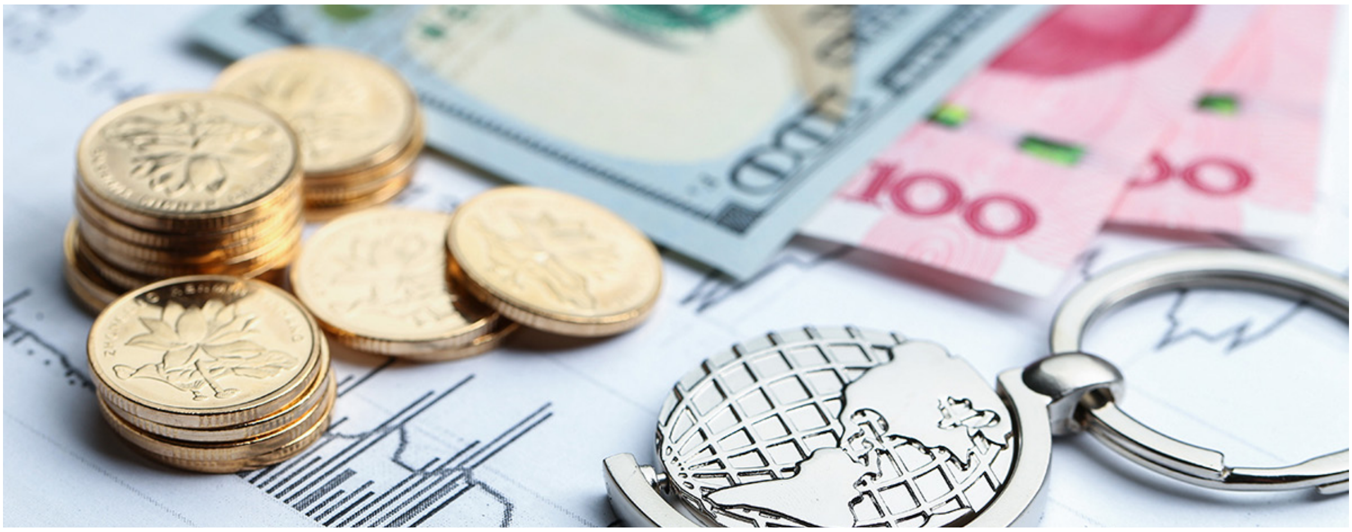
Policy Updates

CBN Draws the Line: Dividends, Bonuses, and Foreign Investments Suspended for Forbearance-Benefiting Banks

June 2025



Introduction

On June 13, 2025, the Central Bank of Nigeria (CBN) issued a policy directive with significant implications for the Nigerian banking sector. Through a circular signed by Dr. Olubukola A. Akinwunmi, Director of Banking Supervision, the CBN temporarily suspended dividend payments and deferred executive bonuses, and restricted new foreign investments for banks currently

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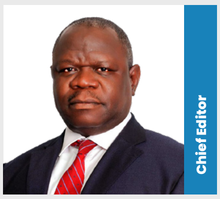

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benefiting from regulatory forbearance or exemptions from the Single Obligor Limit (SOL). This directive is not a punitive measure but a strategic adjustment. It emphasizes the CBN's focus on financial resilience, capital adequacy, and long-term systemic stability.

Understanding the CBN's Directive

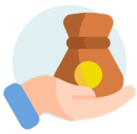
The circular mandates that banks under regulatory forbearance must:

1. **Suspend dividend payouts** to shareholders.
2. **Defer bonuses** to directors and senior management.
3. **Refrain from offshore expansions** or investments in foreign subsidiaries.

