

2024 BANK RECAPITALIZATION IN NIGERIA:

CBN's Approval of Financial Support for Unity Bank PLC and Providus Bank Limited.

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Introduction

In March, Nigeria's banking sector was significantly impacted by the announcement of an increase in the minimum required capital for banks operating across various license categories. The Central Bank of Nigeria (CBN), serving as the apex monetary authority and industry regulator, communicated this development through a circular dated 28th day of March 2024, titled "Review of the Capital Requirements for Commercial, Merchants, and Non-Interest Banks" (hereinafter referred to as "the Circular").

According to the Circular, the upward review of the capital requirement is aimed at ensuring that banks maintain a robust capital base to strengthen their resilience against macroeconomic challenges and headwinds occasioned by external and domestic shocks.¹ This measure is intended to enhance the solvency and capacity of Nigerian banks, enabling them to continue contributing to the growth and development of the Nigerian economy. In the long run, these efforts align with the federal government's goal of achieving a US\$1 trillion economy by the year 2030.

Although banks were not entirely surprised by the announcement of this policy, as the Governor of the Central Bank of Nigeria, Mr Olayemi Cardoso, had previously hinted at the CBN's intention to implement a new banking recapitalisation plan during the 58th Annual Bankers' Dinner organised by the Chartered Institute of Bankers of Nigeria (CIBN), in realising Nigeria's vision of achieving a one trillion-dollar economy by the year 2030 as championed by the federal government of Nigeria.² Many banks were nonetheless taken aback by the substantial amount required for the recapitalisation.

Banks such as Guaranty Trust Bank, Fidelity Bank, and First City Monument Bank are currently taking steps to enlarge their capital base by issuing their shares to the public to meet the new requirements ahead of the compliance deadline on March 31, 2026. However, smaller banks that may struggle to meet these capital requirements might consider mergers or other business combinations with other banks, which could potentially strengthen the Nigerian

¹ The CBN Circular "Circular to all Commercial, Merchant and Non-interest Bank: and Promoters of Proposed Banks."

² Olayemi Ologunagbe "What Recapitalization means for Nigerians" *BUSINESS DAY NEWS* Retrieved from <https://businessday.ng/news/article/explainer-what-bank-recapitalisation-means-for-nigerians/>

capital market. An instance of this is the strategic merger between Unity Bank and Providus Bank.

2024 Banks Recapitalization In Nigeria

The concept of recapitalization is not new in the Nigerian banking sector. Significant reforms for recapitalization in the banking sector can be traced to the CBN at different points in the history of the industry. The 1990s witnessed the first drive towards recapitalization in the Nigerian banking sector. However, recapitalization as a concept gained significant momentum in 2004 during the tenure of Charles Soludo as Governor of the CBN, when it announced the recapitalization of banks from N2,000,000,000 (Two Billion Naira) to N25,000,000,000 (Twenty-Five Billion Naira), effective from 31st of December, 2005.³

With nearly two decades since the last recapitalization effort, the current minimum capital requirement has become insufficient to meet the demands and opportunities presented by Nigeria's expanding economy. The sector is once again poised to play a crucial role in accelerating economic growth and achieving the government's vision of a trillion-dollar economy by 2030.

Given the critical role of recapitalization in expanding the financial sector by strengthening the banking industry, driving economic activity and growth, and aligning the Nigerian economy with global financial standards and best practices, the CBN through its Circular has yet again announced an increase in the minimum capital requirement for commercial, merchant, and non-interest banks.

³ Kenn-Ndubuisi, Juliet Ifechi & Henry Waleru Akani 2015 "EFFECTS OF RECAPITALISATION ON COMMERCIAL BANKS SURVIVAL IN NIGERIA: PRE AND POST CAMEL ANALYSIS" (Vol.3) European Journal of Accounting, Auditing and Finance Research. Retrieved from <https://eajournals.org/wp-content/uploads/Effects-of-Recapitalisation-on-Commercial-Banks-Survival-in-Nigeria.pdf>

