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Recapitalisation response pathways: Thinking outside the box

Perspectives
April 2024



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Key Considerations for Recapitalisation Options

Our perspective on the new Recapitalisation mandate has 4 objectives...

Objectives



Encourage '**Outside the Box**' thinking regarding banking recapitalisation, to **spur conversations** for solutioning



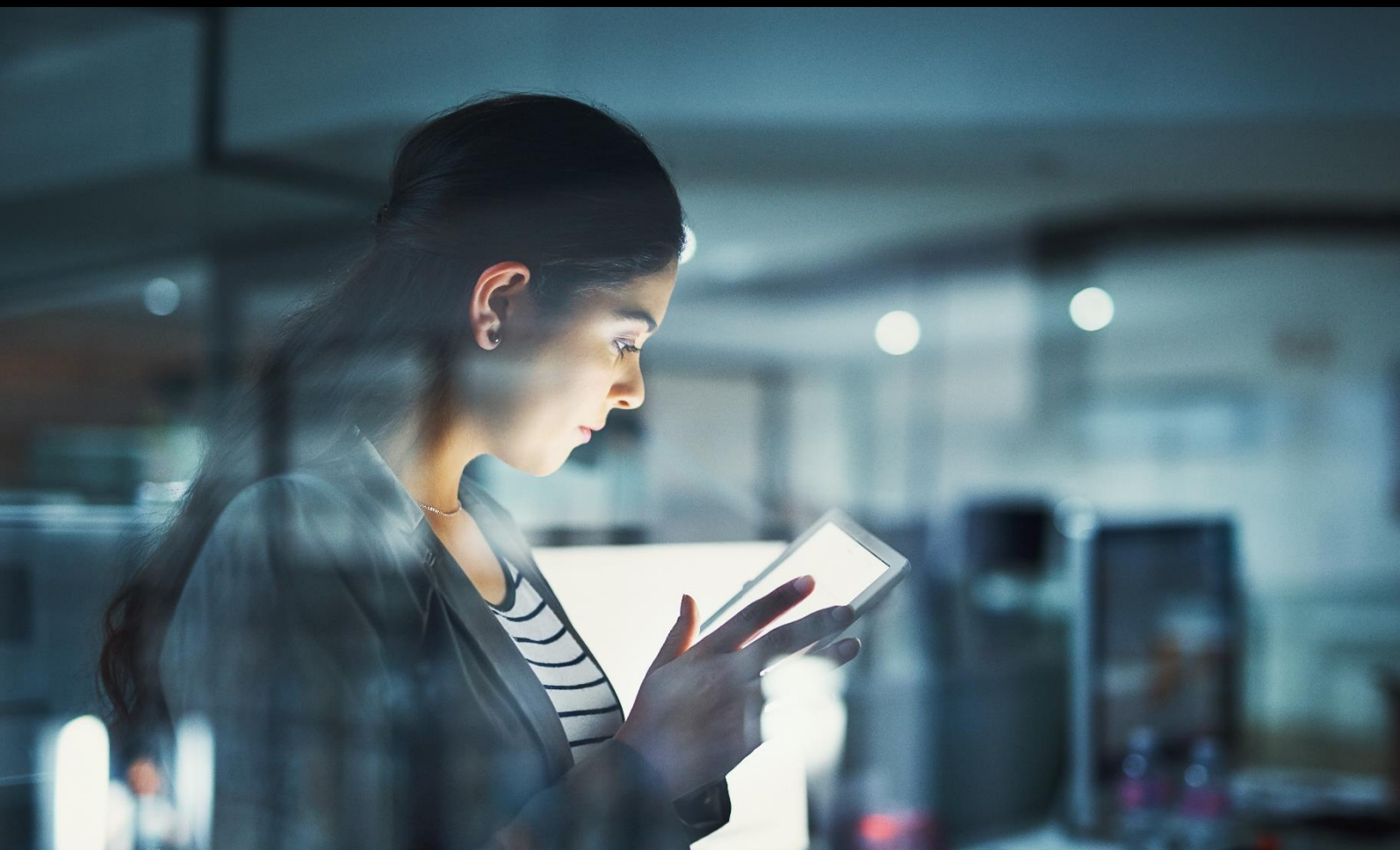
Highlight the **implications of recapitalisation** for the wider economy and the future of the banking industry



Explore the **available strategic pathways** banks can leverage to **respond appropriately** to the recapitalisation mandate



