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Circular to All Commercial, Merchant and Non-Interest Banks; and Promoters of Proposed Banks

REVIEW OF MINIMUM CAPITAL REQUIREMENTS FOR COMMERCIAL, MERCHANT, AND NON-INTEREST BANKS IN NIGERIA

The prevailing macroeconomic challenges and headwinds occasioned by external and domestic shocks have underscored the need for banks to raise and maintain adequate capital to enhance their resilience, solvency and capacity to continue to support the growth of the Nigerian economy.

Consequently, in furtherance of its statutory responsibility to promote a safe, sound and stable banking system and in line with Section 9 of the Banks and Other Financial Institutions Act (BOFIA) 2020, the Central Bank of Nigeria (CBN) hereby announces an upward review of the minimum capital requirements for commercial, merchant and non-interest banks in Nigeria as follows:

Type of Bank	Authorisation	Minimum Capital (N' Billion)
Commercial	International	500
	National	200
	Regional	50
Merchant	National	50
Non-interest	National	20
	Regional	10

To meet the minimum capital requirements, banks may consider any of the following options:

1. Inject fresh equity capital through private placements, rights issue and/or offer for subscription;
2. Mergers and Acquisitions (M&As); and/or
3. Upgrade or downgrade of license authorization.

Accordingly, all banks and promoters of proposed banks are to note the following:

1. For Existing Banks

- a. The minimum capital specified above shall comprise paid-up capital and share premium **only**. For the avoidance of doubt, the new capital requirement shall **NOT** be based on Shareholders' Fund.
- b. Additional Tier 1 (AT1) Capital shall not be eligible for the purpose of meeting the new requirement.
- c. All banks are required to meet the minimum capital requirement within a period of **24 months** commencing from April 1, 2024 and terminating on March 31, 2026.
- d. Notwithstanding the capital increase, banks are to ensure strict compliance with the minimum capital adequacy ratio (CAR) requirement applicable to their license authorization.
- e. In line with extant regulations, banks that breach the CAR requirement shall be required to inject fresh capital to regularize their position.

2. For Proposed Banks

- a. The minimum capital requirement shall be paid-up capital.
- b. The new minimum capital requirement shall be applicable to all new applications for banking license submitted after April 1, 2024.
- c. The CBN shall continue to process all pending applications for banking license for which capital deposit had been made and/or Approval-in-Principle (AIP) had been granted. However, the promoters of such proposed banks shall make up the difference between the capital deposited with the CBN and the new capital requirement not later than March 31, 2026.



Finally, all banks are required to submit an implementation plan (clearly indicating the chosen option(s) for meeting the new capital requirement and various activities involved with their timelines). The plan shall be submitted to the Director, Banking Supervision Department, Central Bank of Nigeria, not later than April 30, 2024.

The CBN will monitor and ensure compliance with the new requirements within the specified timeline above.

Please note and be guided accordingly. For more information on the recapitalization programme, please refer to the attached Frequently Asked Questions (FAQs) or visit the CBN website at www.cbn.gov.ng.



HARUNA B. MUSTAFA
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

FREQUENTLY ASKED QUESTIONS (FAQs) ON THE BANKING SECTOR RECAPITALIZATION PROGRAMME 2024

1. What is the Banking Sector Recapitalization Programme 2024?

The Banking Sector Recapitalization Programme (the Programme) is a regulatory initiative of the Central Bank of Nigeria (CBN) that requires banks to increase their minimum paid-in common equity capital to a specified amount according to their license category and authorization within a specified period of time.

2. Why is the Programme necessary?

The Programme became necessary to further strengthen Nigerian banks against external and domestic shocks as well as enhance the stability of the financial system. By increasing the minimum capital requirements, the CBN aims to ensure banks have a robust capital base to absorb unexpected losses and capacity to contribute to the growth and development of the Nigerian economy.

3. What is the objective of the Programme?

The broad objective of the Programme is to engender the emergence of stronger, healthier and more resilient banks to support the achievement of a US\$1 trillion economy by the year 2030. Bigger banks with larger capital base and capacity can underwrite larger levels of credit which is critical to lubricate and catalyze the growth of the economy.

4. Which category of banks are affected by the Programme?

The Programme shall apply to commercial, merchant, and non-interest banks. The goal is to ensure that each institution maintains adequate capital that is commensurate with the risk profile, scale and scope of its operations.

