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**RECAPITALIZATION OF BANKS IN NIGERIA:
THE LEGAL PERSPECTIVES AND
STRATEGIC IMPLICATIONS**

INSIDE TOLG ADVISORS

INTRODUCTION

Recapitalisation, the process of injecting additional capital into a company to improve its financial stability, has been a significant topic in the Nigerian banking sector over the years.

Bank recapitalisation is a critical process in ensuring the stability and growth of the financial sector, particularly in an economy like Nigeria, where banks play a pivotal role in economic development.

The recapitalization of banks often occurs in response to financial instability, regulatory changes, or to enhance competitiveness in a growing global market. It is also essential for ensuring liquidity, solvency, and long-term stability. In Nigeria, recent developments in the banking sector, driven by ongoing recapitalisation efforts, are reshaping the industry's landscape.

This article explores the current wave of recapitalisation in Nigeria, the legal perspectives guiding this critical process, and the strategic moves banks are making to consolidate their positions.

THE CURRENT STATE OF RECAPITALIZATION IN NIGERIA

In March 28, 2024, the Central Bank of Nigeria (the “CBN”) via a circular announced its Recapitalisation Policy (the “Policy”) of the banking sector. By the Policy, the current minimum capital requirement for commercial banks with international authorization has been set at N500,000,000,000 (Five Hundred Billion Naira). The CBN has also increased the minimum capital base for commercial banks holding national authorization to N200,000,000,000 (Two Hundred Billion Naira), and for those with regional authorization to N50,000,000,000 (Fifty Billion Naira). Merchant banks now have a minimum capital requirement of N50,000,000,000 (Fifty Billion Naira), while non-interest banks holding national and regional authorizations must adhere to new minimum requirements of N20,000,000,000 (Twenty Billion Naira) and N10,000,000,000 (Ten Billion Naira), respectively. With respect to international and national banks, this represents a monumental increase by about 900%, with a significant upward increase for regional banks as well.

The main goal of this Policy is to ensure that Nigerian banking sector is realigned with global best practices, to ensure that the Banks remain competitive on a global scale, especially as the economy faces challenges like inflation, foreign exchange volatility, and sluggish economic growth.

Since the last major recapitalisation in 2005, inflation and exchange rate fluctuations have eroded the real value of the ₦25 billion capital requirement. The new target is to double or even triple this figure, effectively compelling banks to either raise fresh capital through Public Offer by private placements, rights issues and/or offer for subscription, Mergers and Acquisitions as a survival strategy or risk a downgrade of its banking license authorization.

LEGAL FRAMEWORK GOVERNING BANK RECAPITALIZATION IN NIGERIA

Nigerian bank recapitalization laws are set forth in several statutes and regulations that are upheld by the Securities and Exchange Commission (SEC), the CBN, and the Nigerian Deposit Insurance Corporation (NDIC). Several important legal documents are as follows:

BANKS AND OTHER FINANCIAL INSTITUTIONS ACT (BOFIA) 2020

Nigerian bank recapitalization laws are set forth in several statutes and regulations that are upheld by the Securities and Exchange Commission (SEC), the CBN, and the Nigerian Deposit Insurance Corporation (NDIC). Several important legal documents are as follows:

- Mandate recapitalization to improve the stability and solvency of banks;
- Intervene in the management of failing banks, sometimes by appointing a resolution team; and
- Approve restructuring initiatives, such as mergers or acquisitions, as part of recapitalization.

CENTRAL BANK OF NIGERIA PRUDENTIAL GUIDELINES

The CBN Prudential Guidelines are critical in setting the capital adequacy ratios for Nigerian banks. These guidelines determine how much risk a bank can carry in relation to its capital base. In cases where banks fail to meet the ratio, recapitalisation becomes mandatory to prevent bank failures or systemic risks.