Highlight the **complexity lenses and considerations** that would inform banks' **decisions on their response pathway(s)**



The CBN's banking sector recapitalisation programme has resulted in new minimum capital requirements

Recapitalisation requirements

New Minimum Capital



Source: CBN, Strategy & analysis

The case for recapitalisation is premised on the economic growth and improved financial stability that this change is envisioned to bring about

Drivers and implications of recapitalisation

<p>1 </p> <p>Economic Growth</p>	<p>2 </p> <p>Financial Stability</p>	<p>3 </p> <p>FDI Growth</p>	<p>4 </p> <p>International Competitiveness & Reputation</p>	<p>5 </p> <p>Financial Development</p>
<p>Recapitalisation has been linked with higher economic growth through a more robust lending mechanism¹. It could also boost Credit/GDP ratio from 14.3%* (as at 2022), which is low compared to SSA, 35.8% and UK rate at 130%</p>	<p>Recapitalisation is expected to result in a more stable financial system that is less susceptible to losses, bank runs etc., allowing D-SIBs to maintain minimum CAR of 15%, and other banks a minimum CAR of 10%</p>	<p>Recapitalisation is expected to attract significant FDI, as the industry looks to raise funds to meet the new recapitalisation requirements. The strengthened industry position will boost capital markets</p>	<p>Increasing capital requirements for the banking industry will improve international credibility and positioning</p>	<p>Recapitalisation could enable banks create new markets and customers whilst deepening their financial inclusion play²</p>

1. Okpala Kenneth Enoch et al., Alajekwu, Obialor; 2. Alajekwu and Obialor
Source: Strategy & analysis

Future shock: Five potential banking scenarios for the next decade

- Technology, media and entertainment players aggressively capture the customer-facing part of the value chain, without the hurdle of a banking licence, by partnering with licenced banks.
- Regulators uphold market-structure regulation and support opportunities for new entrants.
- Deteriorating trust and social segregation incite doubt about institutions with global scale.
- The supervisory regime favours smaller and local banks, and sentiment gravitates towards nationalistic protectionism.
- The rollout of central bank digital currencies cascades across the value chain together with the development of decentralised finance and cryptocurrencies.
- Incumbent banks lose the basic bank account to central banks, leading to eroding margins and the loss of ownership of customer data.



- Big Tech and non-traditional banking players (e.g., large retailers) decide to step in, applying for full banking licences and investing in their own banking proposition.
- Only the largest incumbent banks are able to make the technological investments necessary to create a differentiated customer experience.

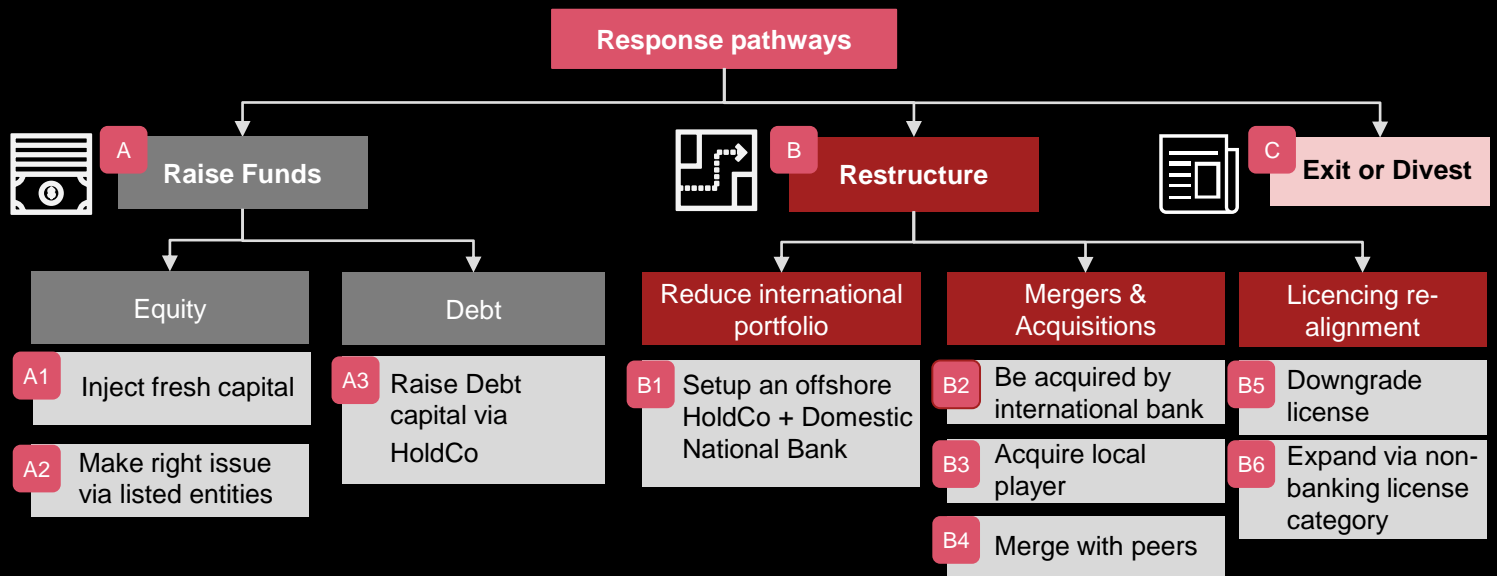
- Regulators increase barriers to entry for new entrants following public concerns about data and privacy and new rules for cybercrime and antitrust.
- Banks rebuild trust and reclaim their role as the central provider of financial products and services.