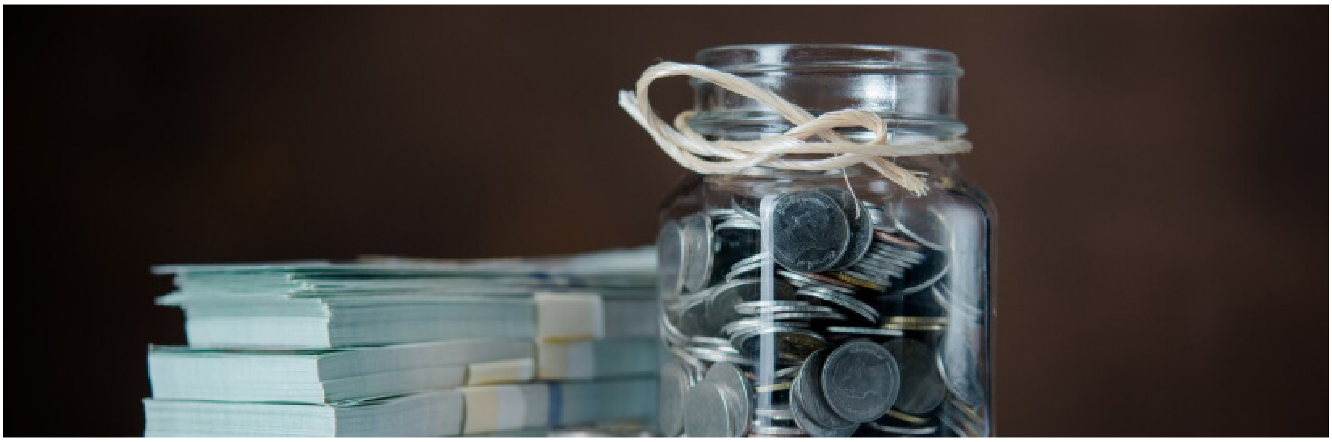
These restrictions are limited to banks currently operating under forbearance measures or SOL exemptions and are intended to encourage capital retention and internal risk realignment.

Clarifying the Technical Terms

Single Obligor Limit (SOL): This is the maximum amount a bank can lend to a single borrower or group of related borrowers. It helps prevent concentration risk, where the failure of one large obligor could endanger a bank's solvency.



Regulatory Forbearance: These are temporary relief measures by the CBN, such as relaxed loan classifications or delayed recognition of non-performing loans, typically granted during economic stress to help banks stay afloat. However, prolonged use can conceal deeper weaknesses in a bank's balance sheet.



Bringing Context: Regulatory Forbearance and Implication on Loan Staging and Profit

Regulatory forbearance in Nigeria emerged as a critical policy response during the economic disruptions of 2020–2021 resulting from impact of COVID 19, allowing banks to restructure loans to struggling sectors (oil and gas, agriculture, and power) without immediately classifying them as non-performing. This temporary relief was aimed at cushioning the sector from elevated defaults, especially in those high-risk segments. However, this approach also had accounting implications. Under IFRS 9, loans that undergo restructuring—even if performing—typically reflect a Significant Increase in Credit Risk (SICR). As such, these loans are generally reclassified into Stage 2, requiring lifetime Expected Credit Loss (ECL) provisioning, despite not being in default.

While Stage 2 loans are not considered non-performing, they signal elevated credit risk and warrant closer monitoring. Importantly, interest income on Stage 2 exposures continues to be recognised on a gross basis, consistent with Stage 1 accounting treatment. If the borrower's creditworthiness deteriorates further (e.g., repayment defaults), the asset is moved to Stage 3, where it is considered credit-impaired, and interest income is recognised on a net carrying amount.

Therefore, while forbearance helped stabilise short-term financial reporting and protect sector liquidity, it also deferred the recognition of embedded credit risks, potentially leading to understated impairments and overstated earnings, particularly in cases where loans were not adequately staged or provisioned.

This staging mechanism is not just an accounting formality, it has real implications:

- **Provisioning Pressure:** Accurate staging leads to earlier provisioning on loan losses and higher impairment charges. Misstaging can delay necessary capital buffers, potentially exposing the bank to future solvency risks.
- **Accounting vs. Cash Profitability:** Many forbearance-classified loans continue to accrue interest, inflating accounting profits. However, these do not always translate into actual cash inflows, creating a disconnect between reported and realised earnings.
- **Capital Adequacy:** Higher provisions reduce retained earnings, affecting regulatory capital ratios. With the CBN now halting dividends for forbearance-linked banks, earnings retention becomes critical for preserving solvency buffers.

In this context, the regulator's directive is not only a call for compliance but a push toward asset quality, earnings quality, and transparency.

What Is CBN Really Saying?