COMPANIES AND ALLIED MATTERS ACT (THE “CAMA”) 2020

The CAMA regulates the corporate governance and day-to-day activities of businesses, including banks. Banks must comply to the stipulated rules provided by the CAMA when it comes to acquiring capital,

issuing new shares, and getting shareholder approval during recapitalization. This guarantees accountability and transparency throughout capital restructuring procedures

SECURITIES AND EXCHANGE COMMISSION (SEC) REGULATIONS

The Nigerian Exchange Limited (NGX) lists a large number of Nigerian banks; hence the SEC is crucial in controlling capital market activities. The SEC's regulations on disclosures, investor protection, and transparency must be followed by banks engaged in recapitalization projects that involve rights issues or public offerings.

CURRENT STRATEGIES FOR RECAPITALIZATION AND TAKEOVERS

Nigerian banks are adopting a range of strategies to comply with the new capital requirements, including rights issues, the issuance of additional shares, mergers and acquisitions, and attracting foreign investors.

RIGHTS ISSUES AND SHARE SALES

A few banks in Nigeria have resorted to rights offerings on the capital markets in order to obtain additional capital. For examples of such banks are:

a. Access Holdings Plc – which carried out a N351,000,000,000 (Three Hundred and Fifty-One Billion Naira) rights issue programme, offering its existing shareholders 17,772 billion ordinary shares of 50 kobo (Fifty kobo) each at N19.75 (Nineteen Naira, Seventy-Five Kobo) per share; and

b. In a bid to raise the needed capital to comply with the new CBN requirements, Zenith Bank has issued a N290,000,000,000 (Two Hundred and Ninety Billion Naira) combined offer of its shares to its existing shareholders and public. Right Issue of 5,232,748,964 ordinary shares of 50 kobo each at N36 per share on the basis of 1 new ordinary share for every 6 ordinary shares held and Offer for Subscription of 2,767,251,036 ordinary shares at N36.50 per share.

This approach allows banks to maintain their operational independence while shoring up their capital base.

MERGERS AND ACQUISITIONS (M&A)

M&A has become a central strategy in Nigeria's recapitalization efforts. Smaller banks struggling to meet the new capital requirements are actively seeking to merge with larger, financially stable institutions. This consolidation not only ensures survival but also strengthens the overall industry by reducing fragmentation and creating more competitive players. A good example is the recent Providus bank and Unity Bank Merger. Unity Bank Plc and Providus Bank Limited merged with the approval and facilitation of the Central Bank of Nigeria (CBN), according to a recent announcement.

This occurred a few months after Heritage Bank Plc's liquidation, which may have resulted in yet another financial crisis for the country. To facilitate the proposed merger, the apex bank announced that it had authorized what it called a crucial financial accommodation. The CBN stated that the strategic action was intended to support the stability of Nigeria's financial system and prevent potential systemic concerns, which further elucidated the significance of its intervention.

FOREIGN INVESTMENT AND PARTNERSHIPS

A few Nigerian banks are also looking into joint ventures with foreign investors to fulfill the CBN's mandate for recapitalization. Nigerian banks can upgrade their operations through technology and knowledge transfer thanks to foreign direct investment (FDI), which also gives them access to new money. Another option is for banks to form strategic alliances with multinational financial institutions, which allow

them to acquire worldwide experience and raise cash. To safeguard the interests of Nigerian banks and stop foreign investors from obtaining undue influence over the banking industry, the CBN has put policies in place.

STRATEGIC IMPLICATIONS OF THE CURRENT RECAPITALIZATION WAVE

Nigeria's current wave of recapitalization is expected to have significant strategic ramifications for the financial sector, the banking sector, and the overall economy, some of which are;

A. Financial Stability and Resilience

Nigerian banks can better withstand economic shocks and lower their exposure to risks like inflation, currency depreciation, and non-performing loans by increasing their capital base. Additionally, stronger capital buffers will enable banks to better manage liquidity, ensuring that they can fulfill their commitments even in times of economic depression.

B. Market Consolidation

The banking industry is experiencing a major consolidation because of the need for recapitalization. Fewer but larger banks that are better positioned to compete both locally and internationally are the consequence of mergers and acquisitions. Stronger banks can benefit from economies of scale, which lowers the chance of bank failures and increases industry efficiency overall.

