained therein subject to the existing guidelines.

(ii) Exporters and other foreign exchange earners are permitted to sell their export proceeds and other foreign currencies to Authorised Dealers at agreed rates. Moreover, exporters are allowed to sell their export proceeds to banks other than those where they maintain Exports Domiciliary Accounts.

(iii) Payment for exports from Nigeria shall continue to be by means of Letters of Credit or any other approved international mode of payment. However, whatever the mode of payment adopted, the relevant proceeds shall be repatriated within 90 days of the date of shipment of the goods to a stated Exports Domiciliary Account.

(iv) Efforts at enhancing non-oil receipts through the use of incentive schemes like the New Manufacture-in-Bond Scheme and the Negotiable Duty Credit Certificate (NDCC) shall be sustained.

4.2.7 **Invisible Trade Transactions**:

(i) The remittable fees for licence (trademarks, patent, etc) or technical services agreements shall range between 1.0 and 5.0 per cent of net sales value or profit before tax where net sales value is not applicable. Similarly, permissible management service fees in respect of projects where no profit is anticipated during the early years shall range from 1.0 to 2.0 per cent net of sales during the first three to five years only. In the case of Hotel services, a basic fee or lump sum not exceeding 12% of Gross Operating Profit (GOP) shall be applicable. The certificate of registration issued by NOTAP shall be one of the documentation requirements for the purpose of procuring foreign exchange for these types of transactions.

(ii) Remittable consultancy fees shall be a maximum of 5.0 per cent of project cost and limited to projects of very high technology content for which indigenous expertise is not available. Service agreements for such high technology joint ventures shall continue to include a schedule for the training of Nigerian personnel for eventual take-over. In addition, Nigerian professionals shall be involved in the project implementation from inception.

(iii) Permissible royalty in respect of know-how, patents and other industrial property rights shall range from 1.0 to 5.0 per cent of net sales.

(iv) Foreign exchange remittance in the IFEM shall be allowed in respect of bona-fide Nigerian students pursuing courses of GCE 'A' level and above in overseas institutions based on the prescribed documentation, including the Embassy/High Commission letter.

(v) Authorised Dealers are required to exercise prudence and scrutinise all requests for Personal Travel Allowance by residents and Business Trip Allowance by companies incorporated in Nigeria and ensure that only valid transactions are entertained.

(vi) Foreign nationals may remit 100% of their income net of tax as Personal Home Remittances (PHR) subject to the usual documentation requirements.

4.2.8 **Miscellaneous Policy Measures**:

(i) The declaration on Forms TM & TE of foreign currency imports and exports, respectively, of US$5,000.00 (Five thousand US dollars) and above or its equivalent is required for statistical purposes only.

(ii) Travellers entering and leaving Nigeria are required to declare any amount above ₦10,000.00 (Ten thousand Naira only) in their possession at the time of arrival in or departure from the country.

(iii) All contracts entered into in Nigeria shall continue to be denominated in Naira only.

(iv) Only hotels registered as Authorised Buyers shall receive from foreign visitors payment of hotel bills in foreign currency. However, payment of such bills in foreign currency shall be optional and at the discretion of the foreign visitors making the payment.

**CHIEF (DR.) J. O. SANUSI**
**GOVERNOR**
**CENTRAL BANK OF NIGERIA**
**ABUJA**

**2ND JANUARY, 2002**

# APPENDICES

## APPENDIX I

REF: BSD/DO/23/VOL.1/11 7th November, 1990

**PRUDENTIAL GUIDELINES FOR LICENSED BANKS**

Without prejudice to the requirements of the Statements of Accounting Standard on Accounting by Banks and Non-Bank Financial Institutions (Part I) to be issued by the Nigerian Accounting Standards Board (NASB) in the near future, all licensed banks shall be required to adhere to the prudential guidelines enunciated in this circular for reviewing and reporting their performances, with immediate effect. In view of the international nature of banking, the guidelines are based on practices endorsed by reputable international financial institutions and regulatory authorities. These guidelines should be regarded as minimum requirements and licensed banks, which already have more stringent policies and practices in place, are encouraged to continue with them.

2. **Credit Portfolio Classification System**

2.1 Licensed banks should review their credit portfolio continuously (at least once in a quarter) with a view to recognizing any deterioration in credit quality. Such reviews should systematically and realistically classify banks' credit exposures based on the perceived risks of default. In order to facilitate comparability of banks' classification of their credit portfolios, the assessment of risk of default should be based on criteria which should include, but are not limited to, repayment performance, borrower's repayment capacity on the basis of current financial condition and net realizable value of collateral.

