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CIRCULAR TO ALL BANKS

GUIDELINES FOR FOREIGN BORROWING FOR ON-LENDING BY NIGERIAN BANKS

1. Preamble

Following the consultations and dialogue with the operators in the industry regarding the procurement of foreign loans for on-lending by Nigerian banks, the following guidelines are issued in order to coordinate the process in an effort to ensure that the full benefits are reaped while managing the inherent risks. The concern of the Central Bank of Nigeria which is borne out of various factors such as the quantum of such loans vis-a-vis the capacity of the institutions, the terms and conditions of the facilities, etc and our experiences in the recent past in terms of the inherent foreign exchange risk have been taken into account. Accordingly, the roles and expectations of the operators and the Central Bank of Nigeria are spelt out hereunder:

2. Processing Of Foreign Loans

Banks are NOT required to notify the CBN before entering into negotiations with foreign lending institutions. It is however expected that banks will submit the details of the arrangement, such as the terms and conditions of the loan, including the tenor, moratorium (if any), interest rates applicable and other relevant information to the Banking Supervision Department of CBN before signing the agreements and draw down. Banks are encouraged to facilitate the development and growth of the real sector by negotiating loans with 2 to 3 years moratorium for the financing of medium and long-term projects. Also, banks should increasingly explore the possibility of attracting capital inflow in the form of equity participation by the foreign lending institutions because of technical know-how and management expertise.

3. Documentation

The borrowing banks, are expected at all times to comply with the Federal Government's external borrowing policy and the documentation requirements specified by the Trade and Exchange Department of the CBN in its circular to all authorized dealers ref: TED/AD/30/96 of May 29, 1996.

4. Disbursement Of Loans

Where the lending institutions do not specify clearly the areas/institutions to which such loans are to be channeled, the borrowing banks should, in disbursing such loans, ensure that they do so to projects/institutions that have the ability to generate foreign exchange that will be used to service the loan.

Banks are therefore advised not only to thoroughly appraise such projects taking into consideration, project completion and success, but also ensure that adequate cash flows for debt servicing are generated in foreign currency.

Banks are also advised to avoid concentration in lending in terms of sectors of the economy and/or institutions being lent to.

5. Single Obligor Limit

In on-lending the funds, banks are expected at all times, to keep their risk exposure to any customer within the single obligor limit as specified by the CBN.

6. Total Exposure

The aggregate borrowing of a bank from foreign institutions shall not exceed 200% of its shareholders funds unimpaired by losses.

7. Guarantee Of Facilities By The CBN

The Central Bank of Nigeria **WILL NOT** serve as a guarantor to any bank seeking to borrow from external financial institutions, as such transactions should be seen purely as commercial relationships between the parties concerned. Therefore, there should be no

clause in the loan agreement seeking to commit the CBN on repayment in the event of a default.

8. Repayment Of Loans

Funds for the repayment of the loans, including the interest element shall not be sourced from the CBN except in cases where the borrowing bank provides evidence that, in addition to the certificates of capital importation issued, the facilities were tied to projects that were capable of conserving foreign exchange through local production of goods/services, which would otherwise have been imported.

9. Rendition Of Returns To Regulatory Authorities

Banks are to render returns to the Director of Banking Supervision on a quarterly basis on the level of their loan from foreign institutions and the amount of lending to their customers there from. Such returns, which are to be rendered in the attached format is in addition to the statutory quarterly returns and the present reports made by banks in the Monthly Bank Returns 300 and 913. Banks are also required to render returns on loans with medium to long tenor to the Nigerian Investment Promotion Commission.

10. Accounting Treatment

Where a bank obtains direct facilities (i.e. foreign loans in its own name for lending to customers), the transaction should be reported "on balance sheet" and would be treated as part of the bank's total liabilities.

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