Understanding the Impact of Increased Loan Provisioning on your Banking Stocks Portfolio

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Discussion Points

- June 2025 Reckoning: The CBN's dividend freeze exposed balance sheet fragilities, wiping ₦121bn off banking stocks in a day.
- Modelling the Uncertainty: Investors seeking exposure to Nigerian banking stocks can employ a diversified approach that considers the additional loan provisions they will incur this year.

From Relief to Reliance: How We Got Here

When COVID-19 hit in 2020, the Central Bank of Nigeria (CBN) stepped in with an emergency toolkit to preserve credit flow and stabilize the banking system.

The response was swift and aggressive:

- Loan repayment moratoriums were extended,
- Interest rates on intervention funds were slashed,
- Banks were allowed to restructure distressed loans without taking the full hit to their books,
- Breaches of key prudential thresholds like the Single Obligor Limit (SOL) were quietly tolerated.

It worked—for a while. Forbearance gave banks the space to keep lending as the economy found its footing. Stage 2 loans—those showing early signs of trouble—grew over 40% annually between 2020 and 2024. Many banks used the window to expand risk assets and maintain dividends, creating an image of resilience.

But underneath, fragility was building. Repeated devaluations, inflation, and FX stress exposed the limits of the relief. What began as a temporary fix had hardened into quiet dependency. By early 2025, the sector's apparent health—propped up by under-provisioned loans and unsustainable payouts—had become too risky to ignore.

June 2025: The CBN Ends the Free Ride

On June 13, 2025, the Central Bank of Nigeria issued a sweeping directive: any bank still relying on regulatory forbearance or breaching key prudential limits must immediately suspend dividends, executive bonuses, and foreign investments until full compliance is independently verified.

This marked the end of a four-year grace period that had allowed banks to defer full recognition of bad loans and continue rewarding shareholders despite underlying risk.

Key Impacts:

- **Dividend Uncertainty:** The CBN's June 2025 directive has led Access, Zenith, UBA, Fidelity, and FCMB to possibly suspend interim dividends. In contrast, GTCO and Stanbic IBTC, with zero exposure to regulatory forbearance, are still paying both interim and final dividends.
- **Asset quality pressure:** Analysts from Renaissance Capital report that Zenith (23%), Fidelity (10%), FCMB (8%), Access (4%), and UBA (~5–6%) have material forbearance-linked loan exposure, while GTCO and Stanbic IBTC report zero . As forbearance ends, these exposures must be reclassified and fully provisioned—significantly tightening capital buffers.
- **Market response:** The NGX Banking Index fell 3.98% on June 16, wiping off approximately ₦121 billion in market value—the third-largest single-day drop in 2025. In the days that followed, investors rotated into safer names, with GTCO surging ~16% and Stanbic IBTC ~9.6%

Who's Ready, Who's Not: Navigating the Shakeout

The CBN's June 2025 directive has turned the spotlight on the fundamentals. It's no longer enough to look profitable—banks now have to prove it. Dividend restrictions, provisioning mandates, and capital adequacy requirements have made the strong banks stand out, the reforming banks scramble, and the opaque banks harder to trust. Below is a strategic breakdown of where Nigeria's top banks stand, what they're doing, and how investors should be thinking about them:

Banking Sector Outlook: Post-CBN Directive

Category	Banks	Status	Outlook	Positioning
Safe Havens	GTCO, Stanbic IBTC	No forbearance. Dividends intact.	Strong, stable.	Hold or buy.
Rebound Picks	Zenith, Access, UBA, Fidelity, FCMB	Affected but actively cleaning up.	Recovery likely by 2026.	Accumulate selectively.
Watchlist	ETI, FirstHoldCo	Low disclosure, unclear timelines.	High risk, low visibility.	Avoid for now.

Modelling the Uncertainty - 5 Steps

1. How Banks will Fall Within Forbearance Limits

Among the Tier 1 banks, it was revealed that Zenith had the highest gross loan amounts under forbearance estimated at N1.04tn with Access, UBA, and GTCO with N471bn, N437bn and N0 respectively. FirstHoldCo has not yet disclosed their own gross amounts, but it is safe to say that it may range above N400bn.

The impact of bringing these exposures under regulatory limit is not straightforward and would require sessions with the respective bank's CFOs. However, with a little knowledge of IFRS rules, we may be able to estimate worst case and base case scenarios for the subsequent provisioning that will impact the H1 2025 results and the full year 2025 results.

