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LETTER TO BANKS ON RECAPITALIZATION OF FOREIGN SUBSIDIARIES

The CBN has noted with concern the incessant demands on Nigerian banks by various host regulators for the recapitalization of their foreign subsidiaries.

These demands have exerted enormous pressure on the capital base of most parent banks due to the lull in the capital market making it difficult to raise capital, diminishing profit margins and increasing competition.

Furthermore these capital demands are not in tandem with the level/growth in business activities.

Henceforth, the CBN shall not permit any further capital outlay/outflow from parent banks to augment the capital needs of foreign subsidiaries, but would rather encourage banks to consider the following options in raising capital for foreign subsidiaries.

1. Mergers/acquisition arrangements with other local and/or foreign banks in the host country;
2. Sourcing of fresh capital from the host country capital market either through private placements or public offers; and

3. Parent banks whose foreign subsidiaries are unable to raise additional capital in the host country market will be required to submit exit strategies from those jurisdictions not later than June 30, 2012.

Additionally, Nigerian banks with foreign subsidiaries are required to submit, within 60 days of the date on this letter, recapitalization plans in anticipation of regulatory capital increases under BASEL II and III and any other unforeseen increase by host countries.

Finally, under no circumstances are parent banks allowed to guarantee the deposit of their foreign subsidiaries

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DIRECTOR OF BANKING SUPERVISION**