In essence, the CBN's message is:

"Banks benefitting from regulatory leniency must focus inward; retain earnings, strengthen capital, and restore full compliance before distributing wealth or pursuing expansion."

Which Banks Are Affected?

According to Renaissance Capital Africa in its report "Nigerian Banks: Cash is King", the following banks have the highest exposure to forbearance-linked loans—primarily in the oil and gas sector—and are therefore the most likely to be impacted.

Bank	Estimated forbearance exposure as % of gross loans
Zenith Bank	c.23%
FirstBank (FBNH)	c.14%
Access	c.4%
Fidelity Bank	c.10%
FCMB	c.8%
UBA	c.6%

GTCO, UBA, and **FirstHoldCo** reported positive cash profits in FY 2024. This is critical because while accounting profits may appear strong, forbearance-classified loans generate income that may not translate into actual cash flow.

Implications

For Banks

- **Capital Conservation:** Banks must strengthen buffers through earnings retention rather than payouts.
- **Governance Scrutiny:** Executive compensation and foreign ventures will face tighter oversight.
- **Operational Discipline:** Banks must restore regulatory compliance to regain full autonomy.

For Investors

- **Short-Term Sacrifice:** Dividend expectations from some Tier 1 banks may be deferred until 2026–2028.
- **Enhanced Due Diligence:** Investors should prioritise cash profitability over accounting earnings in evaluating financial health.
- **Long-Term Value Creation:** This policy may lead to stronger fundamentals and higher future valuations.

For the Financial System

- **Systemic Stability:** Weaknesses are being proactively addressed to avoid contagion risks.
- **Transparency & Accountability:** Forbearance is no longer a soft landing—it now comes with visible restrictions.
- **Market Confidence:** Reinforces the CBN's role as a vigilant and independent regulator.

Banks' Response

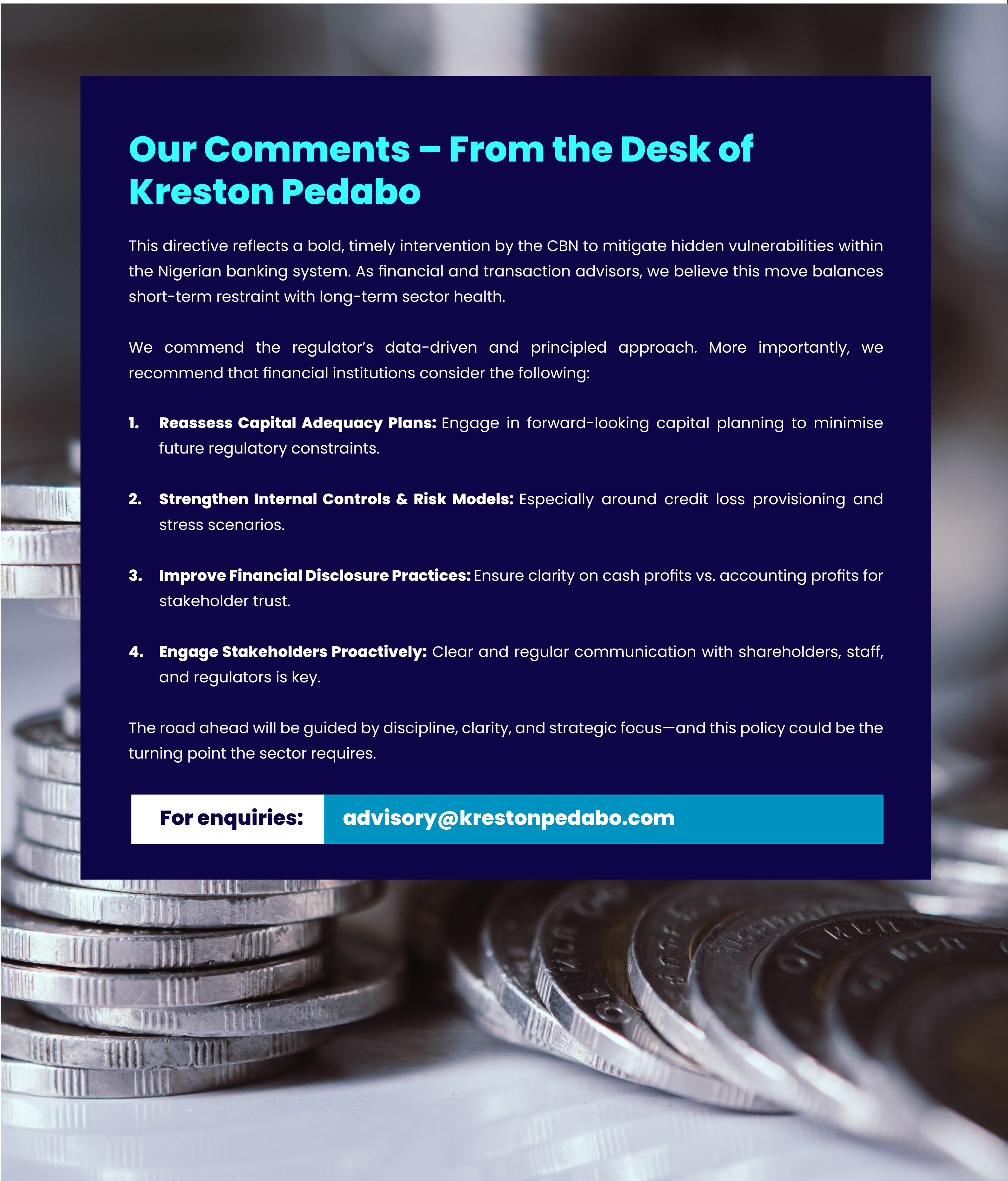
Following the CBN's circular of **13 June 2025** on the withdrawal of regulatory forbearance, the suspension of dividend payments, and enforcement of prudential guidelines, several banks—namely **Access Bank, FCMB, and Zenith Bank**, have issued public statements reassuring stakeholders of their compliance posture, capital adequacy, and business continuity plans.

