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CIRCULAR TO ALL LICENSED BANKS:

ACCEPTING BANKS' OWN SHARES AS SECURITY FOR CREDIT FACILITIES

It has been observed that most banks grant facilities to their customers, especially their directors against the security of such banks' own shares without the prior approval of the Central Bank of Nigeria. Such practice contravenes the provisions of Section 20 (1) (b) of BOFIA, 1991, as amended, which precludes banks from granting credits facilities against the security of their shares. It also amounts to capital reduction by such banks through means other than those provided for in Sections 106 and 161 of Companies and Allied Matters Act (CAMA) 1990, as amended.

In the case of directors, any facility granted to them under such collateral arrangements without adhering to the provisions of BOFIA amounts to insider-abuse, which is against good corporate governance and the code of conduct which the directors had undertaken to uphold.

For the avoidance of doubt, BOFIA only provides for acceptance of own shares as security if the bank involved includes such provisions in its rules and regulations (credit policy) and the security is considered adequate.

Accordingly, banks are advised to desist from the practice of accepting own shares as security for credit facilities extended to their customers and in the case of directors, this should be entertained only under very exceptional circumstances in which case, strict adherence to the provisions of Section 20 (1) (b) of BOFIA, 1991, as amended should be observed.

O. I. IMALA

DIRECTOR OF BANKING SUPERVISION

Dbs, banks own shares