POST-RECAPITALIZATION REVIEW & FULL YEAR 2025 FINANCIAL PERFORMANCE

To: Institutional Investors, Asset Management Committees, and Global Intermediaries

From: Equity Research Unit, GAM (Global Asset Management)

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Subject: FY 2025 Banking Sector Review & Post-Recapitalization Structural Assessment

1. EXECUTIVE SUMMARY & RECAPITALIZATION CONTEXT

The 2025 financial year represents a historic structural pivot for the Nigerian banking industry. Having operated under a high-interest-rate environment driven by the Central Bank of Nigeria's (CBN) orthodox monetary tightening, commercial lenders successfully redeployed fresh capital bases to capture unprecedented yields on earning assets. Rather than relying on the passive, volatile foreign exchange revaluation windfalls that characterized 2024, the FY2025 performance cycle reflects a higher "Quality of Earnings" anchored on aggressive credit creation, expanded net interest margins (NIMs), and digital-led retail deposit velocity.

2. THE RECAPITALIZATION FRAMEWORK OVERVIEW

Key Deadline

- March 31, 2026: This marked the formal conclusion of the 24-month capital-raising window mandated by the apex bank in March 2024. All listed and private commercial, merchant, and non-interest banks were required to log fully cleared paid-up capital additions.

Methods of Capitalization

Lenders were legally restricted from utilizing retained earnings or debt instruments, forcing an exclusive reliance on fresh equity injection. The primary structural routes included:

- **Rights Issues:** Dispatched heavily to shield existing institutional and retail blocks from excessive equity dilution.
- **Public Offers:** Utilized by top-tier franchises to capture vast retail and domestic institutional liquidity.
- **Private Placements:** Deployed to secure strategic, high-net-worth international and regional cornerstone investors.
- **Downgraded Licenses:** Leveraged by select national and international institutions unable or unwilling to dilute equity aggressively, opting to scale back operations to align with lower structural thresholds (e.g., transitioning from International to National, or National to Regional authorization).

Total Capital Raised

- ₦4.65 Trillion ($3.38 Billion) was successfully absorbed by the capital markets during the window.
- Funding Split: 72.55% was mobilized from domestic investors via oversubscribed local offers, while 27.45% (~$930 million) was injected via foreign direct investments and international institutional blocks.

Compliance Status

The CBN confirmed a historic 91% structural compliance rate across the formal banking grid.

- 33 Banks successfully met or exceeded their revised paid-up minimum benchmarks.
- A marginal pocket of remaining lenders are currently subject to ongoing regulatory combinations, orderly wind-downs, or final judicial/verification processes. No systemic disruptions occurred, as the exercise was executed alongside an orderly exit from structural regulatory forbearances.

3. FY 2025 CONSOLIDATED FINANCIAL PERFORMANCE

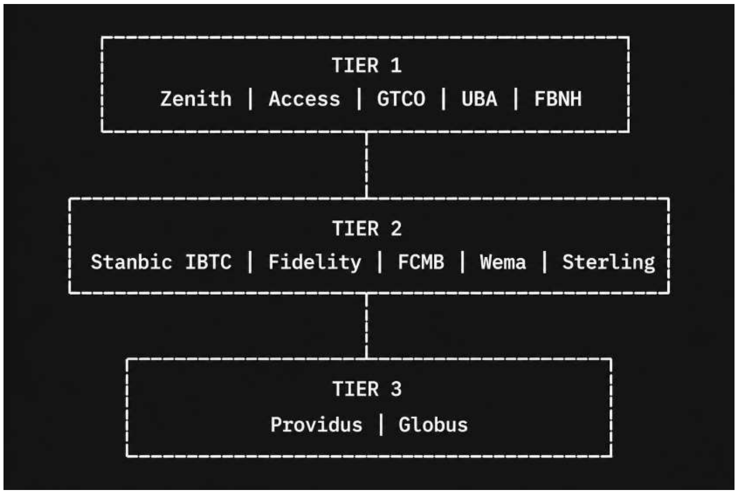
The sector's consolidated financial statement indicates aggressive balance sheet expansion, reflecting the instant deployment of capital proceeds into high-yield short-term instruments and risk assets.