The Minimum Capital Requirement

The circular showcased the minimum capital requirement for different categories of banks. The minimum capital requirement for commercial banks with international license authorization is N500,000,000,000 (Five Hundred Billion Naira). Commercial banks with national licenses must meet a N200,000,000,000 (Two Hundred Billion Naira) minimum capital requirement, while commercial banks with regional licenses are required to maintain N50,000,000,000 (Fifty Billion Naira). Merchant banks with national licenses have a minimum capital requirement of N50,000,000,000 (Fifty Billion Naira), and non-interest banks with national and regional license authorizations are required to meet the minimum capital requirement of N20,000,000,000 (Twenty Billion Naira) and N10,000,000,000 (Ten Billion Naira) respectively.⁴

This directive applies to both existing banks and proposed banks, and an integral part of the announcement is the narrow definition of what constitutes the minimum capital requirement that existing banks must hold. The circular specifies that the minimum capital must only comprise paid-up share capital and premium shares only, and not to be based on shareholders' funds and Additional Tier 1 (AT1).⁵ The implication of this is that shareholders' funds which include a broader range of equity components, such as retained earnings, reserves, and other equity instruments are not included. Also, additional Tier 1 (AT1) capital usually consists of instruments like perpetual bonds or preferred shares that are designed to absorb losses and are not to be counted towards meeting the minimum capital requirement.

Notwithstanding the capital increase, banks are expected to comply strictly with the minimum capital adequacy ratio (CAR) requirement applicable to their licenses, and in the event of a breach of the CAR requirement, banks are required to infuse fresh capital to regularize their position.⁶ Since the circular is silent as to whether shareholder's fund and AT1 should be excluded in the computation of CAR, it is safe to assume that the shareholders' funds and AT1 will be recognized in the computation and determination of CAR in accordance with the CBN's Guidelines on Regulatory Capital 2021.

⁴ The CBN Circular "Circular to all Commercial, Merchant and Non-interest Bank: and Promoters of Proposed Banks."

⁵ Ibid

⁶ Ibid

Without a doubt, the increase in the minimum capital requirement presents a good opportunity for banks to address issues spotlighted by the CBN. The Central Bank of Nigeria (CBN), in furtherance of its statutory responsibility of promoting a safe, sound, and stable banking system, highlighted the consequential factors for the recapitalization to include: the risk profile of banks; global and domestic headwinds and their potential impact on the balance sheet of banks; and the impact of inflation. Stress tests of banks' balance sheets to gauge their resilience to absorb current and unexpected shocks.⁷

However, the current macroeconomic environment poses significant challenges for banks due to high inflation following the naira devaluation. This presents formidable hurdles for banks, as banks must now navigate the task of raising capital within the specified timeframe, and devising new business models for the post-recapitalization era. Additionally, this may come with the strife to deliver attractive returns to shareholders in a post-recapitalization economy that may still be in recovery mode. Consequently, we may see banks exploring business combinations to leverage each other's strengths because not all banks possess the same level of robustness.

⁷ Ibid

Viable Options For Banks To Meet The Minimum Capital Requirements As Directed By The CBN

The CBN, in furtherance of its statutory responsibility of promoting a safe, sound, and stable banking system, spotlighted three (3) viable options in the circular to be considered by banks in raising or meeting the new capital requirement. The options are as follows:

a. Issuance of New Common Shares (by way of public offer, right issues or private placement)

This option involves banks injecting fresh capital to fortify their capital base in the face of the ongoing challenges through offering equity to the general public where shares are made available to the broader market investors, or inviting existing shareholders to purchase additional shares at a discount, or raising funds from pre-selected investors and high-net-worth individuals without making public offerings. Large banks can maximize all of these ways of issuing common shares. Currently, Access Holdings Plc has flagged off its scheme to raise a total of N351,000,000,000 (Three Hundred and Fifty-One Billion Naira), equivalent to \$233,000,000 (Two Hundred and Thirty-Three Million Dollars) by way of a right issue to existing shareholders.⁸

While this strategy is effective in raising capital, as it allows banks to directly increase their capital base, it also has implications for existing shareholders. The issuance of new shares dilutes the ownership percentage of existing shareholders, potentially reducing the value of their holdings. Consequently, existing shareholders with a significant stake who are desirous of holding large equity in a bank need to buy more shares to reinstate their stand in the bank. Banks will need to present a comprehensive equity story that highlights key strategic thrusts and return potentials, leverage a wide network of potential investors, and facilitate a credible transaction process to optimize this capital source. Change in control and governance is dependent on the process and investment type. Also, investors willing to share in the ownership of the company must endeavour to understand the market position of the bank and the offering of shares policy to have an edge in the sharing of dividends in the long run.

