09-3145313-4
09-2345325
website: www.cenbank.org

Ref: BSD/11/2003

August 4, 2003

CIRCULAR TO ALL BANKS

REVIEW OF THE CAPITAL ADEQUACY MEASUREMENT

In view of the need to achieve full alignment of the current Capital Adequacy measurement with the 1988 Basel Capital Accord and subsequent amendments as well as the need to position the Nigerian Banking industry for the proposed introduction of the New Capital Accord (Basel 2), which is scheduled to come into effect at the end of 2006, the Central Bank of Nigeria has reviewed the minimum Capital Adequacy Ratio from 8 to 10 per cent. Also, the risk weights attached to some asset items have been reviewed as follows:-

		New Weighting	Old Weighting
i)	Claims on banks in Nigeria	**20%**	0%
ii)	Overdue balance with illiquid banks	**100%**	0%
iii)	Claims on banks outside Nigeria		
	• OECD Countries	**20%**	20%
	• Non- OECD Countries	**100%**	20%
iv)	Placements with Discount Houses		
	• Secured with Treasury bills	**0%**	0%
	• Unsecured	**20%**	0%
v)	Certificates of Deposit		
	• Negotiable	**50%**	0%
	• Non-negotiable	**100%**	50%
vi)	Banker's Acceptances	**100%**	20%
vii)	Industrial Investments	**100%**	50%
viii)	Loans to FG Agencies & Parastatals	**100%**	0%
ix)	Loans fully secured by Mortgage on residential property	**100%**	50%

Off Balance Sheet Engagements:
Off balance sheet engagements, which currently attract a flat 20% weight, regardless of the different credit risk characteristics of these transactions, are now to be adjusted by some credit conversion factors. The resulting amounts will then be multiplied by the risk weights applicable to the on-balance sheet equivalent. The credit conversion factors are set out below:

	Instruments	Credit Conversion Factors
1.	Direct credit substitutes, e.g. general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances)	100%
2.	Certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions)	50%
3.	Short-term self-liquidating trade-related contingencies (such as documentary credits collateralized by the underlying shipments)	20%
4.	Sale and repurchase agreements and assets sales with recourse, where the credit risk remains with the bank.	100%
5.	Forward assets purchases, forward deposits and partly-paid shares and securities, which represent commitments with certain draw down	100%
6.	Note issuance facilities and revolving underwriting facilities	50%
7.	Other commitments (e.g. formal standby facilities and credit lines) with an original maturity of over one year.	50%
8.	Similar commitments with an original maturity of up to one year, or which can be unconditionally cancelled at any time	0%

All other assets whose risk weightings are not included in the above review will continue to be risk-weighted at the old rate.

Capital Items:

Except for the following adjustments, the existing definition of the constituents of capital, deductions from total qualifying capital and restrictions within and between primary (Tier 1) and supplementary (Tier 2) capital are generally consistent with the Basel Accord.

General Provision:

The general provision will be part of Tier 2 Capital where the bank's specific provision for bad and doubtful debts has been made to the satisfaction of the CBN. However, such general provision will be restricted to a maximum of 1.25 percent of the risk assets.

Deductions of Investment in Unconsolidated Subsidiaries and Associates:

While deduction of investment in financial services from total qualifying capital is appropriate, investments in unconsolidated subsidiaries and associates are like extension of credits and will therefore be risk-weighted accordingly.

The revised risk weightings and the increase in the minimum capital adequacy ratio from 8% to 10% will take effect from January 2004.

O.I. IMALA
DIRECTOR OF BANKING SUPERVISION