LETTER TO ALL BANKS AND DISCOUNT HOUSES

Exclusion of Non-Distributable Regulatory Reserve and Other Reserves in the Computation of Regulatory Capital of Banks and Discount Houses

As part of the ongoing reforms by the Central Bank of Nigeria (CBN) aimed at ensuring more prudent assessment of the regulatory capital of Nigerian banks and in line with global efforts aimed at raising the quality and loss absorbency of the capital base of banks, the CBN hereby informs banks on the exclusion of following reserves in the computation of total qualifying capital:

1. The Regulatory Risk Reserve created pursuant to Section 12.4 (a) of the Prudential Guidelines which was effective on July 1, 2010 will henceforth be excluded from regulatory capital for the purposes of capital adequacy assessment;

2. Collective impairment on loans and receivables and other financial assets will henceforth not form part of Tier 2 capital; and

3. Other Comprehensive Income (OCI) Reserves will be recognized as part of Tier 2 capital subject to the limits set in paragraph 3.2 of the CBN Guidance Notes on the Calculation of Regulatory Capital. For the avoidance of doubt, total Tier 2 capital (including OCI Reserves) is limited to 33.33% of total Tier 1 capital. Also, banks are required to note that unaudited OCI gains will not be recognized as part of capital while unaudited OCI losses shall be deducted from the institution’s capital in arriving at total qualifying capital.
The provisions of this circular supersede the provisions of S. 12.4 (b) of the Prudential Guidelines as well as S. 2 of our Guidance Notes on the Calculation of Regulatory Capital.

Please note that the requirements of this circular take immediate effect.

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