C. Competitive Advantage and Expansion

Banks with a competitive advantage in the market are those that successfully recapitalize. They will have the freedom to adopt bold expansion plans, like growing their clientele, making investments in fintech, and breaking into new regions. Nigerian banks are specifically focusing on prospects in other African nations, utilizing regional economic integration programs like the African Continental Free Trade Area.

D. Corporate Governance and Risk Management

Banks are expected to improve their risk management and corporate governance structures when they obtain additional capital. In order to draw in foreign investment and preserve public trust, adherence to global best practices in fields like counterterrorism finance (CTF) and anti-money laundering (AML) will be essential.

CHALLENGES IN THE RECAPITALIZATION PROCESS

While recapitalization offers numerous benefits, there are still challenges poised to Nigerian banks that they must navigate:

- . **Regulatory Compliance:** It can be expensive and time-consuming to comply with CBN, SEC, and other regulatory standards, particularly for smaller banks. To guarantee a seamless procedure, banks will need to interact with authorities in a proactive manner.
- . **Dilution of Shareholder Value:** Existing shareholders' ownership interests may be diluted by cash raised through rights issues or public offerings. Shareholder opposition could result from this, especially if the bank has not had good market performance.
- . **M&A Integration Risks:** One of the integration issues brought about by mergers and acquisitions is bringing business cultures, systems, and operations into harmony. These interfaces could affect customer service and result in operational inefficiencies if improperly managed.

CONCLUSION

The recapitalisation of banks in Nigeria is a necessary step in ensuring the stability, growth, and competitiveness of the sector. With the new capital adequacy requirements, Nigerian banks are positioning themselves to become stronger players both within the country and across the African continent. The strategic implications are significant, ranging from enhanced financial stability to increased M&A activity and the expansion of market presence.

The ongoing recapitalisation initiatives for Nigerian banks bring opportunities as well as challenges. While the road ahead may be difficult for some, those that successfully navigate the recapitalisation process will emerge stronger, more resilient, and better equipped to thrive in an increasingly competitive and globalised financial landscape.

This Article was written by the Banking & Finance, Securities, Mergers & Acquisitions and Private Equity & Venture Capital Teams at TOLG Advisors.



HALDANE MCCALL PLC'S LISTING ON THE NIGERIAN STOCK EXCHANGE (NGX)

TOLG Advisors is proud to announce the successful listing of Haldane McCall Plc on the Nigerian Stock Exchange (NGX).

We acted as Solicitors to the Listing in connection with the transaction.

Congratulations to our Securities, Mergers & Acquisitions (SMA) Team.



PICKNFIX PROMISSORY NOTES CAPITAL RAISE

TOLG Advisors is pleased to announce the successful completion of the Series 1 Issuance Exercise under the Promissory Notes Capital Raise Programme for PicknFix Limited.

We acted as Transaction Counsel in connection with the transaction.

Congratulations to our Private Equity & Venture Capital (PEVC) Team.



TOLG KNOWLEDGE SHARING SESSION AND ASK ME SERIES WITH MO

The Firm hosted a thought-provoking and informative Knowledge Sharing Session with a lecture on “Understanding Financial Statements”, delivered by Mr. Bayo Opatade, MD, Adino Asset Management Limited. This was followed up by the “Ask Me Series with MO”, moderated by our Global Chairman, Mr. Michael Orimobi. These events equipped our staff with valuable insights to analyzing financial data effectively, thus, enhancing their ability to provide bespoke legal advice to clients and strengthening the firm's overall capacity to address finance-related client matters



TOLG QUARTERLY TGIF HANGOUT

Further to the Firm's dedication to its culture of fun, the TGIF Hangout at Filmhouse Cinemas, Victoria Island, offered staff a relaxed and enjoyable opportunity to bond and unwind.



F-TAB INTERNATIONAL MEN'S DAY CELEBRATION

In commemoration of International Men's Day and with a view to fostering awareness and personal development, the Firm hosted a men's interactive session featuring insightful discussions on “Managing Expectations and Finances in 2025” and “Male Health and its Challenges in Modern-Day Nigeria”.

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