



**DBN**  
Development  
Bank of Nigeria

*...Financing Sustainable Growth*

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## **POLICY & PROCEDURE ON RELATED PARTY CREDIT**

**DEVELOPMENT BANK OF NIGERIA PLC.**

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## **I.1 Introduction**

Insider and related party transactions (credits, guarantees, services, contracts, transfers, leases, etc.) has been a major contributor to the failure of a great number of financial institutions. Similarly, these transactions can impact substantially on the risk profile of DBN in the absence of a policy and procedure for managing such transactions.

There are various laws and regulations guiding Insider and Related Party Credit, key among which are; Companies and Allied Matters Act (CAMA), Banks and Other Financial Institution Act (BOFIA), Central Bank of Nigeria Prudential Guidelines for Deposit Money Banks and Code of Corporate Governance for Banks and Other Financial Institutions. International Financial Reporting Standards (IFRS), and DBN Code of Business Ethics and Directors Code of conduct.

This policy and procedure manual outline the Bank`s policy on Insider and Related Party Credit. It seeks to set in clear terms standards acceptable for dealing with insider and related party credit and ensure compliance with all the above listed extant laws and regulations.

## **I.2 Objective of the Policy**

The Specific objectives of the policy are:

- Maintain a high level of ethical conduct and ensure that all insider and related party credits are consummated at arm`s length;
- To ensure strict compliance with all extant laws and regulations guiding insider and related party credit;
- To ensure full disclosures of all insider and related party credit; and
- To proactively prevent or deter instances where there would be undue influence in approving credits to PFIs by insiders with vested interest in either a PFI or end-borrower.

## **I.3 Scope of the Policy**

The scope of this policy includes:

- Credits to PFIs where a director or employee has direct or indirect substantial interest (shareholding in the PFI and its subsidiaries/associated companies of above 5% is considered substantial);

- Credits to PFIs where promoter of a PFI is family member of a director or employee;
- Credits provided through PFIs to end-borrowers MSMEs, where a director or employee has direct or indirect substantial interest in the end-borrower company (shareholding of above 5% is considered substantial);
- Credits provided through PFIs to end-borrowers MSMEs where director or employee is family member of a promoter of an MSME company or an individual; and
- This policy has been restricted to insider and related credit as different sections of the Bank's approved procurement manual and code of business ethics have addressed issues on conflict of interest and other related party transactions.

#### **1.4 Board and Management Commitment to the Policy**

The Board and Management are aware that a well-documented policy on insider and related party credits and guarantee is required to ensure that credits advanced to PFIs are consummated at arm's length and meets the code of business ethics and conduct. This will also ensure compliance with all extant laws and regulations guiding insider and related party credits. In addition to ensuring that there is no undue influence in approving credits to PFIs or end-borrower MSMEs that are related to either Directors or employees.

Hence the Board of Directors and Management are committed to ensuring strict implementation of this policy and will not tolerate any breach of the provisions of this policy. The Compliance and Internal Audit department function are hereby empowered to report any observed breach to the Board for necessary action.

#### **1.5 Policy Requirements**

The following are the provisions of the Policy on insider and related party credit:

1. All Directors and employees are to disclose (via the form in appendix Q and R) their interest (whether direct or indirect) in PFIs that the Bank on-lend funds through to end-borrowers to the Company Secretary.
2. Information on directors/significant shareholders and their related interests should be obtained by the Company Secretary when on-boarding new Directors, these are expected to be revalidated annually.
3. The Board Credit and Risk Committee shall recommend the credit to the Board to grant approval for insider and related party credit proposed to be entered by the Bank regardless of the size and type (either direct or indirect).
4. Before granting any approval, the Board Credit and Risk Committee shall satisfy itself that the approval is in the interest of the Bank.

5. The Board Credit and Risk Committee may grant approval to those transactions which are repetitive in nature or other transactions up to such size as the Committee may deem fit.
6. The Board Credit and Risk Committee shall review, on a quarterly basis at each meeting, the details of all insider and related party credits entered by the Bank pursuant to approval accorded by it.
7. Any approval granted by the Credit and Risk Committee shall be valid for a period not exceeding one year and the Committee shall grant fresh approval on expiry of the validity period.
8. Insider and director related credit accounts (if any) can only be written-off on the approval of the Central Bank of Nigeria.
9. In approving exposures to PFIs, necessary due diligence shall be conducted to establish whether a director of DBN is on the Board of the PFI. This is to ensure that the Bank's interest is not compromised, and the Bank's risk acceptance criteria is not sacrificed.
10. At the end of each year, all staff are required to disclose their credit exposures to PFIs (if any) that DBN has established business relationship with, detailing the amount and agreed interest rate to Human Resources department using the form in appendix R.
11. Whenever the Bank is on-Boarding a PFI, directors or employees that have significant direct or indirect interest (Maximum of 5% shareholding) in a PFI must complete the form in appendix Q & R and submit same to Company secretary and Head, Compliance respectively in advance of any consideration of the matter.
12. All employees with immediate family members in the employment or Board of PFI being on-boarded are also to fill this form in appendix R.
13. Where a director or employee has significant direct or indirect interest in the end-borrower MSME (or related for individuals) which a PFI will be submitting for the Bank funding, such insider shall disclose his or her interest (appendix R).
14. At the due diligence stage of PFIs, a detailed review of the relationship of the PFI to any of the Bank's director or employee shall be established.
15. At the disbursement of funds stage to the PFIs, a review of the details in the list of end borrowers as provided by the PFI would be carried out to establish insider and related parties.
16. Any board member of DBN that borrows through a PFI or MSME shall pledge his/her shares in that institution as security which would be forfeited should the bank fail to make repayments.
17. An employee or director must excuse himself or herself from the meeting where the related party transaction would be discussed.
18. The Board Credit and Risk Committee shall present status of insider credits to the Board at each Board meeting.