Source: PwC analysis



There are 3 broad responses to the banking recapitalisation with multiple options to consider

Responses to Banking Recapitalisation



Source: CBN, Strategy& analysis

A deep dive into the various highlighted recapitalisation options for Banks/FS players

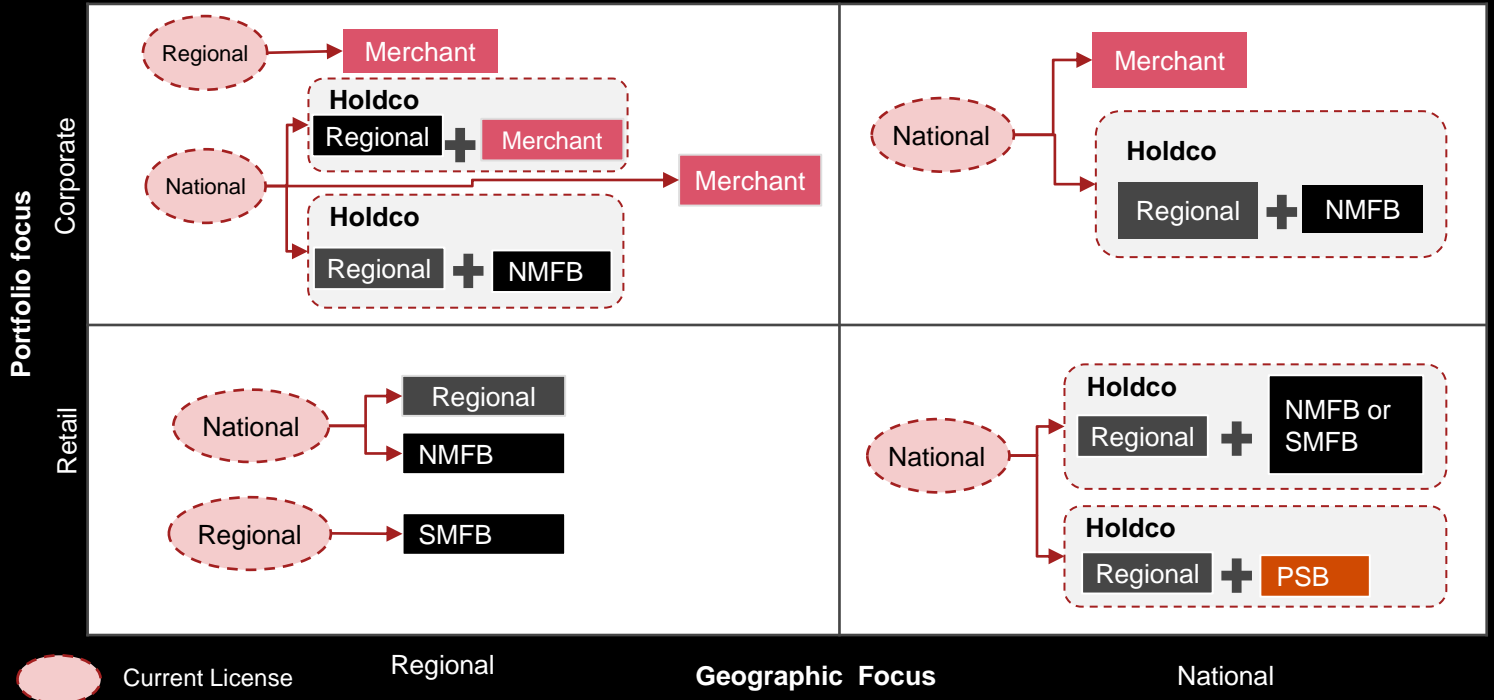
Recapitalisation Pathways explained

A Raise Funds	Making rights issue: Banks invite existing shareholders to purchase additional new shares in the bank at a discounted price relative to the current market price
	Injecting fresh capital via private placement: Banks can seek funds from pre-selected private investors
	Raise debt capital through HoldCo.: Banks that operate a holding company structure can seek funds by raising debt through their HoldCo which can then be injected as equity capital in the banking subco
B Restructure	Reducing International Portfolio: Banks can set up an offshore holding company whilst maintaining a local play across their various banking options
	Mergers & Acquisitions (M&A): Banks can either be acquired by international banks venturing into Nigerian market, acquire other local players, merge with peers, or exit and/or divest portfolio components
	Licencing Realignment: Banks can downgrade or change their existing licences and also expand footprint through non-banking license authorisation

Source: Strategy& analysis

As banks realign their licensing structure, it is ultimately their portfolio mix (retail vs corporate) that will inform decisions

Spotlight on Licensing Re-alignment



NMFB - National Microfinance Bank
SMFB - State Microfinance Bank

Source: Strategy& analysis

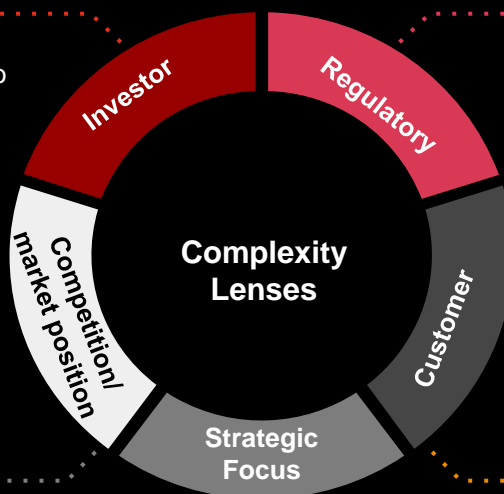
Complexity Lenses

5 key complexities need to be considered when deciding on the appropriate response pathway

Complexity considerations for decision making

- Equity/book value of banks
- Foreign Direct Investments posture to capital injection vs value creation
- Impact on single obligor limit

- Higher barriers to entry reducing new players
