A meeting of noteholders for EBN Finance Company B.V.'s consent solicitation is set for 16 September 2024, at 10:00 a.m. via teleconference. The meeting aims to secure approval for amendments to Ecobank Nigeria Limited's USD300mn 7.125% Senior Note due 2026. These amendments have been prompted by the bank's capital adequacy ratio (CAR) dropping below the regulatory minimum, largely due to the sharp devaluation of the Naira in early 2024. The currency fell from NGN951.79/USD at the start of the year to NGN1,628.47 by the end of H1:2024. This significant devaluation primarily impacted the bank's risk-weighted assets (RWA), which are heavily dollar-denominated, causing a substantial inflationary effect on the RWA. While the regulatory capital did not increase proportionately, the rapid growth in the bank's risk-weighted assets eroded its CAR, which fell to 7.04% by mid-2024. This drop below the regulatory minimum has introduced serious regulatory and operational risks, potentially hindering the bank's ability to raise capital, extend credit, and comply with regulatory obligations.

Table: Ecobank Nigeria Capital Adequacy Ratio Trend (2015 – H1:2024)

Year	TRC	RWA	CAR
2015	254,109	1,357,098	18.72%
2016	255,450	1,527,860	16.72%
2017	247,386	1,547,846	15.98%
2018	152,504	1,370,401	11.13%
2019	236,196	1,447,830	16.31%
2020	326,251	1,405,674	23.21%
2021	170,600	1,486,056	11.48%
2022	232,070	1,741,970	13.32%
2023	245,690	2,334,915	10.52%
H1:2024	N/A	N/A	7.04%

TRC= Total Regulatory Capital

RWA= Risk-Weighted Assets

Source: Company Financials, Meristem Research

The bank's plan to address this includes securing capital injections from shareholders, issuing AT-1 bonds to raise approximately USD200mn, and reducing risk-weighted assets by selling loans and converting dollar-denominated loans to Naira.

In addition to this amendment, a **waiver** is also sought to cover any potential or actual breaches of capital adequacy that may have due to the recent economic challenges. In simpler terms, the bank is requesting that the application of the capital adequacy clause be suspended until 30 September 2025, giving it time to implement a remediation plan aimed at restoring its CAR to compliant levels.

The waiver's implications are significant for both the bank and investors. For the bank, obtaining this waiver could provide critical relief, allowing it to avoid a technical default on its Senior Notes. It also gives the bank time to execute its capital-raising initiatives.

Failure to secure this waiver could lead to accelerated repayment demands or penalties, further exacerbating liquidity constraints and eroding investor confidence. However, with the waiver in place, the bank can proceed with its capital remediation plan without immediate legal repercussions, thus buying time to stabilize its finances.

For investors, the waiver offers protection against the disruptive effects of a potential default while providing a structured framework for improving the bank’s financial health.

Nonetheless, the risk persists if the bank fails to meet its remediation goals by the stipulated timeframe, the financial instability could deepen, impacting future returns and creditworthiness.

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