Using Zenith, we show how the provisioning may take place:

Sample Impact *(N'Millions)*

ZENITH

Forbearance (Stage 2)	1,004,000
Charge	
Stage 1 Provision	20%
Stage 2 Provision	50%
Stage 3 Provision	100%

- Loans granted forbearance are classified as stage 2 ECL loans.
- Stage 2 under IFRS 9 represents financial assets where there has been a significant increase in credit risk since initial recognition, but the asset is not yet considered credit-impaired (i.e., not in default). **50% of the gross loan amount is provisioned and charged to the P&L.**
- 20% of stage 1 ECL loans (No significant credit impairment) is charged.
- 100% of stage 3 ECL loans (Default) is charged.

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Worst Case *(N'Millions)*	
Stage 2 to Stage 3	70%
Stage 2 to Stage 1	30%
Transfer to Stage 3	702,800
Transfer to Stage 1	301,200
Additional Charge Stage 2 to 3	351,400
Additional Writeback Stage 2 to 1	- 90,360
Net Charge	261,040

Best Case *(N'Millions)*	
Stage 2 to Stage 3	30%
Stage 2 to Stage 1	70%
Transfer to Stage 3	301,200
Transfert to Stage 1	702,800
Additional Charge Stage 2 to 3	150,600
Additional Writeback Stage 2 to 1	- 210,840
Net Charge/Writeback	- 60,240

- Since the loans are already under Stage 2, we need to work out scenarios where they will be reclassified and the subsequent additional charges incurred.
- In the worst-case scenario, a 70% transfer of N1.04tn Stage 2 to Stage 3 will incur an additional charge of N351bn.
- A 30% transfer from Stage 2 to Stage 1 would incur a writeback of N90bn, bringing the net additional charge on the P&L to be N261bn.
- For the best-case scenario, we expect a net writeback of N60bn, a gain.
- **In summary, the passthrough of the forbearance charge will not surpass 50% of the gross amount even in an unlikely scenario of 100% transfer to Stage 3.**

2. Estimated Impact Across Banks

Using the same logic for the net charge/writebacks across banks that still bear significant forbearance exposures, we have compiled the impact on the FY2025 impairment charge as follows:

Estimated Impact Across Banks — **Est. Impact on Impairment Charge**

Bank	Forbearance Exposure (N'Mn)	Worse Case (N'Mn)	Best Case (N'Mn)	Base (N'Mn)
ZENITH	1,004,000	261,040	-60,240	100,400
UBA	437,000	113,620	-26,220	43,700
FIRSTHOLDCO	500,000	130,000	-30,000	50,000
ACCESS	471,000	122,460	-28,260	47,100
FIDELITY	458,000	119,080	-27,480	45,800
FCMB	208,000	54,080	-12,480	20,800

3. Impact on Net Income

- In estimating the impact on net income, we believe it prudent to limit the number of assumptions and simplify the passthrough.
- Therefore, the underlying logic is that banks will buffer any additional impairment losses with trading activities, fees and commissions.
- This is intuitive given the position of the loan impairment charge higher up the income statement, after the bank's core activities of quality loan generation.
- We highlight our thesis with two examples Zenithbank and Access.

ZENITH (Worst Case)							
N'Millions							
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025FY**
Loan Impairment Charge	-24,032	-37,237	-56,175	-61,896	-398,412	-668,913	- 929,953
Trading Gains	117,798	121,678	167,483	212,678	566,973	1,100,002	1,100,002
Net Trading Gains	93,766	84,441	111,308	150,782	168,561	431,089	170,049
PAT	208,843	197,852	233,133	234,593	595,601	936,158	372,445
Net Trading Gains Ratio	45%	43%	48%	64%	28%	46%	
Average Net Trading Gains Ratio	**46%**						

- The past 5 years have shown that Zenith's trading activities can be largely relied upon to buffer the impairment charge with a **Net Trading Gains Ratio ((*Trading Gains – Loan Impairment Charge)/PAT)* of 46%.**
- We estimate the loan impairment charge under the worst case to increase to –N929bn, net trading gains to be N170bn and a final estimated PAT of N372 billion for FY 2025.