⁸ Ganiu Oloruntade "Access Holdings extends \$233 million rights issue to August 23" *TechCabal*. Retrieved from <https://techcabal.com/2024/08/14/access-holdings-rights-issue/>

b. Mergers and Acquisitions

Mergers and Acquisitions (M&A) represent one of the most strategic options available for banks under the recapitalization program. By merging with or acquiring other banks, financial institutions can bolster their capital bases, streamline operational costs, and expand their market presence. The CBN has historically encouraged M&A as a way to create stronger, more resilient, and competitive banks. In 2006, during the last major recapitalization drive, M&A activities led to a significant reduction in the number of banks from 89 to 25, resulting in the formation of stronger and more competitive banks.⁹ In 2024, banks are anticipated to pursue similar strategies, especially small banks or banks facing challenges in independently meeting the new capital requirements. Even though Nigerian banks are generally more robust this time around, we will very likely witness another round of interesting mergers and acquisitions in the course of meeting the new minimum capital requirement.

While mergers and acquisitions present an opportunity for transformative impact in terms of size/scale benefits, enhanced competitive positioning, and operational synergies, it is important for banks considering this option to maintain proper internal records, conduct comprehensive due diligence, proactively assess potential partners, ensure transparency, carry out fair valuation, and plan for pre and post-integration in the readiness for mergers or acquisitions. These actions are essential and should be undertaken promptly to maximize the success of the merger or acquisition.

Also, in considering the M&A options, it is worth noting that compliance with the Banks and Other Financial Institutions Act (BOFIA) 2020, the rules of the Nigerian Exchange Group (NGX) and the Securities and Exchange Commission (SEC) for listed banks will come to bear on transaction structuring and timelines.

⁹ Dr. Ebi, Bassey Okon & Akpan, James Essien (2014) "Nigeria Economic Performance and Bank Recapitalization Policy: The Role of Bank Branch and Deposit Trends" Vol. 4 Public Policy and Administration Research. Retrieved from file:///C:/Users/user/Downloads/13074-15392-1-PB%20(1).pdf

c. Upgrade/Downgrade of their respective License Category or Authorization

Banks are encouraged to consider the option of downgrading their license or authorization as a means to meet the minimum capital requirement. While upgrading a license may be appropriate for banks aiming to expand their operations, services, and geographical presence for strategic positioning, downgrading may be a prudent choice for banks facing capital constraints, strategic realignment, or market instability, and for whom mergers and acquisitions are not a preferred option. The decision to upgrade or downgrade a license is a highly strategic one and should be made after a thorough assessment of the bank's financial standing, long-term objectives, and the prevailing regulatory environment.

Accordingly, the recapitalization exercise presents banks in Nigeria with flexibility in meeting the minimum capital requirement mandated by the CBN. Each option presents peculiar advantages, challenges, and considerations, and banks may choose the most suitable options based on their financial health, strategic conditions, and market conditions. Upon the approval of the SEC, banks can leverage the market variables to raise funds and, or, engage in various forms of business combinations to reduce their debt burden and improve their financial health.

CBN's Approval Of Financial Accommodation For Unity Bank PLC And Providus Bank Limited

The Central Bank of Nigeria (CBN) on the 6th of August announced its approval of a pivotal financial accommodation of N700,000,000,000 (Seven Hundred Billion Naira) to facilitate the merger between Unity Bank Plc and Providus Bank Limited.¹⁰ While it might be said that the merger is a proactive response to the 2024 bank recapitalization mandate set by the CBN to strengthen the market position of these banks, the intervention of the apex bank to foster this strategic decision is a significant move aimed at bolstering the liquidity and financial stability of these banks, ensuring they can continue to meet their obligations and support economic activities and avert potential systemic risk.¹¹

According to the statement made by the acting Director of Corporate Communications, Hakama Sidi-Ali, the merger is contingent upon financial support from the CBN, and the fund will be instrumental in addressing Unity's Bank's total obligation to the Central Bank and other stakeholders.¹² This significant intervention of the CBN demonstrates the extent of the statutory powers of the apex bank, as well as its dedication to maintaining financial stability and promoting confidence in the banking sector under the Central Bank of Nigeria Act, 2007 (the Act). Specifically, section 42 (2) of the Act provides that the bank may grant loans and other accommodation facilities of such rate of interest and on such terms as the bank may determine to any bank that may be having liquidity problems.

