TOPE ADEBAYO LP

FORBEARANCE WITH STRINGS: LESSONS FROM THE CBN'S 2025 CONDITIONAL RELIEF TO BANKS

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INTRODUCTION

When the Central Bank of Nigeria (CBN) released its June 13, 2025 circular—"Temporary Suspension of Dividend Payments, Bonuses and Investment in Foreign Subsidiaries"—it was not the first time Nigerian banks had seen forbearance linked to strict conditions. But the circular's lasting impact has become clearer over the months since its release, particularly following the June 20, 2025 follow-up circular that set out an explicit exit roadmap from the relief regime.

The CBN circular represents a temporary prudential measure designed to limit profit distribution and offshore expansion by banks currently operating under regulatory forbearance. By directing the suspension of dividends, bonuses, and investments in foreign subsidiaries, the Central Bank aims to preserve internal capital, bolster balance sheet resilience, and ensure that affected institutions prioritise the restoration of sound prudential positions. Ultimately, the directive seeks to strengthen credit risk management and uphold system-wide financial stability during this transitional period.

The CBN's position is simple, if you are getting support, there are strings attached. Any relief, whether it is forbearance, a concession, or an extended credit limit, comes with increased scrutiny and a responsibility to operate with stronger governance and transparency. It reinforces the long-standing principle captured in the common law maxim "Qui sentit commodum, sentire debet et onus", he who enjoys the benefit must also bear the burden. It is the same principle as in everyday life: if you are getting a break, you are expected to act responsibly in return. This regulatory action we believe is not a punishment but a risk control mechanism, and this makes sense, as a stable financial system depends on accountability at every level.

Before we delve into the legal nuances of this circular, we ought to have context.

THE ROAD TO FORBEARANCE

Recall that on March 28, 2024, the CBN issued a circular where, as part of its recapitalisation exercise, it increased the minimum capital requirements for each type and form of bank. It further stated that, for existing banks, when calculating the capital-based threshold, only paid-up capital and share premium can be included while shareholders' funds, which typically include retained earnings, reserves, revaluation surpluses from devalued FX, and other accounting components not considered fresh capital, are excluded. The aim of this is to ensure that only real, liquid, and committed shareholder investment is counted not accounting-based capital.

This approach created a significant capital shortfall for many banks, especially those exposed to high FX losses and loan impairments. As such, regulatory forbearance becomes necessary to provide temporary relief to affected banks, allowing them time to stabilise their balance sheets, improve provisioning levels, and align with prudential standards—without triggering immediate sanctions or regulatory breaches.

WHAT IS REGULATORY FORBEARANCE?

Regulatory forbearance, though not expressly defined in statute, is a legal and financial concept shared by laws, regulations, contractual terms, and regulatory guideline. In the CBN's context, it is the discretionary and temporary relaxation of certain prudential requirements to help banks in financial distress maintain stability while working toward compliance.

As defined in the 9th edition of Black's Law Dictionary, forbearance e, denotes "an intentional negative act" or "an act of tolerating and abstaining." Applied to banking regulation, it means the CBN temporarily eases compliance obligations to support institutions through economic stress or recovery from significant shocks, without imposing immediate penalties.

WHY ARE BANKS GRANTED FORBEARANCE?

The CBN's interventionist foray of using forbearance as a crisis management tool did not begin today; one of the earliest and most significant instances was during the 2009 banking crisis, when several Nigerian banks were on the brink of collapse due to toxic assets, particularly margin loans and heavy exposure to the stock market crash between late 2008 to mid-2009. In response, CBN stepped in with a combination of liquidity support - forbearance measures, which led to the creation of AMCON to absorb non-performing loans and clean up the banks' balance sheets. It was a bold move that helped prevent a total systemic breakdown.

A few years later, when global oil prices crashed to as low as $41 per barrel in 2016, the economy and by extension, the banking sector took another hit. Loan defaults surged, especially in the oil and gas, and real estate sectors. Again, CBN offered breathing room through targeted concessions on loan provisioning and foreign currency exposure limits. Time and again, forbearance has been CBN's way of helping banks weather the storm without tipping the entire financial system into chaos.

During the COVID-19 pandemic in 2020, the CBN had by a circular granted regulatory forbearance to Deposit Money Banks ("DMBs") to ease the pressure occasioned by Covid-19, this forbearance took the form of loan restructuring, moratoriums, and temporary breaches of prudential thresholds.