ACCESS (Worst Case)							
N'Millions							
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025FY**
Loan Impairment Charge	-20,189	-62,893	-83,213	-197,790	-139,528	-245,319	- 367,779
Trading Gains	-17,774	114,326	145,009	335,546	628,931	415,804	415,804
Net fee and commission income	74,047	93,573	118,327	145,735	207,782	415,241	415,241
Net Trading Gains	-37,964	51,433	61,796	137,756	383,612	276,276	48,025
Net fee and Commission Income & Trading Gains	36,084	145,007	180,123	283,491	591,394	691,517	463,266
PAT	94,057	106,010	160,216	152,202	619,324	642,217	410,574
Net Trading Gains Ratio	-40%	49%	39%	91%	62%	43%	
Net fee and Commission Income & Trading Gains Ratio	38%	137%	112%	186%	95%	108%	
Average Net Fee Ratio	**113%**						

- Access bank's business model differs from Zenith is that there is more stability in the buffer from trading gains and fee and commission income.
- Hence our Net Fee, Commission and Trading Gains ratio is as follows:

(Net Fee and Commission Income + Trading Gains – Loan Impairment Charge)/PAT

= Net Fee and Commission Income & Trading Gains Ratio

- With Loan impairment charge increasing to –N367Bn under the worst case, we estimate a PAT of N410Bn for FY2025.

4. Impact on Valuation

- By deriving various estimates for the FY2025 PAT across the banks in coverage, we can then infer the given book value for the year as follows:

Bank	2024 Book Value	Est. 2025 Book Value (Millions) Worst Case	Best Case	Current P/B	Price (July 4th 2025)	Target Price Worst	Best	Est.	Upside
ZENITH	4,029,273	4,401,718	5,105,393	0.50	57.45	53.59	62.16	57.87	1%
UBA	3,418,639	3,812,403	4,137,111	0.40	36.65	37.16	40.32	38.74	6%
FIRSTHOLDCO	2,795,334	2,929,090	3,099,506	0.40	25.85	27.98	29.61	28.79	11%
ACCESS	3,760,178	4,170,752	4,304,330	0.30	22.65	23.47	24.22	23.84	5%
FIDELITY	897,874	841,309	1,078,872	1.10	20.00	18.43	23.63	21.03	5%
FCMB	688,981	742,201	804,538	0.50	9.30	9.37	10.16	9.76	5%
GTCO*	2,712,017	3,051,019	3,390,021	0.98	83.30	85.73	95.26	90.50	9%
STANBIC*	670,648	754,479	838,310	1.77	84.00	83.98	93.32	88.65	6%

- We highlight GTCO and Stanbic IBTC as the exceptions to the procedure given their success of prudent provisioning of forbearance loans and having no loans under forbearance.
- Likewise, we estimated a 12.5% and 25% growth in book value under the worst and base case respectively for the two banks.
- At current levels, we can estimate a base target price, midway between the worst and best to realize a possible 5% upside across board at current Price/Book Ratios.
- As expected, any increase in P/B ratio levels would increase our target prices.

5. Optimizing Exposure

- Using statistical procedures, we can estimate an optimal portfolio weight that incorporates the historical downside risk of the asset not meeting the upside target in the valuation table above.
- The relevant risk measure moves beyond Sharpe Ratio into **Sortino Ratio** which measures the excess return above the target return given the historical volatility of the asset not meeting that target.

Portfolio Weight	3 months Upside
Equal Weight	7.58%
Risk Adjusted (Sortino Ratio)	10.42%

Bank	Risk-Adjusted Weights (Highest Sortino Ratio)
ZENITH	34%
UBA	24%
FIRSTHOLDCO	0%
ACCESS	0%
FIDELITY	26%
FCMB	0%
GTCO	0%
STANBIC	17%

- Mean Variance Optimization (MVO) Methods use historical return data as inputs.
- Given the 0% weight to GTCO, the MVO is a good starting point but must be supplemented with current market views and information that essentially goes beyond historical price data.
- The MVO also does not consider any dividend expectations.

Aligning Expectations

In conclusion, while the CBN's June 2025 directive has unveiled balance-sheet vulnerabilities and driven a temporary pullback in share prices, our analysis shows that even in the worst-case provisioning scenario most Nigerian banks will end 2025 with higher book values than they began the year. GTCO and Stanbic IBTC emerge as clear leaders—with clean books and intact dividends—while the other major banks are actively rebuilding buffers, positioning themselves for a recovery by 2026. At current price-to-book multiples, this translates into moderate upside potential across the sector, suggesting that investors who selectively accumulate on weakness stand to benefit from gradual valuation rerating over the coming months. In short, what began as a shock to capital adequacy is shaping up as a disciplined reset that should support healthier balance sheets and steadier returns going forward.

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