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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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**DIRECTOR, BANKING SUPERVISION DEPARTMENT**