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LETTER TO ALL BANKS

REVIEW OF THE LIMIT ON FOREIGN BORROWING BY BANKS

The recent depreciation in the value of the currency has led to an increase in the Naira equivalent of foreign currency denominated borrowings by banks. A major consequence of this development was the inadvertent breach of the regulatory limit for foreign currency borrowings (75% of shareholders' funds unimpaired by losses) by some banks. To address this development, banks are advised to be guided by the following requirements regarding their foreign currency exposures:

1. The aggregate foreign currency borrowing of a bank excluding inter-group and inter-bank (Nigerian banks) borrowing should not exceed 125% of shareholders' funds unimpaired by losses.
2. The Net Open Position (Long or short) of the overall foreign currency assets and liabilities taking into cognizance both on and off-balance sheet items should not exceed 10% of shareholders' funds unimpaired by losses using the Gross Aggregate Method.

In addition, banks are required to institute the following risk mitigation strategies, among others, around their foreign currency borrowings:

- All borrowings should be hedged using financial market tools acceptable to the CBN;
- Borrowings must be subordinated debts with prepayments allowable only at the instance of the bank and subject to the prior approval of the CBN; and
- All debts, with the exception of trade lines, should have a minimum fixed tenor of 5 years.

Banks are also directed to report their utilisation of all FCY borrowings to the CBN on a monthly basis.

Please note that these Guidelines take immediate effect.

Thank you.

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