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### **CIRCULAR TO ALL BANKS ON OFFSHORE EXPANSION**

The Central Bank of Nigeria has observed with serious concern the aggressive expansion by banks, particularly cross border, in the recent past. These involve additional risks.

While, the Central Bank of Nigeria appreciates the need for Deposit Money Banks (DMBs) to grow their banks and improve profitability as they seek to deliver value to stakeholders, it is imperative to have in place guidelines that would further strengthen the system and ensure safety and soundness of the financial institutions, both at home and offshore.

In the light of the current realities in the banking industry and in line with CBN's risk-based approach to supervision, guidelines on offshore expansion by banks have been approved by the Management of the Central Bank of Nigeria.

Consequently, all banks are by this circular, enjoined to adopt the requirements as contained in the attached Guidelines as the minimum requirements for offshore expansion.

**O. I. IMALA**  
**DIRECTOR OF BANKING SUPERVISION**

## **MINIMUM REQUIREMENTS FOR OFFSHORE EXPANSION BY BANKS**

### **Documentation:**

#### **a) Application Requirements**

- i. The parent bank should formally request for the consent of the home country regulator to establish a foreign branch or subsidiary.
- ii. Realistic feasibility Study should accompany the formal request. All cost elements indicated in the feasibility studies should be critically appraised to ascertain the viability of the proposed subsidiary. The feasibility study should be accompanied by a market survey to support the projected market share.
- iii. Extract of the parent bank's board resolution authorizing the establishment of the foreign branch/ subsidiary.
- iv. Details of the shareholding structure of the proposed affiliate/subsidiary including the minority shareholders.
- v. Memorandum and Articles of Association of the proposed affiliate/subsidiary.
- vi. Copy of Certificate of Incorporation of the proposed affiliate/subsidiary.
- vii. Organogram and detailed profile of the directors and key management personnel of the proposed subsidiary.
- viii. An undertaking by the host regulator to make future examination reports, management letters, audit reports and any other reports on the subsidiary considered necessary to aid the

supervision of the entity available to the Director of Banking Supervision.

- ix. Pro-forma consolidated financial statements
- x. Pro-forma consolidated regulatory capital calculation
- xi. Host country capital computation rules
- xii. Provision put in place to keep records of the activities of the branch/ subsidiary in English where it is located outside English speaking environment.
- xiii. Due diligence report on the investee company (where existing company is to be acquired in whole or in part).

**b) Prudential/Statutory Requirements**

- i. Financial condition of the parent bank for the past 12 months should be sound in terms of liquidity, capital adequacy, etc.
- ii. The parent bank should have operated profitably for the past two years, should be reflected in the bank's Audited Accounts.
- iii. Availability of free funds.

**c) Risk Management System Requirement**

- i. The Management should submit a detailed Enterprise Risk Management framework of the proposed subsidiary, highlighting the impact on the parent bank.
- ii. Operational Control: - The parent bank should give details of how the operations of the subsidiary would be monitored from the home country.

**d) Business Plan & Strategy**

- i. The Parent bank should forward the Branch/Subsidiary's expansion Strategic plan covering a minimum period of 5 years, stating clearly the phase and timelines for implementation.

- ii. The provision of BOFIA requires that the parent bank's aggregate investment in all its subsidiaries is subject to a limit of 25% of the paid up capital and statutory reserves.

**e) Supervisory Obligations**

- i. No subsidiary of any bank would (whether foreign or local) be allowed to open another subsidiary/associate without the express permission of the CBN.
- ii. The bank should furnish the CBN with a status report on previously approved expansion in respect of branches/subsidiaries.
- iii. The bank should have substantially complied with key provisions of the Code of corporate governance for banks in Nigeria, before new request for foreign branch expansion and establishment of subsidiaries are processed.
- iv. Banking laws and guidelines for the licensing of Financial Institutions issued by the host country regulator should be included in the application for review. Where this is found inadequate, onsite visitation of the subsidiaries should be carried out to complement the supervision of the host country supervisors.
- v. Report on the regulatory environment of the host country highlighting any possible restrictions which could limit CBN's ability in exercising its regulatory powers on the subsidiary.
- vi. CBN should enter into an MOU with the host country regulator in order to facilitate exchange of information if none is available at time of application.
- vii. The existence and implementation of Enterprise Wide Risk Management Framework approved by the Board of the bank is a prerequisite for further branch/subsidiaries investment/expansion.

viii. The parent bank should accompany its application for investments in subsidiaries with an Internal Capital Adequacy Assessment Process (ICAAP) in the host country.

B. **Procedure**

a) The application would be examined against the following:

- ☞ Benefit (justification) accruable from the location.
- ☞ The capacity of the parent bank to cope with further expansion considering its free funds, capital adequacy, liquidity and management effectiveness.

b) The detailed feasibility report would be critically reviewed considering among other things the following areas:

- ☞ Viability of the proposed branch/subsidiary;
- ☞ Range of products;
- ☞ Estimated initial capital expenditure and other operational costs, in naira and foreign exchange, for the proposed branch/subsidiary, with breakdown of the estimates;
- ☞ Source of foreign exchange to finance the establishment and running of the branch/subsidiary for the initial period of operation;
- ☞ Financial projections for at least 3 years - including balance sheet and profit and loss accounts and notes and assumptions on the projections;
- ☞ Appraise the personnel requirements and the Curriculum Vitae (CV) of the proposed staff to ensure that they have the requisite experience and skills for effective management of branch/subsidiary;

c) The parent bank's enterprise risk management framework should

be reviewed in relation to the impact of the subsidiary on the parent and mechanism put in place to monitor the operations of the branch/subsidiary;

- d) There shall be focus on Corporate Governance to ensure key provisions have been substantially complied with.
- e) Status report on previous approvals as regards foreign subsidiary/branch shall be reviewed to ascertain the level of institution. Revalidation shall come by way of fresh application with appropriate documentation.
- f) The existence of an MOU with the host country would be ascertained. If none exist, the attention of the CBN Management would be drawn to the need to put one in place.
- g) The bank's submission shall be appraised to determine the capability of the host country supervisor. Where this is found to be inadequate, onsite visitation of the subsidiary shall be recommended to complement the supervision by the host supervisor.
- h) Based on the above, a report with an appropriate recommendation shall be prepared for the consideration of the CBN Management.

**BANKING SUPERVISION  
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