INCREASE IN THE MINIMUM SHARE CAPITAL REQUIREMENTS FOR BANKS

Introduction

The Central Bank of Nigeria (CBN) recently unveiled the **Banking Sector Recapitalization Programme 2024** (the "Programme") which mandates commercial, merchant, and non-interest banks to increase their minimum paid-in common equity capital before 31st March 2026. This marks the first increase since 2004 and aims to enhance the resilience, solvency, and stability of banks with the overarching goal of supporting the achievement of a US$1 trillion Nigerian economy by 2030.

Here, we highlight the new minimum capital requirements for the affected banks, recapitalization options available and key considerations and implications arising from the Programme.

New Minimum Capital Requirements (MCR)

The revised minimum capital requirements for commercial, merchant, and non-interest banks are detailed in the table below.

LICENSE CATEGORY	PREVIOUS CAPITAL REQUIREMENT	NEW CAPITAL REQUIREMENT
International Commercial Banks	₦50 billion	₦500 billion
National Commercial Banks	₦25 billion	₦200 billion
Regional Commercial Banks	₦10 billion	₦50 billion
National Merchant Banks	₦15 billion	₦50 billion
National Merchant Banks	₦10 billion	₦20 billion
Regional Non-Interest Banks	₦5 billion	₦10 billion

In assessing compliance with the new MCR by prospective banks, CBN will only consider Paid-up capital while for existing banks, the CBN will take into consideration the Paid-in capital (that is Paid-up plus Share Premium) only. As a result, bonus issues, shareholders' fund, other reserves, and Additional Tier 1 (AT1) capital will not be allowed or recognized for the purpose of meeting the new minimum capital requirements. Nonetheless, relevant reserves will continue to be recognized in the computation and determination of the risk-based Capital Adequacy Ratio (CAR) in line with the CBN's Guidelines on Regulatory Capital.

Compliance Period

Existing banks are to ensure adequate compliance within a timeline of 24 months, starting from April 1, 2024, to March 31, 2026. For prospective banks that have made capital deposits with the CBN and/or Approval-in-Principle (AIP) has been granted, the promoters shall ensure that the difference between the deposited capital and the new capital requirement is deposited to the CBN not later than March 31, 2026. For new banks with applications submitted after April 1, 2024, the promoters will be required to comply with the new minimum capital requirement before CBN considers and approves the application.

Option for Compliance

CBN has recommended three options that banks may explore to meet the revised MCR. These options include (a) Capital injection via equity issue (i.e. private placements, rights issues, or offer for subscriptions); (b) Mergers and Acquisitions; or (c) License authorization upgrade or downgrade. The different options are discussed further in subsequent slides.

a. Capital Injection through Equity Issue

Banks intending to meet the new MCR via capital injection may issue new shares to investors through private placements, rights issues, or offers for subscription. A 'rights issue' allows banks to issue shares to existing shareholders thereby minimizing ownership dilution. A successful right issue is however subject to the willingness and ability of existing shareholders to further invest in the bank. As an alternative, a bank may consider 'private placements' which entails issuing shares to a select group of investors without a public offering. However, private placement like an offer for subscription would substantially dilute the existing shareholders. Additionally, a publicly owned bank can raise capital by way of a 'public offering' thereby allowing members of the general public invest in the bank and the banking sector at large. For new investors or shareholders, banks **will be required to ensure that appropriate and effective anti-money laundering screening/checks (Know Your Customer, Customer Due Diligence and Suspicious Transactions Monitoring, etc) are conducted.**

b. Mergers and Acquisitions (M & As)

Banks may also consider merging with or acquiring another banking institutions to increase their capital base and strengthen their position in the market. By merging with or acquiring other banks, institutions can pool their resources, expand their customer base, and achieve a larger market share in the banking industry. However, the mergers and acquisitions will require obtaining regulatory compliance and approvals from CBN, the Nigerian Exchange Group (NGX), the Securities and Exchange Commission (SEC), and the Federal Competition & Consumer Protection Commission (FCCPC). In the event of a mergers or acquisition, CBN has assured depositors that their funds and interest will be secured as the acquiring institution will assume all liabilities and obligations to depositors.

c. Upgrade or Downgrade of license authorization

For banks that are not able to meet the revised MCR through equity issue, merger, or acquisition and are not open to ownership dilution, they may opt to downgrade to a banking license authorization with lower capital requirements.

All banks are required to submit an implementation plan, clearly indicating their chosen options for meeting the new capital requirement to the Director, Banking Supervision Department, CBN, not later than April 30, 2024.

Implementation and Oversight

To ensure the smooth implementation of the Programme, the CBN has outlined clear guidelines and procedures:

- **Monitoring and Supervision:** The CBN will actively monitor the recapitalization exercise, conduct on-site and off-site reviews, verify capital, and engage stakeholders. Any breaches of regulations will be met with appropriate sanctions.

- **Depositor Protection:** The CBN will collaborate with the Nigeria Deposit Insurance Corporation (NDIC), to ensure the protection of depositors' interests throughout the Programme.

- **Ensuring Consumer Continuity:** The Programme is designed to ensure that regular banking operations continue uninterrupted, safeguarding the interests of consumers of financial services.

Conclusion

The Central Bank of Nigeria's Banking Sector Recapitalization Programme 2024 marks a significant milestone aimed at fortifying the resilience and stability of the country's banking industry. With the implementation of increased minimum capital requirements for commercial, merchant, and non-interest banks, the initiative underscores a proactive approach to aligning the sector with global standards and fostering economic growth. Embracing these reforms positions Nigeria's banking sector to emerge stronger, more resilient, and better equipped to support the nation's economic aspirations in the years to come.

As observed in the aftermath of the previous bank recapitalization exercise in 2004/2005, banks failing to meet the revised minimum capital requirements by March 31st, 2026, face the risk of losing their banking license and subsequent liquidation. Looking ahead, further guidance from regulatory authorities will play a crucial role in clarifying definitions, outlining additional strategies, and facilitating a smooth transition for all stakeholders involved.

We will continue to keep you informed as developments arise.
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