

CBN's DIRECTIVE ON THE RESTRICTION OF BANKING SERVICES TO NON-PERFORMING OBLIGORS: A REVIEW

Analysis of the Central Bank of Nigeria's regulatory measures to strengthen credit discipline and protect financial stability.



Introduction

The financial strength of Nigerian banks, including their average capital adequacy ratios and credit discipline, is critical to the country's financial stability.¹ In recent years, notable events such as the COVID-19 pandemic and the naira devaluation have occasioned major credit risks, necessitating both strict and flexible regulations, as the occasion demands, to manage these risks and ensure restored or continued financial stability.

In particular, in the wake of the COVID-19 pandemic, the Central Bank of Nigeria (CBN), initiated a regulatory forbearance period to provide relief to obligors to deal with the attendant financial crises. Specifically, the forbearance involved the reclassification of loan facilities—such as restructuring payment terms or granting payment moratoriums—in ways that prevented their classification as non-performing loans (NPLs) for the relevant period.²

However, the regulatory forbearance period ended in June 2025, after which the sector saw a rise in NPLs, with the NPL ratio reaching 7%, well above the prudential ceiling of 5%.³ This arose because the payment obligations under the restructured loans had become due, and the loans could no longer qualify for special consideration as the forbearance period had ended.⁴

In response to this, in a letter dated March 12, 2026, the CBN directed all Nigerian banks to restrict access to certain banking services to large-ticket obligors with NPLs (CBN's directive).⁵ The directive aims to strengthen the sufficiency of the credit framework, improve credit discipline, protect capital buffers, and thereby enhance the overall financial stability of the banking ecosystem.

This article will review the CBN's directive. As a prelude to examining the restrictions above in detail, as well as our reflections on them, this article will first briefly consider the meaning of NPLs and their impact on financial stability.

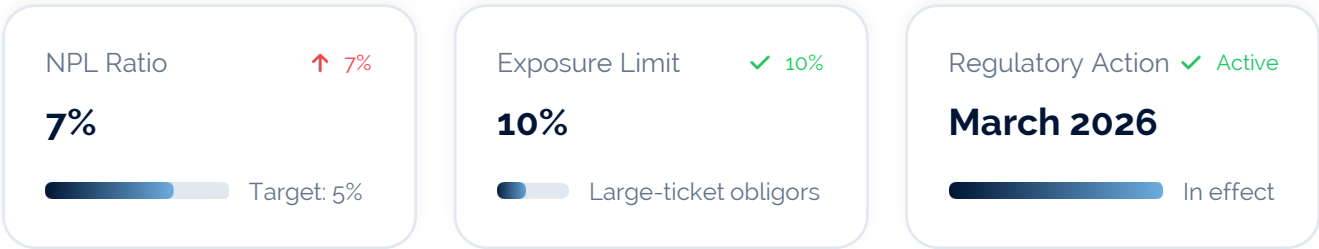
Regulatory Timeline & Key Events

2020 COVID-19 Pandemic
Global financial crisis begins, CBN initiates regulatory forbearance

2020 - 2025 Forbearance Period
Loan restructuring and payment moratoriums implemented.

June 2025 Forbearance Ends
NPL ratio rises to 7%, above prudential ceiling of 5%

March 2026 CBN Directive
Restrictions on banking services to non-performing obligors



Understanding Non-Performing Loans

An NPL represents a sum of borrowed money for which the debtor has been unable to make scheduled payments for at least 90 days.⁶ NPLs serve as an indicator of a country's financial development, as they reveal the credit quality of banks' loan portfolios, which in turn determines the overall credit quality of the banking sector.⁷

Low NPLs, indicating high credit quality of the banking sector, signify increased capital buffers and robust profitability, enabling the economy to absorb losses and safeguard it from shocks, whereas the reverse is true for a banking sector with high NPLs, indicating low credit quality.⁸ This suggests the credit quality of a country's banking sector—measured by metrics such as the prevalence of NPLs—directly affects the country's financial stability.