Access Bank disclosed that it had already met and exceeded the CBN's revised minimum capital requirement of ₦500 billion for international banks as at 31 December 2024. The bank confirmed its compliance with the Single Obligor Limit (SOL) and stated its commitment to fully align with the regulatory directive on forbearance loans by 30 June 2025, while maintaining robust capital buffers and sustaining dividend payments to shareholders.

FCMB Group highlighted a significant reduction in its forbearance-exposed loans—from ₦538.8 billion in September 2024 to ₦207.6 billion as at May 2025. These loans, which relate to a limited number of entities and obligors, have been classified under Stage 2, with over 60% resolution progress achieved. While a temporary spike in Stage 3 loans is expected post-forbearance (up to 11.5%), FCMB anticipates this will normalise to under 10% by year-end. The bank is also finalising a ₦23.1 billion convertible loan (with CBN approval) that will be downstreamed to bolster capital adequacy above the 15% regulatory minimum.

Zenith Bank, in its response dated 17 June 2025, affirmed that it has already raised and surpassed the new ₦500 billion capital requirement. It disclosed that its exposure under SOL forbearance relates to only one obligor, which it expects to regularise by 30 June 2025. Additionally, forbearance on other credit facilities applies to just two customers, with substantial provisions already made and full provisioning targeted by the end of H1 2025. Zenith expressed confidence in fulfilling all requirements necessary to pay dividends to shareholders for the current financial year.

Collectively, these statements reflect the sector's preparedness, proactive regulatory engagement, and focus on investor assurance in the face of intensified supervisory oversight.



Our Comments – From the Desk of Kreston Pedabo

This directive reflects a bold, timely intervention by the CBN to mitigate hidden vulnerabilities within the Nigerian banking system. As financial and transaction advisors, we believe this move balances short-term restraint with long-term sector health.

We commend the regulator's data-driven and principled approach. More importantly, we recommend that financial institutions consider the following:

1. **Reassess Capital Adequacy Plans:** Engage in forward-looking capital planning to minimise future regulatory constraints.

2. **Strengthen Internal Controls & Risk Models:** Especially around credit loss provisioning and stress scenarios.

3. **Improve Financial Disclosure Practices:** Ensure clarity on cash profits vs. accounting profits for stakeholder trust.

4. **Engage Stakeholders Proactively:** Clear and regular communication with shareholders, staff, and regulators is key.

The road ahead will be guided by discipline, clarity, and strategic focus—and this policy could be the turning point the sector requires.

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