Stren & Blan Partners' Industry Alert

CBN ISSUES DIRECTIVES ON THE REVIEW OF MINIMUM CAPITAL REQUIREMENTS FOR COMMERCIAL, MERCHANT, AND NON-INTEREST BANKS IN NIGERIA.

Introduction

On March 28, 2024, the Central Bank of Nigeria **("CBN")** issued a circular **FPR/DIR/PUB/CIR/002/009** on the review of the minimum capital requirements for commercial, merchants, and non-interest banks **("Banks").** This review comes in response to prevailing macroeconomic challenges and the need to enhance banks' resilience, solvency, and capacity to support the Nigerian economy.

New Minimum Capital Requirement

1. Commercial Banks: International (N500 billion), National (N200 billion), and Regional (N50 billion)
2. Merchant Banks: National (N50 billion)
3. Non-Interest Banks: National (N20 billion) and Regional (N10 billion)

The table below provides a clear comparison between the old and new minimum capital requirements for each bank category:

	Minimum Capital (Old)	Minimum Capital (New)	Difference	Increase in %
Commercial Banks	50 (International)	500	450	900%
	25 (National)	200	175	700%
	10 (Regional)	50	40	400%
Merchant Banks	15	50	35	233%
Non-Interest Banks	10 (National)	20	10	100%
	5 (Regional)	10	5	100%

As the table shows, the new requirements represent a substantial increase compared to the previous levels, and in other to meet this revised capital requirement, the CBN has given banks a 24-month time frame starting from **April 1, 2024, to March 31, 2026**.

The CBN has also provided for various options in which banks can achieve the new minimum capital requirement including:

- Injecting fresh equity capital through private placements, rights issues, or subscriptions.
- Engaging in mergers and acquisitions (M&As).
- Upgrading or downgrading their license authorization.

All banks, existing and new applicants, are expected to submit an implementation plan to the Director Banking Supervision Department, CBN by **April 30, 2024**. This plan should detail the chosen options and timelines for achieving the new capital requirements.

It's also important to note that for existing banks, the minimum capital requirement shall comprise paid-up capital and share premium only, which shall not be based on shareholders fund[1], and Additional Tier 1 (AT1) Capital[2] shall not be eligible for meeting the new requirement. Notwithstanding the capital increase, banks are to ensure strict compliance with the minimum Capital Adequacy Ratio (CAR)[3] requirement applicable to their license authorization. Banks that breach the Capital Adequacy Ratio (CAR) requirement shall be required to inject fresh capital to regularize their position.

However, for new banks seeking licenses, the minimum capital requirement shall be paid-up capital only This requirement applies to all new banking license applications submitted after **April 1, 2024**. The CBN will also continue to process pending applications for banking licenses, with promoters required to make up the difference between the capital deposited and the new capital requirement by **March 31, 2026**.

[1]The statement that the new capital requirement "shall not be based on shareholders' fund" indicates that the minimum capital requirement must be met through the injection of fresh equity capital, rather than relying on existing shareholders' funds. This means that banks cannot simply use their current shareholders' equity to meet the new requirement, instead, they must raise additional capital through the issuance of new shares.

[2]Additional Tier 1 (AT1) capital is a form of bank capital that provides a buffer against potential losses. It is perpetual, meaning it has no maturity date, and can be used to absorb losses and support a bank's ongoing operations in times of financial stress. AT1 capital is important for banks because it helps them meet regulatory capital requirements, particularly those related to the Basel III framework. Banks are required to maintain a minimum level of AT1 capital as part of their overall capital adequacy framework.

[3]Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. It is basically an indicator of how well a bank can meet its obligations. In Nigeria, Banks are required to maintain a minimum regulatory capital adequacy ratio (CAR) of 10%/15%.

Protection of Depositors

During the period of the implementation of this new minimum capital requirement, the CBN will work closely with the Nigeria Deposit Insurance Corporation **("NDIC")** to ensure the protection of depositors' interests. This collaboration is crucial in maintaining confidence in the banking system and safeguarding the funds of depositors.

Implications for Banks

- Strengthened Capital Base: Banks will need to raise additional capital, which could lead to improved capital adequacy ratios and stronger financial positions.
- Operational Adjustments: Banks may need to restructure their operations to accommodate the increased capital requirements, which could impact profitability and efficiency.
- Access to Credit: There is a possibility that banks may become more cautious in lending, as they strive to meet the new capital requirements, potentially affecting access to credit for businesses and individuals.

Implications for the Economy

- Improved Financial Stability: A stronger banking sector with higher capital requirements could contribute to overall financial stability in the economy.
- Increased Investor Confidence: The higher capital requirements may boost investor confidence in Nigerian banks, leading to increased investment in the economy.
- Enhanced Competitiveness: The new requirements may spur competition among banks, leading to improved efficiency and innovation in the sector.
- Potential Economic Growth: Strengthening the banking sector is crucial for economic growth, as banks play a key role in financing economic activities.

[4]Paid-up capital refers to the amount of a company's capital that has been funded by shareholders. It represents the actual cash contribution made by shareholders to the company, as opposed to authorized or promised capital that has not yet been paid in. For new banks seeking licenses, the requirement that the minimum capital be "paid-up capital only" means that they must have the full amount of required capital in cash at the time of application, demonstrating their financial stability and readiness to operate.

Conclusion

The CBN's decision to raise the minimum capital requirements for banks highlights its commitment to ensuring a sound and stable banking system in Nigeria. While the new requirements may pose initial challenges for banks, they are crucial for enhancing the sector's resilience and ability to support economic growth. By strengthening the banking sector, the CBN is laying a foundation for a more robust and sustainable financial system that can withstand future challenges and contribute to Nigeria's overall economic development.

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Stren & Blan Partners is a full-service commercial Law Firm that provides legal services to diverse local and multinational corporations. We have developed a clear vision for anticipating our client's business needs and surpassing their expectations, and we do this with an uncompromising commitment to Client service and legal excellence.

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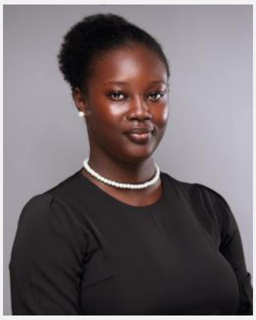

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