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BSD/DIR/GEN/LAB/06/017

April 2, 2013

LETTER TO ALL BANKS AND DISCOUNT HOUSES

RE: REVIEW OF RISK WEIGHTS ON CERTAIN INDUSTRY EXPOSURES IN THE COMPUTATION OF CAPITAL ADEQUACY

The review of risk weights assigned to certain industry exposures was intended to mitigate perceived emerging risks, concentration risks and to ensure that banks have adequate capital to support their risk taking activities. Therefore, the Central Bank of Nigeria (CBN) would like to make the following clarifications:

a) Where exposure to a particular industry within a sector (as defined by the International Standard Industrial Classification of Economic Sectors as issued by the CBN) is in excess of 20 per cent of total credit facilities of a bank, the risk weight of the entire portfolio in that industry shall be 150 per cent. If for instance the total exposure of a bank to the food manufacturing industry within the Manufacturing sector is in excess of 20 per cent of total credit facilities, the entire portfolio of exposure to the food manufacturing industry would be risk weighted 150 per cent.

b) Investments in the Federal Government of Nigeria Bonds shall continue to attract zero per cent risk weight. State Government Bonds that meet the eligibility criteria set out in the Guidelines for Granting Liquidity Status for State Government Bonds would be risk weighted at 20 per cent while others would continue to be risk weighted at 100 per cent.

c) All breaches of the single obligor limit without the prior approval of the CBN shall be regarded as impairment to capital.

d) For the purposes of credit transactions, banks' related parties within a holding company structure shall include, amongst others, the financial holding company and other subsidiaries within the group. Credit transactions by the bank within the group would therefore, be treated as follows:

i. Financial holding company lending to a bank within its group: – the bank should treat the loan as a liability.
ii. Lending by a bank to its financial holding company: - this would be regarded as a return of capital and deducted from the capital of the bank in computing its capital adequacy.

iii. Bank lending to subsidiaries in the same group: - where the loan is fully secured, it would be assigned a risk weight of 100 per cent, otherwise it would be deducted from the capital when computing capital adequacy. For the avoidance of doubt, security must be tangible, realizable and meet the conditions of providing a secured way out.

This letter supersedes our earlier letter referenced: BSD/DIR/GEN/LAB/06/003 dated January 31, 2013 and is to take effect from 1st January, 2014.

TOKUNBO MARTINS (MRS)
DIRECTOR OF BANKING SUPERVISION