In addition, research shows that a 1% increase in bank stability leads to a 3.895% increase in economic growth.⁹ Stability in a country's banking sector is thus critical to the country's overall financial stability. Given that one of CBN's key objective is to promote a sound financial system in Nigeria,¹⁰ it is no surprise that the CBN has issued the directive to banks to reposition the credit quality of Nigeria's banking system and thus improve the country's financial stability.



Definition & Criteria

NPL Definition: A Non-Performing Loan represents borrowed money for which the debtor has been **unable to make scheduled payments for at least 90 days**. This serves as a critical indicator of a country's financial development and banking sector credit quality.

Low NPLs

25%

High NPLs

75%



Capital Buffers

Increased capital buffers and robust profitability



Risk Exposure

Higher risk of financial instability

3.895%

Economic Growth Impact

Research shows that a **1% increase in bank stability** leads to a **3.895% increase in economic growth**. This demonstrates the critical relationship between banking sector stability and overall economic performance.



Financial Stability Metrics

+3.895%

Economic growth per 1% bank stability increase

Low Stability

High Stability

Key Features of the CBN's Directive

The CBN's directive establishes three key restrictions on banking services for large-ticket obligors with non-performing loans, designed to strengthen credit discipline and protect capital buffers.



Restriction on Direct Credit Access

Primary restriction on new lending

The directive restricts banks from granting any further direct credit facilities to large-ticket obligors with NPLs recorded in the credit risk management system and/or any licensed private credit bureau.



Restriction on Indirect Credit

Contingent liabilities & guarantees

The directive also prevents banks from granting any form of indirect credit or contingent liabilities in banking, such as letters of credit, performance bonds, bankers' confirmations, and advance payment guarantees to the above-mentioned obligors.



Scope of Application

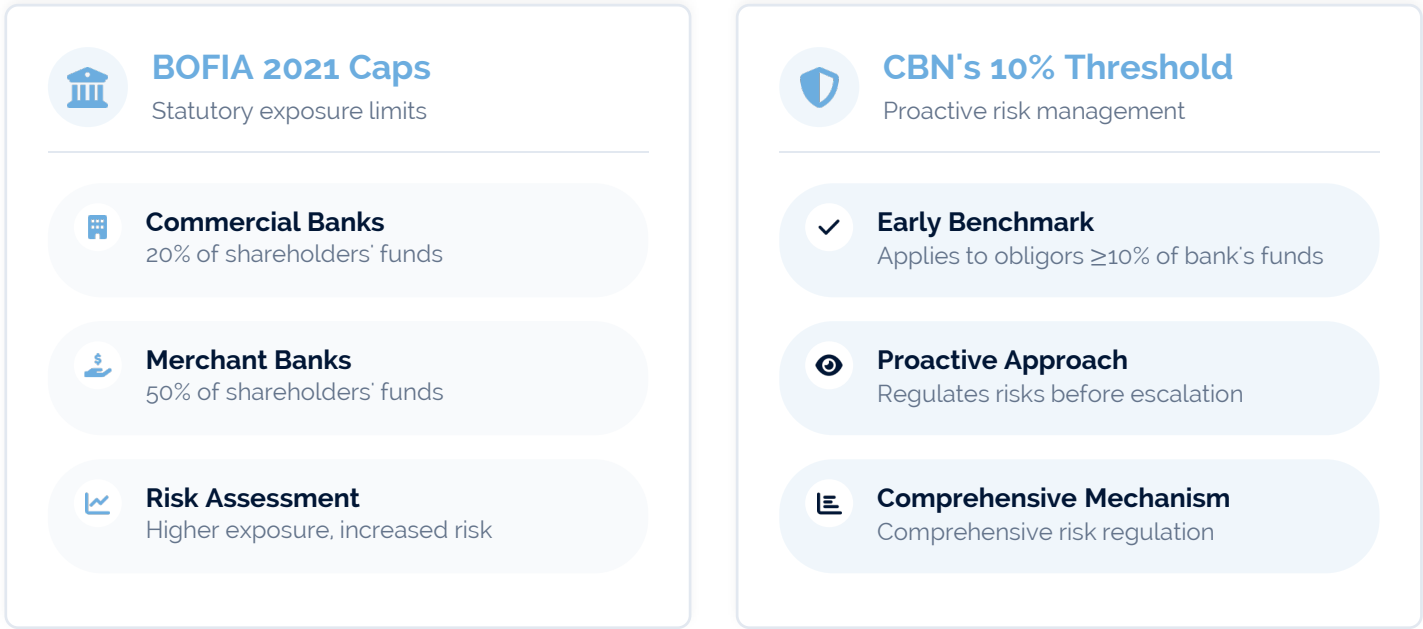
The restrictions highlighted above apply solely to obligors whose credit exposure meets the criteria for designation as a large-ticket obligor as outlined in the Prudential Guidelines for Deposit Money Banks.¹¹ The Guidelines state that a large exposure is any credit to a customer or a group of related borrowers that is at least 10% of a bank's shareholders' fund unimpaired by losses.