2.2 Credit facilities (which include loans, advances, overdrafts, commercial papers, bankers' acceptances, bills discounted, with a bank's credit risks) should be classified as either "performing or "non-performing" as defined below:

(a) a credit facility is deemed to be performing if payments of both principal and interest are up to date in accordance with the agreed repayment terms.

(b) A credit facility should be deemed as non-performing when any of the following conditions exists:

(i) interest on principal is due and unpaid for 90 days or more.

(ii) interest payments equal to 90 days interest or more have been capitalized, rescheduled or rolled over into a new loan (except where facilities have been reclassified in 2.3 below).

2.3 The practice whereby some licensed banks merely renew, reschedule or roll-over non-performing credit facilities without taking into consideration the repayment capacity of the borrower is objectionable and unacceptable. Consequently, before a credit facility already classified as "non-performing" can be reclassified as "performing", the borrower must effect cash payment such that outstanding unpaid interest does not exceed 90 days.

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

**(a) Sub-standard**

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

(i) Objective criteria: facilities as defined in 2.2(b) on which unpaid principal and/or interest remain outstanding for more than 90 days but less than 180 days.

(ii) Subjective criteria: credit facilities which display well defined weaknesses which could affect the ability of borrowers to repay such as inadequate cash flow to service, under-capitalisation or insufficient working capital, absence of adequate financial information or collateral documentation, irregular payment of principal and/or interest, and inactive accounts where withdrawals exceed repayments or where repayments can hardly cover interest charges.

**(b) Doubtful**

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

(i) Objective criteria: facilities on which unpaid principal and/or interest remain outstanding for at least 180 days but less than 360 days and are not secured by legal title to leased assets or perfected realizable collateral in the process of collection or realization.

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

**(c) Lost Credit Facilities**

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

(i) Objective criteria: facilities on which unpaid principal and/or interest remain outstanding for 360 days or more and are not secured by legal title to leased assets or perfected realizable collateral in the course of collection or realization.

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

2.5 Banks are required to adopt the criteria specified in paragraphs 2.1 to 2.4 to classify their credit portfolios in order to reflect the true accounting values of their credit facilities. Licensed banks should note that the Central Bank of Nigeria reserves the right to object to the classification of any credit facility and to prescribe the classification it considers appropriate for such credit facility.

3. **Provision for Non-performing Facilities**

3.1 Licensed banks are required to make adequate provisions for perceived losses based on the credit portfolio classification system prescribed in paragraph 2 in order to reflect their true financial condition. Two types of provisions (that is specific and general) are considered adequate to achieve this objective. Specific provisions are made on the basis of perceived risk of default on specific credit facilities while general provisions are made in recognition of the fact that even performing credit facilities harbour some risk of loss no matter how small. Consequently, all licensed banks shall be required to make specific provisions for non-performing credits as specified below:

(i) For facilities classified as Sub-standard, Doubtful or Lost:

- interest overdue by more than 90 days should be suspended and recognized on cash basis only.
- principal repayments that are overdue by more than 90 days should be fully provided for and recognized on cash basis only.

(ii) For principal repayments not yet due on non-performing credit facilities, provision should be made as follows:

- Sub-standard Credit Facilities: 10% of the outstanding balance.
- Doubtful Credit Facilities: 50% of the outstanding balance.
- Lost Credit Facilities: 100% of the outstanding balance.

3.2 For prudential purpose, provisioning as prescribed in 3.1 should only take cognisance of realizable tangible security (with perfected legal title) in the course of collection or realization. Consequently, collateral values should be recognized on the following basis:

(i) For credit exposure where the principal repayment is in arrears by more than six months, the outstanding unprovided principal should not exceed 50% of the estimated net realizable value of the collateral security.

(ii) For credit exposure where the principal repayment is in arrears by more than one year, there should be no outstanding unprovided portion of the credit facility irrespective of the estimated net realizable value of the security held.

For a credit exposure secured by a floating charge or by an unperfected or equitable charge over tangible security, it should be treated as an unsecured credit and no account should be taken of such security held in determining the provision for loss to be made.

**3.3 General Provision**

Each licensed bank is required to make a general provision of at least 1% of risk assets not specifically provided for.

**4. Credit Portfolio Disclosure Requirement**

(i) Each licensed bank is required to provide in its audited financial statements, an analysis of its credit portfolio into "performing" and "non-performing" as defined in paragraphs 2.2 and 2.4.

