

Banks

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Another consolidation phase imminent?

The Central Bank Governor, Yemi Cardoso speaking at the 58th annual dinner of the Chartered Institute of Bankers of Nigeria in Lagos announced plans to direct banks to increase their capital base. This, he said, is to ensure banks have adequate capital to service a projected US\$1trn economy. The new administration in its policy advisory council report had set a goal to achieve Gross Domestic Product (GDP) of US\$1.0 trillion from current FY 2022 GDP of N202.4trn (US\$254.6bn based on I&E window closing rate of N794.89/US\$) over the next seven years. The CBN governor however noted that the banks have shown resilience amidst the adverse economic conditions and based on current assessment, are stable. He also gave no indications of how much more capital will be required and over what time frame.

In dollar terms, banks have seen a significant reduction in capital given the recent steep devaluation of the Naira. During the banking consolidation exercise of 2004, the minimum capital requirement for banks was raised from N2 billion to N25 billion. The dollar equivalent of N25bn at that time is significantly lower than what it is today, and many believe this may be the reason behind the proposed recapitalization. At this point, since the CBN has not given details on how much capital will be required, it is impossible to say what amount of capital will be needed by each bank and which of these banks may likely resort to a merger to meet the CBN's new requirements. However, looking at the disparity in shareholders' funds between the Tier 1 and Tier 2 banks, one can conclude the smaller banks may be the most affected.

Currently, the CBN requires that banks with international subsidiaries maintain a capital adequacy ratio (CAR) of 15.0% while banks without international subsidiaries maintain a CAR of 10.0%. The minimum requirement for systemically important banks is 16.0% (although the CBN has been giving a forbearance). Following the implementation of BASEL III, an additional tier 1 capital is required for a Capital Conservation Buffer (CCB1) of 1.0% of TRWA. A Countercyclical Capital Buffer (CCB2), to be determined by the CBN periodically taking into consideration the prevailing macroeconomic conditions and developments within the financial sector may also be required.

Covered Banks Total Equity and Capital Adequacy Ratio (CAR)

Banks	gM 2023 Total Equity (Nm)	US\$m	gM 2023 CAR (Group)	CAR Bank	Basel 3 minimum
GTCO	1,272,923	1,601	24.7%*		17%
FBNH	1,373,853	1,728	N/A	16.00%	17%
UBA	1,778,132	2,237	25.1%*	19.80%*	17%
Zenith	1,919,935	2,415	20.10%		17%
Access	1,784,500	2,245	19.78%		17%
sterling	165,840	209	12.43%*		11%
Stanbic	471,055	593	17.90%	14.90%	11%
Fidelity	410,752	517	16.00%		16%

* GTCO, UBA and Sterling CAR as of H1

Source: Company financials, CSL Research. Exchange rate (N794.89/US\$)

MARKET UPDATE

Indicators	1 year	30-Dec-22	1 day
NSE - Index*	44,279.65	51,251.06	71,230.48
Naira / US\$	442.19	461.50	794.89
Brent, US\$/bbl	92.25	85.91	80.68
MPR %	15.50	16.50	18.75

Source: NGX Exchange, Central Bank of Nigeria, Bloomberg. *NGX Exchange All-Share Index.

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News headlines:

Dangote refinery to start with 350,000bpd crude — CEO: The President/Chief Executive Officer, Dangote Group, Aliko Dangote, has said that the \$20bn Dangote refinery in Lekki, Lagos would start with the refining of 350,000 barrels per day of crude oil. Dangote, who disclosed this during an interview with the Financial Times, also stated that the refinery would receive about six million barrels of crude in December 2023. “We’re starting with 350,000 barrels a day,” Dangote told the Financial Times, adding that a deal had already been clinched for the “first cargo of about 6mn barrels” for delivery next month. Dangote said he believed the refinery could reach its capacity of 650,000 barrels a day by the end of 2024, although the IMF has said it doubts it will reach more than a third of that by 2025. Source: Punchng

<https://punchng.com/dangote-refinery-to-start-with-350000bpd-crude-ceo/>

Over 26.5m Nigerians Risk Food Crisis In 2024: A report by Cadre Harmonise (CH) has alerted that about 26.5 million people in 26 states of Nigeria will face a food crisis between June and August 2024. The research result is contained in the November Analysis Result Presentation organised by the Kwara ministry of agriculture and human development in collaboration with CH and other partners. The report stated that the anticipated people include internally displaced persons in Zamfara, Sokoto and Borno states. Permanent secretary of the ministry, Isiaq Oloruko-oba speaking at the meeting, noted that such reports paint a gloomy picture of the food and nutrition security facing the country.

Source: Leadership

<https://leadership.ng/over-26-5m-nigerians-risk-food-crisis-in-2024-report/>

N130bn pension fund invested in infrastructure – PenCom: Pension Fund Administrators invested N130.18 billion funds under the Contributory Pension Scheme in infrastructure as of the end of September 2023. Figures obtained from the National Pension Commission on ‘Unaudited report on pension funds industry portfolio for the period ended 30 September 2023- Approved Existing Schemes, Closed Pension Fund Administrators and RSA Funds (Including unremitted contributions @CBN & legacy funds’, revealed. According to the figures, total assets under the CPS stood at N17.35tn as of the period under review. Part of the funds was also invested in domestic and foreign ordinary shares, federal and state governments’ securities, and money market instruments among others. Source: Punchng.com

<https://punchng.com/n130bn-pension-fund-invested-in-infrastructure-pencom/>

CBN will introduce new FX laws, guidelines — Cardoso: Governor of Central Bank of Nigeria, CBN, Mr Yemi Cardoso said yesterday that the apex bank will soon introduce a new set of foreign exchange laws and guidelines to address naira depreciation and achieve exchange rate stability. The CBN, according to him, will also conduct a new recapitalisation exercise for the banking industry, by directing banks to increase their minimum capital base to a level sufficient to support the vision of a \$1trillion economy. Cardoso disclosed this in Lagos in a keynote speech at the 2023 Annual Bankers Dinner of the Chartered Institute of Bankers of Nigeria, CIBN. Cardoso also disclosed that the CBN will introduce a new licensing framework for fintechs and payment banks, warning that operators found engaging in activities outside their licenses will be sanctioned. Source: Vanguard

<https://www.vanguardngr.com/2023/11/naira-depreciation-cbn-will-introduce-new-fx-laws-guidelines-cardoso/>

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	Buy	Hold	Sell	Not Rated	Total
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% distribution	49%	29%	14%	9%	
Investment banking clients	0	1	1	0	2
% distribution	0%	50%	50%	0%	

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