The financial support provided to the banks following the proposed Providus-Unity merger is primarily aimed at bolstering the financial well-being and operational stability of the newly merged organizations. It is not intended to address any underlying performance issues within individual banks. This support will be utilized to meet capital requirements, facilitate a seamless transition during the merger, mitigate systemic risks stemming from financial instability, and safeguard depositors in Unity Bank.

¹⁰ Hope Moses-Ashike "CBN approves financial accommodation for Unity, Providus Bank merger" *BUSINESS DAY*. Retrieved from <https://businessday.ng/banking/article/cbn-approves-financial-accommodation-for-unity-providus-bank-merger/>

¹¹ A statement made by the Acting Director of Corporate communication, Hakama Sidi-Ali.

¹² Ibid

Strategic Fit and Synergy Analysis in the Merger of Unity Bank PLC and Providus Bank Limited

A key question that arises in the wake of CBN's approval of the financial accommodation is how a relatively young bank like Providus Bank, which was licensed as a commercial bank in January 2016, successfully merged with Unity Bank and obtained the necessary regulatory approval from the CBN governor.

When it comes to mergers and acquisitions in the banking sector, it is crucial to conduct thorough due diligence and fully assess the financial and operational standing of a bank. The Unity Bank and Providus Bank merger provides an intriguing opportunity for strategic alignment and the potential for generating significant synergies in the Nigerian banking industry. Both banks bring peculiar strengths and weaknesses to the table, which, when combined, could create a more robust financial institution capable of enhancing its competitive edge in the market. The below analysis aims at delving into the strategic fit between these two banks, and the synergies that are expected to emerge from their merger.

Unity Bank PLC

Unity Bank is a commercial bank with a national license in Nigeria that primarily serves retail and SME customers, and was established in January 2006 following the merger of nine banks with diverse banking licenses.¹³ These banks included Bank of the North, Inter-city Bank, First Interstate Bank, Tropical Commercial Bank, Pacific Bank, Centre Point Merchant Bank, New Africa Merchant Bank, Societe Banque, and New Nigeria Bank.¹⁴ The bank's headquarters is in Lagos state, Nigeria, although it originally operated from Abuja.

The bank has a nationwide presence with branches across Nigeria and is a well-known player in Nigeria's banking industry, particularly in the northern region of the country where there is a strong emphasis on

¹³ Unity Bank Plc. Retrieved from <https://www.unitybankng.com/about-us#:~:text=Unity%20Bank%20commenced%20operations%20in%20January%202006%20following,are%20Nigeria%27s%208th%20largest%20bank%20by%20business%20locations>.

¹⁴ James Emejo "CBN Approved Providus Bank's Takeover of Unity Bank in the Interest of Depositors Across Northern Nigeria" ARISE NEWS. Retrieved from <https://www.arise.tv/cbn-approved-providus-banks-takeover-of-unity-bank-in-the-interest-of-depositors-across-northern-nigeria/>

SMEs and agribusiness, which are a significant part of its portfolio. With its broad network of branches, Unity Bank has built a strong presence across the 36 states in Nigeria, particularly in serving retail customers, small and medium-sized enterprises (SMEs), and the agricultural sector. The bank's extensive experience in agricultural financing has positioned it as a key supporter of Nigeria's agribusiness sector. Additionally, Unity Bank has been gradually expanding its digital banking footprint, aiming to enhance customer experience and service delivery.

Providus Bank Limited

Providus Bank is also a commercial bank with a regional license in Nigeria, known for its focus on providing personalized financial services and innovative banking solutions. The bank was established and granted a commercial banking license by the CBN in 2016.¹⁵ Although the bank is young, it has quickly gained a reputation for its customer-centric approach.

Providus Bank, though a relatively new entrant into the market, has made rapid strides in establishing itself as a bank focused on developing expertise and collaborating to improve the non-oil (emerging) sector of the Nigerian economy, which includes, but is not limited to, agriculture, mining, hospitality, e-commerce, and art & entertainment.¹⁶ Its target markets are high-net-worth individuals, SMEs, and corporate clients. Providus Bank's strength lies in its customer-centric approach, innovative banking solutions, and strong emphasis on technology. The bank has successfully built a reputation for providing personalized financial services.