### **1.6 Limits on Insider & Related Party Credits**

The CBN's threshold on insider related credits is 10% of shareholders' funds unimpaired by losses.

DBN's limit on insider related credits would be capped at 1% of shareholders' funds unimpaired by losses i.e. where a PFI meets our eligibility criteria and is a related party, maximum credit to the PFI shall be the lower of 5% of the PFIs shareholders funds or 1% of DBN shareholders funds unimpaired by losses.

Where a director or employee has direct or indirect substantial interest in the end-borrower company or where director or employee is family member of a promoter of an MSME company or an individual the maximum credit shall be the lower of 1% of the PFIs shareholders funds or 5% of MSME's shareholders funds unimpaired by losses.

### **1.7 Disclosure of Insider & Related Party Credits**

The Bank shall ensure strict compliance with the following disclosure requirements by CBN to be presented in the financial statements:

- The aggregate amount of insider-related loans, advances and leases outstanding as at the financial year end should be separately stated in a note to the accounts and the non-performing component further analyzed by security, maturity, performance, provision, interest-in suspense and name of borrowers.
- Notes to the accounts on guarantees, commitments and other contingent liabilities should also give details of those arising from related-party credits.
- The external auditors and audit committees shall include in their report, their opinion on related-party credits.

Also, IAS 24 requires that, the Bank shall disclose the nature of the related party relationship as well as information about the credits and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosures would be made separately for each category of related parties and would include:

The amount of the credit,

- The amount of outstanding balances, including terms and conditions and guarantees,
- Provisions for doubtful debts related to the amount of outstanding balances,
- Expense recognized during the period in respect of bad or doubtful debts due from related parties, etc.

The Bank shall host this policy on the website and a web link thereto shall be provided in the annual report.

### **1.8 Insider & Related Party Credit Not Disclosed**

In the event the Bank becomes aware of any insider or related party credit not disclosed in line with the provisions of this policy, the Board Credit and Risk Committee may after considering all the relevant facts and circumstances regarding the credit, evaluate all options available, including ratification, revision or termination of the credit and may take appropriate action where necessary. The committee shall also examine the facts and circumstances surrounding the failure of not disclosing by the insider and shall take any such action it deems appropriate.

## Public Use

No director or employee shall be permitted to exert undue pressure on transaction officers with a view to undermining a credit or circumventing established principles and procedures. Also, a director or employee of the Bank shall not indirectly approve a loan for himself/herself through PFIs or participate in any committee deliberations on the PFIs loan application.

In case the Board Credit and Risk Committee does not deem it fit to ratify an existing insider related credit that has commenced without approval, the committee may direct additional actions, including but not limited to, immediate discontinuation of the transaction or such other measures as it may deem appropriate.

The Committee shall also have the authority to modify or waive any procedural requirements of the related party transaction to suit the provisions of this policy.

No member of the Board Credit and Risk Committee /Board shall participate in the review or approval of any insider credit in which such member is interested except that the key managerial personnel, although can be present shall provide all material information concerning the credit to the audit committee/Board.

### **1.9 Reporting of Insider & Related Party Credits**

All direct and indirect insider and related party credits shall be reported by the Risk Management Department to the regulators at the stipulated frequency.

Also, all insider and related party credits (either approved or rejected) must be reported to the Board Credit and Risk committee by the Risk Management Department.

**Appendix Q: Director Related Party Disclosure Form**

<b>S/N</b>	<b>Requirements</b>	<b>Details</b>
<b>1</b>	<b>Name of Director</b>	
<b>2</b>	<b>Spouse</b>	
<b>3</b>	<b>Parents</b>	
<b>4</b>	<b>Children &amp; Siblings</b>	
<b>5</b>	<b>Child`s spouse</b>	
<b>6</b>	<b>Other Related Interests</b>	
<b>7</b>	<b>Name of PFI/MSME</b>	
<b>8</b>	<b>Type of Interest</b>	
<b>9</b>	<b>Shareholdings/% Holdings</b>	
<b>10</b>	<b>Nature of Relationship</b>	
<b>11</b>	<b>Amt of Loan</b>	
<b>12</b>	<b>Date granted</b>	
<b>13</b>	<b>DBN Lending</b>	

**Signature**\_\_\_\_\_

**Date**\_\_\_\_\_

## Appendix R: Employee Disclosure Form

S/N	Requirements	Details
1	Name of Employee	
	Credit Exposure in Banks	
2	Name of Bank	
3	Amount	
4	Rate	
	Interest in PFIs	
5	Name of PFI/MSME	
6	Type of Interest	
7	Shareholdings/% Holdings	
8	Nature of Relationship	
9	Name of Party	
10	Other Related Interests	
11	Amount of Loan	
12	Date granted	
13	DBN Lending	

Signature\_\_\_\_\_

Date\_\_\_\_\_