From the above, it is apparent that the CBN's directive seeks to restrict banking services, particularly credit services to banking customers with substantial outstanding credit obligations, in line with the Prudential Guidelines for Deposit Money Banks to minimise the banking sector's risk exposure.

Our Reflections

The Banks and Other Financial Institutions Act 2021 (BOFIA) caps the credit and single-obligor limits at 20% of shareholders' funds, unimpaired by losses, for commercial banks and 50% of shareholders' funds, unimpaired by losses, for merchant banks.¹² In this regard, the heightened exposure limit for merchant banks (50%) may facilitate greater ease of doing business while simultaneously increasing risk.¹³

Meanwhile, as highlighted above, CBN's directive applies to obligors with credit exposures of at least 10% of a bank's unimpaired shareholders' funds. By adopting a threshold significantly lower than the statutory cap for credit exposure, it establishes an early benchmark for determining when its provisions become applicable, marking a proactive approach.



Accordingly, the directive does not merely apply to obligors who have attained or nearly attained the respective exposure limits identified in the preceding paragraph, rather, it also outlines a comprehensive mechanism that regulates risks once they become substantial, rather than waiting until they escalate into systemic threats to financial stability.

Conclusion

Under the CBN Act, CBN's objective is to promote a sound financial system in Nigeria. As noted above, NPLs serve as an indicator of the credit quality of the banking sector, and in turn may potentially impact a country's financial stability. The CBN's directive, which takes a more conservative stance by capping credit exposure limits at 10% (less than the statutory cap), is not only a welcome development but is also proactive, because it aims to promote Nigeria's financial system.



NPL as Credit Quality Indicator

NPLs serve as a critical indicator of the credit quality of the banking sector. A 1% increase in bank stability leads to a **3.895% increase in economic growth**, highlighting the direct relationship between banking sector health and national economic performance.



Proactive Risk Management

CBN's conservative stance by capping credit exposure limits at **10%** (below the statutory cap of 20%) demonstrates a proactive approach to risk management and financial stability.



Regulatory Framework Enhancement

The directive establishes comprehensive mechanisms that regulate risks once they become substantial, rather than waiting until they escalate into systemic threats to financial stability.



Stakeholder Protection

The restrictions protect depositors, shareholders, and the broader financial ecosystem by preventing excessive risk-taking by large-ticket obligors.

Key Metrics & Impact

✓ Positive Impact

7%
NPL Ratio

10%
Exposure Limit

3.895%
Growth Impact

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8. These shocks include natural disasters (like COVID-19) and man-made economic shocks. See also Seyed Alireza Athari, Farid Irani, Abobaker ALAL Haddood, "Country Risk Factors and Banking Sector Stability: Do Countries' Income and Risk-Level Matter? Evidence From Global Study" (2023) Heliyon 9.
9. Robert Stewart, Murshed Chowdhury, and Vaalmikki Arjoon, "Bank Stability and Economic Growth: Trade-Offs or Opportunities? (2021) Empir Econ 61, 827-853.
10. Central Bank of Nigeria Act (2007), s. 2(d).
11. The Prudential Guidelines for Deposit Money Banks, Clause 3.2(d).
12. Banks and Other Financial Institutions Act (2021), s.19(1)(a).
13. The Prudential Guidelines for Deposit Money Banks, Clause 3.2(a).

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