Placing the strenghts of both banks against each other shows that:

- a. Providus Bank is a strong advocate for SMEs and emerging local corporations, while Unity Bank focuses on agricultural financing, SMEs, and retail businesses. There is a strategic overlap in their areas of expertise, providing both banks an opportunity to demonstrate their capabilities within this shared space.

¹⁵ AbdulWasiu Kuforiji "List of Providus Bank Branches In Nigeria" *NIGERIAN FINDER* Retrieved from <https://nigerianfinder.com/list-of-providus-bank-branches-in-nigeria/>

¹⁶ Providus Bank. Retrieved from <https://providusbank.com/about>

- b. Providus Bank is known for its strong digital banking footprint while Unity Bank has also been investing in digital banking across various platforms. A key synergy anticipated from their merger is in the area of digital transformation. Providus Bank's technological expertise and innovative solutions have the potential to significantly accelerate Unity Bank's digital transformation efforts. By integrating Providus Bank's advanced digital platforms and technology, the merged entity can provide customers across Nigeria with a more seamless and sophisticated digital banking experience. This improved digital capability is anticipated to enhance customer satisfaction and retention.
- c. Providus demonstrates stable funding, adequate liquidity, and moderate risk position. Unity Bank has a large customer base, a strong legacy, and a strong workforce. This could drive growth and operational strength.
- d. Unity Bank has 213 branches and it is listed to be the 8th largest bank by number of service outlets.¹⁷ Whereas, Providus Bank has 5 branches.¹⁸ Consequently, the merger of both banks will significantly increase their physical coverage and expand their branch network.

The merger between Unity Bank and Providus Bank is underpinned by their complementary strengths. Unity Bank's extensive reach and expertise in the agricultural sector complement Providus Bank's innovative services and technology-driven approach. This strategic alignment will enable Unity Bank to enhance its digital footprint by leveraging Providus Bank's technological initiative, while Providus Bank can utilize Unity Bank's extensive branch network and established customer base to expand its market reach.

When comparing the two banks, it can be observed that there exists a strategic overlap in their strengths and weaknesses. Unity Bank's extensive presence throughout Nigeria, including a wide range of platforms for customer interaction, contrasts with Providus Bank's relatively limited outreach.

¹⁷ Unity Bank Plc. Retrieved from <https://www.unitybankng.com/about-us#:~:text=Unity%20Bank%20commenced%20operations%20in%20January%202006%20following,are%20Nigeria%27s%208th%20largest%20bank%20by%20business%20locations>

¹⁸ Victor Iyiola "Providus Bank: USSD Codes, mobile banking, contacts & more" MakeMoney.ng. Retrieved from <https://www.makemoney.ng/providusbank/#:~:text=Providus%20Bank%20PLC%20started%20in%202016%20when%20it,across%20more%20than%205%20branch%20offices%20in%20Nigeria.>

Combining these two entities may result in a unified network with a broader footprint than either bank can achieve individually. This integration effectively offsets each bank's weaknesses with the other's strengths, ultimately creating a more advantageous combination.

It is commendable that these two banks have embarked on their merger now, with almost five months gone, they have a substantial 19-month period to focus on seamlessly integrating their operations.

Conclusion

The ongoing recapitalization exercise in Nigeria's banking sector is primarily aimed at fortifying banks and mitigating systemic risks. Following the announcement of the heightened minimum capital requirement, some national banks might contemplate transitioning to regional status if they struggle to meet the new benchmarks. However, at this early stage, it is unlikely that any bank would adopt such a model. Instead, banks may consider business combinations as a viable strategy if they cannot meet the new capital requirements on their own. Mergers and acquisitions become a natural response during recapitalization, as not all banks possess equal financial strength; some may find that their weaknesses can be offset by the strengths of potential partners.

Although this may lead to a reduction in the number of banks in Nigeria, similar to what occurred almost two decades ago, banks will, however, be better positioned to extend credit facilities and other key services to important sectors, ultimately contributing to a more stable and robust economy.

The prompt intervention of the CBN in approving the financial accommodation for the merger between Unity Bank and Providus Bank underscores the crucial role that the CBN plays in sanitizing the Nigerian banking industry and promoting monetary stability which stimulates economic growth.