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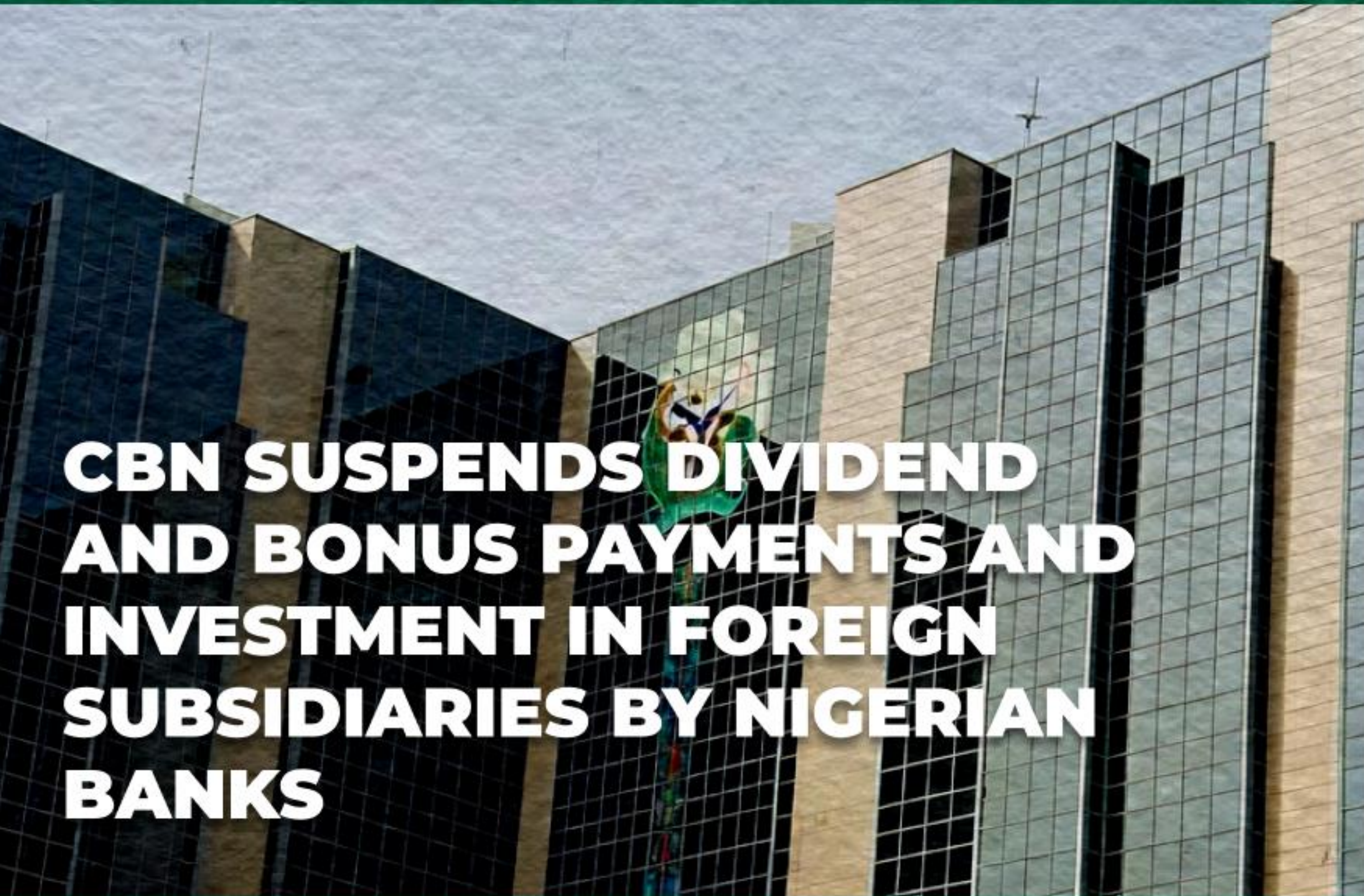

CBN SUSPENDS DIVIDEND AND BONUS PAYMENTS AND INVESTMENT IN FOREIGN SUBSIDIARIES BY NIGERIAN BANKS

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Introduction

The Central Bank of Nigeria ("CBN") recently issued a letter to all Nigerian banks announcing a temporary suspension of dividend payments, payment of bonuses to directors and senior management staff, and investment in foreign subsidiaries by affected Nigerian banks. The directive specifically targets banks currently under the CBN credit or single obligor limit forbearance regime. The CBN has indicated that the suspension is part of its broader efforts to strengthen financial stability and ensure banks preserve capital during the ongoing transition to new minimum capital requirements.

