



CENTRAL BANK OF NIGERIA

Corporate Head Office
Central Business District
P.M.B. 0187, Garki, Abuja, FCT

09-462-37831

TRADE AND EXCHANGE DEPARTMENT

09-462-37809

ted@cbn.gov.ng

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LETTER TO ALL BANKS

HARMONISATION OF REPORTING REQUIREMENTS ON FOREIGN CURRENCY EXPOSURES OF BANKS

The Central Bank of Nigeria (CBN) has noted with concern the growth in foreign currency exposures of banks through their Net Open Position (NOP). This has created an incentive for banks to hold excess long foreign currency positions, which exposes banks to foreign exchange and other risks. Therefore, to ensure that these risks are well managed and avoid losses that could pose material systemic challenges, the CBN issues the following prudential requirements:

1. Prudential Requirements

- a) The Net Open Position (NOP) limit of the overall foreign currency assets and liabilities taking into cognizance both those on and off-balance sheet should not exceed 20% short or 0% long of shareholders' funds unimpaired by losses using the Gross Aggregate Method.
- b) Banks whose current NOP exceed 20% short and 0% long of their shareholders' funds unimpaired by losses are required to bring them to prudential limit by February 1, 2024.
- c) Banks are required to compute their daily and monthly NOP and Foreign currency trading position (FCTP) using the attached templates.
- d) Banks are also required to have adequate stock of high-quality liquid foreign assets, i.e. cash and government securities in each significant currency to cover their maturing foreign currency obligations. In addition, banks should have in place a foreign exchange contingency funding arrangement with other financial institutions.

2. Other Requirements

- a) Banks should borrow and lend in the same currency (natural hedging) to avoid currency mismatch associated with foreign currency risk.
- b) The basis of the interest rate for borrowing should be the same as that of lending i.e. there should be no mismatch in floating and fixed interest rates, to mitigate basis risk associated with foreign borrowing interest rate risk.
- c) With respect to Eurobonds, any clause of early redemption should be at the instance of the issuer and approval obtained from the CBN in this regard, even if the bond does not qualify as tier 2 capital.
- d) All banks are required to adopt adequate treasury and risk management systems to provide oversight of all foreign exchange exposures and ensure accurate reporting on a timely basis.
- e) Banks are expected to bring all their exposures within the set limits immediately and ensure that all returns submitted to the CBN provide an accurate reflection of their balance sheets.

Please, note that non-compliance with the NOP limit will result in immediate sanction and/or the suspension from participation in the foreign exchange market.

Yours faithfully,



DR. HASSAN MAHMUD
DIRECTOR, TRADE AND EXCHANGE



RITA IJEOMA SIKE (MRS.)
FOR: DIRECTOR, BANKING SUPERVISION

REPORT ON FOREIGN EXCHANGE EXPOSURE
At Close of Business on

Monthly Return On Net Foreign Assets (Gross Aggregate Method)					
As at: ***					
Daily/Monthly Return On Net Open Position					
	US DOLLARS	EURO	GBP	OTHERS	TOTAL
FOREIGN ASSETS:					
97110: Holdings of Foreign Currency					
97120: Balances held with Foreign Banks					
97130: Placement with Foreign Banks					
97140: Balances held with Offices & Branches Abroad					
97150: Treasury Securities of Foreign Governments					
97160: Other Financial Instruments in Foreign Currency					
97170: Loans and Advances in Foreign Currency					
97180: Other Foreign Assets (not captured above)					
OFF BALANCE SHEET ITEMS:					
97190: Undelivered Spot Sales					
97200: Forward Purchases					
97205: Others					
97210: TOTAL FOREIGN ASSETS [A]					
FOREIGN LIABILITIES:					
98110: Balances Held for Foreign Banks					
98120: Takings from Foreign Banks					
98130: Balances Held for Offices and Branches Abroad					
98141: Foreign Currency Deposits					
98142: Financial Instruments Issued in Foreign Currency					
98151: Loans and Advances in Foreign Currency					
98152: Other Foreign Liabilities (not captured above)					
OFF BALANCE SHEET ITEMS:					
98161: Undelivered Spot Sales					
98162: Forward Purchases					
98170: Others					
98180: TOTAL FOREIGN LIABILITIES [B]					
98190: NET FOREIGN ASSETS [A-B]					
AGGREGATE LONG POSITION [C]					
AGGREGATE SHORT POSITION [D]					
GROSS AGGREGATE POSITION [C+D]					
SHAREHOLDERS FUNDS UNIMPAIRED BY LOSSES					
GROSS AGGREGATE OPEN POSITION AS PERCENTAGE OF SHAREHOLDERS FUNDS					