Fast forward to 2024, with the CBN's recapitalisation directive combined with significant FX losses stemming from the sharp devaluation of the Naira placed fresh pressure on banks' capital positions, especially when banks were constrained from including their retained earnings or arbitrage from their surplus dollar deposits. In response, and consistent with its earlier interventions, the CBN again deployed regulatory forbearance. This time, relief was granted to banks that had breached the Single Obligor Limit (SOL) or experienced capital erosion, as formalized in the circular dated June 13, 2025.

In all of these episodes, the underlying objective has remained the same: (i) to provide temporary regulatory breathing space and (ii) allow banks to navigate macroeconomic shocks while still supporting the real economy. The forbearance measures, particularly around SOL and capital adequacy were not blanket waivers, but carefully considered reliefs aimed at preserving confidence in the financial system and ensuring continued credit flow in challenging times.

THE 2025 CBN DIRECTIVES: KEY CONDITIONS AND RESTRICTIONS AND WHY THEY MATTER

In its June 13, 2025 circular, the Central Bank of Nigeria (CBN) introduced tighter rules for banks that benefit from regulatory forbearance or Single Obligor Limit (SOL) relief. These rules are not just technical adjustments they are part of a broader strategy to ensure that temporary relief measures translate into long-term stability for Nigeria's financial system.
But first, what exactly is the Single Obligor Limit ("SOL")?

UNDERSTANDING THE SINGLE OBLIGOR LIMIT

At its core, SOL is a regulatory cap on how much credit a bank can extend to a single borrower or a group of connected borrowers. The idea is simple: no bank should put too much of its money in the hands of just one customer. Doing so can create huge risks if that borrower fails. SOL helps spread risk more evenly across the banking system and reduces the chances of a single failure threatening the entire bank or the broader economy.

However, in special cases, the CBN may grant SOL forbearance, that is, it temporarily allows a bank to go beyond this limit, but under strict conditions. This kind of flexibility is sometimes necessary during periods of economic stress or when dealing with systemically important borrowers.

This concept is not new. Back in May 2010, the CBN issued the Prudential Guidelines for Deposit Money Banks in Nigeria, in response to the 2008/2009 financial crisis. At that time, it was discovered that many Nigerian banks had dangerously high loan concentrations. To prevent a repeat of such vulnerabilities, CBN stepped in with stricter rules and financial support, and it formalised the SOL framework to limit credit risk exposure.

According to Section 3.2 of those guidelines (now the Prudential Guidelines 2020), a bank is not allowed to lend more than 20% of its shareholders' funds unimpaired by losses to a single borrower or group of related borrowers. In plain terms, this means that the lending cap is based on the bank's real capital after accounting for any financial losses. Additionally, the guidelines require that one-third of a bank's off-balance sheet exposures such as guarantees and letters of credit be included in calculating this limit. This ensures banks can't bypass the rules by shifting obligations off their books.

For banks currently operating under approved regulatory forbearance regimes, CBN is directing the following:

1. Suspension of Dividend Payments to Shareholders:

Banks under forbearance are temporarily prohibited from paying dividends to their shareholders. This measure is designed to help the bank conserve capital and reinforce its financial health during the period of regulatory relief. By retaining earnings instead of disbursing them, banks reinforce their capital base, ensuring they can absorb potential losses and meet stricter recapitalisation requirements. This aligns with the regulatory intent, which is to prevent capital depletion at a time when liquidity preservation is critical.

Importantly, this restriction does not affect the rights or obligations owed to the bank's creditors. Creditors such as bondholders, depositors, and other lenders remain entitled to receive payments in accordance with their contractual terms. The bank is still expected to honour these obligations fully and promptly. The dividend suspension applies solely to profit distributions to shareholders and is not a sign of insolvency or financial distress.

2. Deferral of Bonuses to Directors and Senior Management Staff:

The payment of bonuses, which are additional compensation typically awarded based on performance to directors and senior management is to be deferred for banks operating under regulatory forbearance. This measure is aimed at promoting prudent capital management and ensuring that executive compensation does not conflict with the bank's need to stabilise its financial position during the relief period.