In this regulatory update, **Joseph Eimunjeze, Itoro Uwemedimo Etim, and Titilola Odi** of our Banking & Finance team analyse the directive as it relates to the affected banks and the implications for the Nigerian banking industry.

Please click here to access the full regulatory update:

Putting Things in Context: Historical Background

The recent Naira devaluation resulted in the erosion of the capital base of several Nigerian banks, thereby pushing them below CBN's required thresholds. This has caused the Affected Banks to breach their minimum capital positions, including credit and single obligor limits (currently capped by the Banks and Other Financial Institutions Act 2020 ("BOFIA") at 20% of shareholders' fund unimpaired by losses for commercial banks and 50% of shareholders' fund unimpaired by losses for merchant banks) in response to which the CBN initially granted credit and single obligor limits forbearance to the Affected Banks. In addition, the CBN implemented strategic measures in 2024 to strengthen the financial position of Nigerian banks by increasing the minimum capital requirements to enable the banks to effectively support the economy. The capital requirements were introduced on 28th March, 2024 when the CBN issued a circular titled *"Review of Minimum Capital Requirements for Commercial, Merchant, and Non-Interest Banks in Nigeria"* with a deadline of 31st March, 2026 to meet the new capital requirement. This policy is designed to ensure that banks not only maintain sufficient capital to sustain their operations within the Nigerian economy but are also better equipped to withstand growing economic challenges.

Depending on the type of licence that a bank holds, the new minimum capital requirements range from NGN10 billion to NGN500 billion. The options available to banks include (i) injecting fresh equity capital through private placements, rights issue and/or offer for subscription; (ii) mergers and acquisitions; and (iii) upgrade or downgrade of licence authorisation. Banks have started deploying any or a combination of these options to meet the minimum capital requirements. For further details on this, refer to our earlier publication titled *"Options for Nigerian Banks to Meet New Minimum Paid-Up Capital Requirements",* using the link <u>here</u> for more details.

What does the Letter mean for the Affected Banks?

As earlier noted, the CBN has directed the Affected Banks to (a) suspend the payment of dividends to shareholders; (b) defer the payment of bonuses to directors and senior management staff; and (c) refrain from making investment in foreign subsidiaries or new offshore ventures. During the suspension period, the Affected Banks are prohibited from engaging in any of the restricted activities. This supervisory measure by the CBN aims to preserve the capital buffers and enhance the balance sheet resilience of the Affected Banks. It also aims to ensure prudent capital retention while the Affected Banks work toward meeting the capital regulatory requirements.

Legal Basis

The Letter is issued by the CBN pursuant to its regulatory powers under the BOFIA. In particular, Section 13 (5) provides that any bank which fails to observe any specified capital ratios may be prohibited by the CBN from, among others, (a) paying cash dividends to shareholders, (b) paying bonus to its directors, other than the approved emoluments and benefits, and (c) engaging in other activities as the CBN may specify. Section 13(6) of the BOFIA further grants the CBN the power to impose such additional holding actions, prohibitions and conditions as it may deem fit for failure of banks and other financial institutions to comply with the capital adequacy ratio specified by the CBN. In addition, Section 16(1)(c) of the BOFIA prohibits banks from paying dividends to their shareholders unless they have complied with any capital ratio requirements specified by the CBN.

While the suspension by the CBN is temporary, no definitive timeline has been provided by the CBN on when the regulatory action will be reviewed or reversed. The CBN has, however, noted that the temporary suspension is until such a time as the regulatory forbearance is fully exited and the Affected Banks' capital adequacy and provisioning levels are independently verified to be fully compliant with the prevailing standards.

