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March 28, 2013

BSD/DIR/GEN/RFS/06/016

Dear Sir/Madam,

RE: LETTER TO BANKS ON THE RECAPITALIZATION OF FOREIGN SUBSIDIARIES

We refer to the above circular no BSD/DIR/GEN/RFS/024 dated May 18, 2012 which placed restrictions on banks recapitalizing their foreign subsidiaries as a result of directives from host regulators. The circular further sought to encourage the foreign subsidiaries of banks to source fresh capital from their local operating environments. The motive was to avoid a dependency culture on parent banks and serve as a check on discriminatory capital regimes in some jurisdictions.

The Central Bank of Nigeria hereby issues the following clarification based on enquiries from operators and other stakeholders:

The Bank will continue to consider applications for recapitalization in the following cases:

1. Where the capital of a subsidiary is impaired in the normal course of business due to operational and other losses
2. Where it is demonstrated that the increase in capital is commensurate with the level of business and profitability of normal banking operations such that there is no incentive to take unfair risks in the quest for returns
3. Where a Nigerian bank is setting up a new subsidiary in another country with reasonable capital requirements

4. Where Host Regulators require an increase in capital that is reasonable and realistic, gradual and consistent with economic realities of the environment.

The Central Bank of Nigeria will not approve export of capital to recapitalize a subsidiary of a Nigerian bank where:

- a) The host regulator issues discriminatory guidelines that give preference to so-called "local banks" over foreign banks either in amount required, or timelines, or sanctions, or howsoever. The playing field has to be level; and
- b) Where the host regulator requires an amount of capital injection where the Central Bank of Nigeria believes the amount, or timeframe given, or the rate of growth will subject the banks to undue risk.

All banks are to be accordingly guided.

TOKUNBO MARTINS (MRS)
DIRECTOR, BANKING SUPERVISION