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

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

**5. Interest Accrual**

5.1 It is the responsibility of bank management to recognize revenues when they are earned or realized and make provision for all losses as soon as they can be reasonably estimated. However, experience revealed a wide diversity amongst licensed banks on income recognition. While few banks cease accruing interest on non-performing credit facilities after three months, some after six months or one year, some do not appreciate the need to suspend interest on such facilities.

5.2 In order to ensure the reliability of published operating results, the following criteria should be adopted by all licensed banks for the treatment of interest on non-performing credit facilities:

(i) All categories of non-performing credit facilities should automatically be placed on non-accrual status that is, interest due thereon should not be recognized as income.

(ii) All interest previously accrued and uncollected but taken into revenue should be reversed and credited into suspense account specifically created for this purpose which should be called “interest in suspense account” unless paid in cash by the borrower. Future interest charges should also be credited into same account until such facilities begin to perform.

(iii) Once the facilities begin to perform, interest previously suspended and provisions previously made against principal debts should be recognized on cash basis only. Before a “non-performing facility" can be re-classified as "performing", unpaid interest outstanding should not exceed 90 days.

**6.0 Classification of Other Assets**

6.1 The term "Other Assets" relate to those asset items not shown separately in the balance sheet of a bank. Those items include, Impersonal Accounts (of various descriptions), Suspense Accounts such as frauds and cashiers' shortages, Cheque Purchased, Uncleared Effects and Inter-branch Items. More often than not, the accounts usually grouped together as "Other Assets" contain fictitious or intangible assets. The accounts could contain many long outstanding items, the origins of which had been long forgotten, untraceable as well as unreconciliable. In situations like these, the items if not material should be written off and where material (i.e. at least 10% of aggregate balance of Other Assets) should be classified as below. It should be noted that items enumerated below are by no means exhaustive:

**(a) Sub-standard**

- Cheques purchased and uncleared effects outstanding after the permissible clearing period.
- Fraud cases of up to 6 months old and under police investigation regardless of the likely outcome of the cases.
- Inter-branch items of between 2 months to 3 months.
- All other intangible suspense accounts existing in the books for up to 3 months.

A minimum provision of 10 per cent should be made for "Other Assets" items classified as sub-standard.

**(b) Doubtful**

The above listed features must have been aggravated and are likely to result in losses higher than recommended for sub-standard items. Items for doubtful classification should include, but are not limited to the following:

- Cheques purchased of between 3 to 6 months old but which had been withdrawn or cancelled and substituted with new ones. Similar treatment should be accorded to uncleared effects for which values had been given.
- Outstanding fraud cases of 6 to 12 months old and with slim chances of full recoveries.
- Inter-branch items outstanding for between 3 to 6 months.
- All other intangible suspense accounts outstanding for between 6 months and 12 months.
- A minimum of 50% provision should be made for "Other Assets" items classified as doubtful.

**(c) Lost**

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

- Cheques purchased and uncleared effects over 6 months old and for which values had been given
- Outstanding fraud cases over 12 months and involving protracted litigations.
- Inter-branch items over 6 months old whether or not the origins are known.
- All other intangible suspense accounts over 12 months old.

Full provision (i.e. 100 per cent) should be accorded to items classified lost.

**7.0 Off-balance Sheet Engagements**

7.1 A proper appraisal of off-balance sheet engagements should be undertaken with a view to determining the extent of loss a bank may likely sustain. Off-balance sheet items include letters of Credit, Bonds, Guarantees, Indemnities, Acceptances, and Pending or Protracted Litigations (the outcome of which could not be easily determined).

7.2 The following factors should be taken into consideration in recognizing losses on off-balance sheet engagements:

- Date liability was incurred
- Expiry date
- Security pledged
- Performance of other facilities being enjoyed by the customer, e.g. loans and advances.

Full provisions must be made for any loss that may arise from off-balance sheet transactions.

7.3 Off-balance sheet engagements should not form part of balance sheet totals while their disclosure in note form should distinguish between:

(a) direct credit substitutes, such as guarantees, acceptances and standby letters of credit serving as guarantees;

(b) transaction-related contingencies, such as bid bonds, performance guarantees and standby letters of credit related to particular transactions;

(c) Short-term self-liquidating trade related contingencies resulting from the movements of goods; and

(d) other contingencies.