Which Banks are Affected?

The CBN has not provided a list of the Affected Banks. The only thing clear in the Letter is that the suspension applies to the banks that are currently benefiting from credit or single obligor limit forbearance granted by the CBN. The CBN has, however, clarified in its press release dated 17th June, 2025, titled *“CBN Affirms Strength of Banking Sector, Issues Routine Transitional Guidance for Select Institutions”* (the “CBN Press Release”) that the directive applies only to a limited number of banks still transitioning out of the temporary regulatory support provided — primarily in response to the economic effects of the COVID-19 pandemic. To reassure the Nigerian public and foreign investors, the CBN reiterated in the CBN Press Release that the banking sector remains strong. It also reaffirmed its commitment to taking all necessary measures to safeguard the sector’s stability and foster a resilient financial ecosystem that drives sustainable economic growth. The position of the CBN in not being specific is understandable because making the details of the Affected Banks available to the public could send the wrong signal, as such information could cause some depositors to assume that their banks are having liquidity issues, which could lead to a ‘run’ on such banks.

That said, FCMB Group PLC (“FCMB Group”), the parent entity of First City Monument Bank Limited (“FCMB”), has released a press release dated 17th June, 2025, which indicates that FCMB is one of the Affected Banks and reassures investors and other stakeholders of FCMB Group’s commitment to regulatory compliance, sound capital management, and long-term financial stability.

Similarly, in a press release 17th June 2025 titled *"Temporary Suspension of Dividend Payments, Bonuses, and Investments in Foreign Subsidiaries,"* Zenith Bank PLC confirmed that its exposures under the CBN forbearance regime consist of: (a) a single obligor limit forbearance related to one obligor; and (b) credit exposures to two customers. This confirmed that Zenith Bank is also one of the Affected Banks. The bank expressed confidence that both exposures will be brought within regulatory limits by 30th June, 2025 and that it expects to fully exit all CBN forbearance arrangements by the end of H1 2025. We anticipate similar press releases to be issued by the other Affected Banks as they seek to reassure investors and stakeholders of their adherence to capital requirements and the status of the relevant bank regarding CBN's forbearance measures.

Implications of the Letter

This regulatory action means that the Affected Banks will be unable to declare dividends payable to their shareholders while the suspension remains in effect. The shareholders of the Affected Banks will, therefore, need to wait for subsequent years to earn dividends from their investment. In addition, for directors and senior management staff that are entitled to bonusses, or have earned the same, the Affected Banks will be unable to make such payment. The CBN did not indicate whether such bonuses earned can be accrued and paid after the suspension is lifted. We believe the latter could be the case. Regarding offshore investment, the Affected Banks will also not be able to inject additional capital in existing or new offshore subsidiaries. If the regulators in such offshore jurisdictions require such offshore banks to recapitalise (like the current position for Nigerian banks), their parent Nigerian banks will be unable to make additional investments during the suspension period. That means the relevant Affected Banks and such offshore banks may need to seek third party investors to invest in such offshore entities to meet their capital requirements.

Conclusion

Notwithstanding the forbearance given by the CBN, the surge in the number of capital position breaches by banks reflects the need for the additional measures introduced by the CBN in the Letter. The CBN's directive reflects heightened regulatory scrutiny amid persistent macroeconomic challenges. As noted in the CBN Press Release, the measures introduced in the Letter reflect a well-established supervisory process consistent with global norms. By restricting capital outflows through the suspended activities, the directive seeks to strengthen the Affected Banks' capital position and ability to meet obligations, restore sound prudential positions, and safeguard financial system stability. We expect that the Affected Banks will update internal policies to align with the directive, ensure transparent communication with stakeholders, and maintain disciplined capital management during the suspension period. We will continue to monitor developments and provide further updates as may be necessary.

This update has been provided by Joseph Eimunjeze, Itoro Uwemedimo Etim, and Titilola Odi of the Banking & Finance team at Udo Udoma & Belo-Osagie. For more information about our Banking & Finance practice group offerings, please visit our website at www.uubo.org or email us at financeteam@uubo.org.

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