Notably, the circular specifically refers to bonuses paid to directors and senior management. We understand this to mean that bonuses to mid-level and junior staff are not affected by this restriction and may continue to be paid in line with internal performance and compensation policies. This distinction appears to be a deliberate attempt to protect staff morale and retain key operational talent, while placing greater responsibility for restraint at the leadership level.

However, in cases where deferred bonuses to directors and senior executives are contractually guaranteed or embedded in legally binding compensation arrangements, exceptions may be considered—subject to regulatory review and provided they do not compromise the bank's capital adequacy or violate the underlying intent of the directive.

3. Freeze on Foreign Subsidiary Investments:

Banks operating under regulatory forbearance are prohibited from expanding their offshore operations, injecting capital into foreign subsidiaries, or acquiring new foreign assets without prior approval from CBN. This restriction is aimed at curbing capital flight and ensuring that available liquidity remains within the Nigerian financial system, where it can be channelled towards domestic lending and economic recovery. The regulatory intent is clear: to prevent banks with weakened balance sheets from diverting scarce capital into potentially higher-risk international ventures. However, exceptions may be granted in cases where such foreign investments are critical to preserving the value of existing overseas assets, meeting binding regulatory obligations in foreign jurisdictions, or fulfilling pre-existing contractual commitments. Any such exception would require strong justification and formal approval from CBN to ensure it aligns with the broader objective of financial stability.

THE EXIT RAMP: A FIRM BUT SUPPORTIVE FRAMEWORK

As Nigeria gradually emerges from the turbulence of the Covid 19 years and the foreign exchange landscape begins to find its footing once more, the CBN has stepped forward with measured determination to guide the financial sector back to stability. On June 20, 2025, the CBN released a significant circular titled "Regulatory Measures to Support Exit from Forbearance Regime" a document not just filled with rules and timelines but underpinned by a clear sense of responsibility and foresight.

This initiative comes at a moment when many banks are still healing from the economic aftershocks of recent years. The CBN's new framework recognises this reality. It offers banks the breathing room they need to mend their balance sheets, while also insisting on strong, clear guardrails to ensure that the process is transparent, disciplined, and ultimately beneficial to the broader economy

There's a quiet wisdom in this approach. It is neither punitive nor overly lenient; it simply acknowledges that recovery is a journey, not a switch to be flipped. By creating space for balance sheet repair while insisting on accountability, the CBN is restoring confidence in the banking sector's foundations: capital integrity, asset quality, and depositor trust.

This complimentary directive is more than just a policy update. It is a signal that the era of forbearance is closing not with abruptness, but with care. And in its place, a more stable, resilient, and forward-looking financial system is being built, one capable of withstanding future shocks and better equipped to support the hopes and ambitions of everyday Nigerians.

The Key components of the exit measures are:

1. Supportive Tools for Balance Sheet Repair:

- Accelerated Loan Write-Offs: To fast-track asset quality clean-up, the CBN has temporarily waived the rule requiring banks to hold fully provisioned, forbearance-related loans for one year before writing them off. This allows banks to immediately clean their books of these Non-Performing Loans (NPLs), provided their internal governance requirements for such write-offs are met.

- Temporary Capital Enhancement: To strengthen capital buffers during the transition, the regulatory caps on recognising Additional Tier 1 (AT1) capital in the Capital Adequacy Ratio (CAR) computation are temporarily lifted from June 30, 2025, to March 31, 2026. This adjustment gives banks more breathing room, but the CBN stresses it is solely for supporting capital adequacy and is not a substitute for the ongoing recapitalisation programme.

2. Firm Guardrails for Accountability:

- Mandatory Capital Restoration Plans: All affected banks are required to prepare and submit a comprehensive Capital Restoration Plan to the CBN on or before the 10th working day following the end of each quarter, starting June 30, 2025. This plan must detail management's proposed strategies to restore full regulatory compliance, including (but not limited to) cost optimisation initiatives, risk asset reduction, significant risk transfers, and necessary business model adaptations. This plan will be the basis for continuous supervisory monitoring until full normalisation is achieved.

- Enhanced Regulatory Disclosures: To promote transparency, banks must submit detailed quarterly disclosures to the Director of Banking Supervision. These must include detailed provisioning status, CAR calculations both with and without the transitional reliefs, and classification migration data for restructured loans. This forces banks to be transparent about their true underlying health, separating the effect of the temporary support from their organic capital position.