5. What are the new minimum capital requirements under the Programme?

The new minimum paid-up share capital requirements applicable to each authorization category of banks are as follows:

Type of Bank	Authorisation	Minimum Capital (₦' Billion)
Commercial	International	500
	National	200
	Regional	50
Merchant	National	50
Non-interest	National	20
	Regional	10

For existing banks, the capital requirements specified above shall be paid-in capital (Paid-up plus Share Premium) only. Bonus issues, other reserves and Additional Tier 1 (AT1 Capital shall not be allowed or recognized for the purpose of meeting the new minimum capital requirements.

However, 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.

All applications for new banking license shall comply with the new capital requirements.

6. What is the timeframe for banks to comply with the new requirements?

The CBN has set a timeline of 24 months for banks to comply with the new requirements commencing from 1st of April 2024 and terminating on March 31, 2026.

7. Will the Programme affect banks' delivery of products and services?

The Programme will not affect the smooth functioning of banks. Accordingly, consumers of financial services are expected to carry on with their regular banking transactions unhindered during the implementation of the Programme.

8. How will the Programme impact the economy?

The Programme will better position banks to play their intermediation role through lending to critical sectors of the

Nigerian economy, thus supporting economic growth and development.

In addition to supporting economic growth, the Programme will help enhance banks' capital buffers to ensure their continued stability and sustainability in the face of global and domestic macroeconomic headwinds.

9. What factors did the CBN consider in determining the new minimum capital requirements?

The CBN assessed various factors in determining the appropriate level of the minimum capital requirements. These include:

- a. Risk profile of banks;
- b. Global and domestic headwinds and their potential impact on banks' balance sheets;
- c. Impact of inflation.
- d. Stress tests of banks' balance sheets, to gauge their resilience to absorb current and unexpected shocks.

10. Given that significant funds will be received from various investors in the course of the recapitalization exercise, how will the CBN ensure that illicit funds are not used for the purpose of recapitalization of banks?

The CBN has robust anti-money laundering regulations which will be strictly enforced, with the active collaboration of relevant law enforcement agencies. In addition, the CBN will require all banks to ensure that appropriate and effective anti-money laundering screening/checks (Know Your Customer, Customer Due Diligence and Suspicious Transactions Monitoring, etc) are conducted.

11. Given that new investors may own shares in banks as a result of this Programme, will the CBN ensure that only Fit and Proper persons are approved as significant shareholders of banks?

There shall be strict enforcement of Fit and Proper checks for all prospective and significant shareholders as well as directors and senior management staff of banks.

12. How are banks expected to raise or meet the required capital?

Banks may meet the new requirement through the following options:

- a. Issuance of new common shares (by way of public offer, rights issues, or private placements);
- b. Mergers and Acquisitions (M&As); or
- c. upgrade/downgrade of their respective license category or authorization.

The CBN will issue guidelines to prescribe the definition, options and approaches to meeting the new minimum capital requirement.

13. What is the role of the CBN in managing the recapitalization process?

The CBN will actively monitor and supervise the recapitalization process to ensure compliance with set guidelines. This will involve the conduct of on- and off-site reviews, verification of capital, periodic interventions when necessary and broader stakeholder engagements.

14. How will the CBN ensure the protection of depositors during the Program?

The CBN, in collaboration with the Nigeria Deposit Insurance Corporation (NDIC), will ensure that depositors' interests are protected during the Programme.

The CBN will enhance its monitoring and supervisory oversight over the banks and will apply appropriate sanctions for violations of extant laws and regulations as well as ensure the protection of depositors' interests.

15. In the event of a merger or acquisition, how will depositors be affected?

In a merger or acquisition scenario, depositors' accounts and funds will remain secure. The acquiring institution will assume

responsibility for all liabilities and obligations, including the protection of depositors.

16. How can the public stay informed about the progress of the programme?

The public can stay informed about the progress of the Programme by monitoring communications from the CBN, through its official website (www.cbn.gov.ng), social media handles and other communication channels.

17. What are the consequences if a bank fails to meet the new capital requirements?

The CBN remains optimistic that all banks will comply with the new capital requirements and will constantly engage banks on the status of execution of their respective implementation plans. In the event of non-compliance with the new capital requirements at the expiry of the transition timeline, the CBN will take appropriate steps in line with the provisions of relevant laws and regulations to sustain confidence in the banking system.

FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

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