# APPENDIX II

# BANK RETURNS

## (a) Monthly Returns

(i) Profit on Interest Rates;

(ii) Statement of Assets and Liabilities;

(iii) Break-down of “Other” Liabilities;

(iv) Break-down of “Other” Assets;

(v) Report on External Assets and Liabilities;

(vi) Schedule of Placements with Other Banks;

(vii) Schedule of Takings from Other Banks;

(viii) Schedule of Negotiable Certificates of Deposit (NCDs) Held;

(ix) Schedule of Negotiable Certificates of Deposit (NCDs) Issued;

(x) Statement of Maturity Profile of Assets and Liabilities;

(xi) Report on Total Credit Granted;

(xii) Report on Credit Allocation by Sectors, Borrowers and Interest Rates;

(xiii) Report on Cost of Funds;

(xiv) Report on Deposit Ownership;

(xv) Report on Lending Above the Statutory Limit;

(xvi) Schedule of Foreign Exchange Purchases from Other Banks;

(xvii) Schedule of Foreign Exchange Sales to Other Banks;

## (b) Quarterly Returns

(xviii) Profit and Loss Account;

(xix) Report on Total Credit Granted;

(xx) Report on Structure of Deposits;

(xxi) Report on Non-performing Credits;

(xxii) Report on Non-performing “Other” Assets;

(xxiii) Report on Non-performing Off-Balance Sheet Engagements;

(xxiv) Report on Non-performing Credit by Sector;

(xxv) Report on Credits to Officers, Director, Principal Shareholders and their related interests;

(xxvi) Report on top Users of Funds;

(xxvii) Foreign Exchange Interest Repatriation and Distribution;

(xxviii) Report on Distribution of Naira Proceeds of Interest Repatriated;

(xxix) Foreign Exchange Holdings by Authorised Dealers.

**(d) Semi-Annual Returns**

(xxx) Report on Investment in Shares;

(xxxi) Report on Corporate Profile;

(xxxii) Report on Branch Network;

(xxxiii) Report on Bank’s Directors;

(xxxiv) Report on Bank’s shareholders; and

(xxxv) Report on Management and Top Officers.

**APPENDIX III**

**MID-MONTH RETURNS ON ASSETS AND LIABILITIES**

**FORM MMBR 100**

**BANK NAME**

**BANK CODE:**

| AS AT CODE: | DETAILS | ₦ | ₦ |
|---|---|---|---|
| 92000 | **TOTAL LIQUID ASSETS** (as in Liquidity Ratio) | | |
| 92100 | Vault Cash | | |
| 92200 | Total Balances at CBN: | | |
| 92210 | Cash Reserve Requirement | | |
| 92220 | Shortfall/Excess Credit | | |
| 92230 | Other Balance with CBN | | |
| 92300 | Other Liquid Assets | | |
| 92400 | **TOTAL DEPOSIT LIABILITIES** | | |
| 92410 | Private Sector Deposits | | |
| 92411 | Demand | | |
| 92412 | Savings | | |
| 92413 | Time | | |
| 92414 | Others (including Deposit Certificates, Notes, etc.) | | |
| 92420 | Government Sector Deposit | | |
| 92421 | Demand Deposits of: | | |
| 92422 | Federal Government | | |
| 92423 | State Governments | | |
| 92424 | Local Governments | | |
| 92425 | Time and Savings Deposits of: | | |

| | | | |
|---|---|---|---|
| 92426 | Federal Government | | |
| 92427 | State Governments | | |
| 92428 | Local Governments | | |
| 92429 | Domiciliary Deposit | | |
| 92430 | Demand | | |
| 92431 | Others | | |
| 92510 | **TOTAL LOANS & ADVANCES** | | |
| 92520 | Bills Discounted | | |
| 92530 | Investment | | |
| 92531 | Treasury Bills | | |
| 92532 | Treasury Certificates | | |
| 92533 | Eligible Development Stocks | | |
| 92534 | Other Investments | | |
| 92540 | Money at Call Outside Banks, Term Loan, Leases & Overdrafts | | |
| 92600 | **FOREIGN ASSETS & LIABILITIES POSITION** | | |
| 92610 | Foreign Assets (Gross) | | |
| 92620 | Foreign Liabilities (Gross) | | |
| | | | |

# APPENDIX IV

## MID-MONTH REPORT ON INTEREST RATES

## FORM MMBR 200

## BANK NAME:

## BANK CODE:

AS AT:
Details
Prime Lending Rate
Maximum Lending Rate
Deposit Rates
Savings
Call
Time/Term
7 Days Notice
30 Days Maturity
3 Months Maturity
6 Months Maturity
12 Months Maturity

Over 12 Months Maturity
Demand Deposit (Current Account)
Other Deposit Certificates/Notes
7 Days Notice
30 Days Maturity
2 Months Maturity
6 Months Maturity
12 Months Maturity
Over 12 Months Maturity