THE BIGGER PICTURE: STRINGS ATTACHED, FOR A REASON

CBN's conditions reflect a deliberate trade-off:

1. Forbearance is not amnesty. Banks get breathing room but must prioritise financial repair over shareholder returns.
2. Transparency is non-negotiable. Institutions under forbearance will face heightened scrutiny on governance, risk management, and reporting.
3. Systemic stability trumps short-term gains. By restricting profit distributions and offshore expansion, the CBN ensures that banks focus on solvency, not speculative growth.

WHAT DOES THIS MEAN FOR THE BANKING SECTOR?

The CBN's 2025 conditional forbearance measures are a double-edged sword for Nigerian banks—offering short-term relief but demanding long-term discipline. Here's how the sector will be impacted:

1. Short-Term Pain for Long-Term Gain

- Capital Preservation Over Profitability: Banks must retain earnings and reinvest them into the institution rather than paying out dividends or bonuses a move that may frustrate shareholders and executives in the short term. However, this approach enhances the bank's capacity to absorb future shocks and meet recapitalisation targets.

- Reduced Flexibility, Increased Stability: The freeze on foreign investments limits growth opportunities abroad but ensures liquidity stays within Nigeria's financial system, supporting domestic lending and economic recovery.

2. Governance Under a Microscope

- Tighter Supervision: Banks under forbearance will face enhanced regulatory scrutiny on risk management, governance, and reporting. This could mean more audits, stricter compliance checks, and mandatory corrective plans.

- Cultural Shift: Leadership incentives are realigned as bank executives can no longer prioritise short-term profits (and bonuses) over long-term resilience.

3. A Push Toward Consolidation

- Weak Banks May Seek Mergers: Institutions struggling to meet capital requirements despite forbearance could explore mergers or acquisitions to survive, accelerating sector consolidation.

- Stronger Banks Gain Competitive Edge: Well-capitalised banks (unaffected by forbearance) may exploit the situation by attracting more customers and talent from constrained rivals.

- Long-Term Benefit: A healthier, more stable banking sector emerges, with fewer "weak banks" and stronger institutions capable of supporting economic growth.

WHAT DOES THIS MEAN FOR BORROWERS?

The CBN's policy does not just affect banks; it ripples through to businesses and individuals, and by extension, the economy relying on credit. Here is what borrowers should expect:

1. Large Corporate Borrowers: Tighter Scrutiny

- SOL Compliance Pressure: Companies with loans exceeding 20% of a bank's capital (Single Obligor Limit) may face early repayment requests or difficulty rolling over credit lines.

- More Loan Syndications: Banks may push large borrowers toward syndicated loans (multiple lenders sharing risk), making deals more complex but also more stable.

2. SMEs and Retail Borrowers: Mixed Impact

- Potential Credit Crunch: If banks become overly cautious, loan approvals could slow, especially for riskier sectors like startups or SMEs.

- Better Loan Terms for Low-Risk Borrowers: Banks may compete fiercely for high-quality borrowers (e.g., stable businesses, collateral-backed loans) to meet lending targets safely.

3. Borrowers in Distress: A Silver Lining

- Possible Restructuring Opportunities: Banks under forbearance may be more open to renegotiating terms (extended tenures, lower rates) to avoid defaults, especially for strategic sectors like agriculture or manufacturing.

- Stricter Collateral Requirements: To mitigate risk, banks may demand more security for new loans.

- Long-Term Benefit: A more responsible credit ecosystem where loans are sustainable, risks are managed, and systemic crises are less likely.

CONCLUSION: A NECESSARY RESET

The Central Bank of Nigeria's June 13, 2025 directive, suspending dividends, bonuses, and offshore investments for banks under regulatory forbearance, signalled a strong push to restore market discipline. This was reinforced by the June 20, 2025 circular, which set out an exit roadmap offering incentives—such as accelerated loan write-offs and temporary capital relief—alongside stricter supervisory measures, including mandatory capital restoration plans and enhanced disclosures.

While aimed at preserving capital and aiding balance sheet repair, the policy risks creating a two-tier banking system, with forbearance banks facing tighter constraints and others gaining competitive advantage. This could complicate capital raising, particularly for mid-sized banks struggling to meet the N500 billion capital threshold.

The success of these measures hinges on banks' ability to swiftly execute restoration plans. With the CBN providing structure and incentives, the onus now lies on the banks to achieve compliance and contribute to a more stable, resilient sector.

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