- Evolving business models and operating structures
- Market outlook and positioning



- HoldCo structuring & considerations
- Navigating regulatory complexity in foreign jurisdictions
- Tax & regulatory compliance
- Capital markets listing requirements

- “Flight to Safety” syndrome - Customers may move their funds if confidence drops (*Customer deposit levels are already dropping*)
- Behavioural changes may occur - Transact/invest vs. Save

- Growth ambitions and strategic priorities
- Balance sheet resilience and returns
- Customer footprint and preference
- Portfolio concentration

Source: CBN, Strategy& analysis

These recapitalisation pathways were examined along the degree of intensity of highlighted complexities

	Investor	Regulatory	Customer	Market Positioning	Bank (Internal)
A. Raise funds	Inject fresh capital via private placement	High	Low	Low	Low
	Rights issue	High	Low	Low	Low
	Debt injection via HoldCo.	Low	High	Low	Low
B. Restructure	Reducing international portfolio	Low	High	Low	Low
	Mergers & Acquisitions	High	Low	High	Low
	Licensing re-alignment	Low	High	High	High

- High: connotes a high level of complexity
- Medium: connotes a moderate level of complexity
- Low: connotes a low level of complexity

High	Medium	Low
High	Medium	Low

Source: CBN, Strategy& analysis

Conclusion

In summary, players operating in the financial services landscape should...

Illustrative

Think outside the box

Consider complexities impacting decisions

Develop a robust implementation plan

- Introduction and peculiar context of the bank
- Strategic options for meeting the new capital requirements
- Business case and justification for the options/combination of options
- Requirement for the operationalisation of the chosen option including regulatory (highlighting forbearances required, additional licenses required e.g holdco or MFB licenses from CBN, legal, capital market)
- Prayers to CBN
- Implementation initiatives, timelines & dependencies

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