Metric	**FY 2024**	**FY 2025**	**Remarks / System Drivers**
Gross Sector Earnings	₦12.45 Trillion	₦24.80 Trillion	+99.2% Growth. Driven by aggressive asset repricing and record treasury yield environments.
Net Interest Income	₦5.10 Trillion	₦11.15 Trillion	+118.6% Growth. Driven by widened spreads between loan yields and sticky retail deposit structures.
Profit Before Tax	₦3.85 Trillion	₦6.10 Trillion	+58.4% Growth. Modulated slightly by rising operational expenses and a flat FX revaluation environment.
Total Industry Assets	₦114.2 Trillion	₦153.6 Trillion	+34.5% Growth. Powered by the successful ₦4.65T capital injection and retail deposit velocity.
Average Sector ROE	22.4%	27.8%	Capital dilation from new share issuance was offset by explosive top-line profitability.
Average Sector CIR	47.3%	46.1%	Marginal efficiency gain; tech-led scaling offset multi-decade high headline inflation.
Industry NPL Ratio	4.1%	4.8%	Slight escalation reflecting macroeconomic pressures on corporate obligor repayment capacities.

4. TOP 10 BANKS SNAPSHOT & TIERING MATRIX

Market Segmentation (The Tiering Architecture)

The post-recapitalization market has crystallized into three clear competitive categories based on balance sheet velocity, cross-border transactional reach, and domestic systemic importance:



THEMATIC ANALYSIS

Impact on Lending & Credit Creation

The infusion of fresh equity drastically optimized the sector's Capital Adequacy Ratios (CAR), providing massive legal lending limit expansion. However, instead of deploying these buffers purely into traditional long-term manufacturing or agricultural loans, banks heavily favored short-term commercial trade finance, consumer digital lending, and high-yield government instruments. This selective allocation safeguarded margins but limited long-term capital formation in the real sector.

Foreign Exchange (FX) & Inflationary Realities

The stabilization of the Naira in late 2025 eliminated the artificial "FX windfall gains" that distorted 2024 bank statements. Earnings in FY2025 are purely operational. Concurrently, persistent core inflation acted as a severe operational headwind. Energy costs, software licensing fees, and general human capital retention costs drove double-digit increases in operating expenses, penalizing banks lacking digital scale advantages.

Regulatory & Compliance Mandates

With the formal closure of the recapitalization window, the CBN completely removed historical regulatory forbearances. Compliance scrutiny shifted instantly toward strict adherence to Basel III capital frameworks, mandatory real-time stress testing, and aggressive enforcement of credit discipline. Most notably, the apex bank enforced a full restriction of banking services to large-ticket chronic obligors defaulting across multiple platforms.

Exogenous Headwinds

The global shifting of institutional emerging-market fund flows kept foreign portfolio investment (FPI) highly selective. Domestic macro policy, specifically the implementation of the windfall tax on historical currency gains, restricted foreign investor participation during the early primary offers, placing the structural burden entirely on local absorptive capacity.

5. RISKS & CHALLENGES FOR 2026

- Lending Recklessness & Credit Deterioration: The sudden influx of trillions in liquid equity creates a high risk of aggressive, sub-prime asset creation as banks race to deploy capital. If macroeconomic indicators weaken, an elevation in non-performing loans (NPLs) will manifest by late 2026.
- Margin Compression via Monetary Policy Reversal: If inflation breaks down and the CBN pivots toward an aggressive interest rate easing cycle, the yields on treasury bills and variable-rate loans will drop faster than the sticky cost of fixed corporate deposits, triggering structural contraction in Net Interest Margins (NIMs).
- The Dilution Payback Loop: Having expanded outstanding share volumes by up to 50% across select institutions, banks face extreme pressure to scale nominal profits proportionally in 2026 to avoid severe contractions in Earnings Per Share (EPS) and Return on Equity (ROE).

6. INDIVIDUAL BANK PROFILES (3 SELECT PROFILES PER TIER)

TIER 1: THE SYSTEMIC TITANS

A. Zenith Bank Plc

- Strategic Vector: Zenith maintained its legacy strategy as a prime corporate lender and high-volume treasury execution machine. It utilized a hybrid Public Offer and Rights Issue to secure over ₦350 billion in fresh equity.
- Financial Metrics: Gross Earnings reached ₦4.19 Trillion, closing with a PAT of ₦1.04 Trillion. Backed by an insulated 32.0% CAR, the board distributed a record total dividend of ₦10.00 per share (₦1.25 interim + ₦8.75 final), translating to an exceptional 7.94% dividend yield.
- Operational Footprint: Retained its status as the most profitable bank by absolute net margins, heavily anchoring its risk-asset creations in low-risk tier-one corporate accounts.

B. Guaranty Trust Holding Company (GTCO)

- Strategic Vector: GTCO ran a tightly optimized, highly centralized corporate holding structure, deliberately avoiding high-volume subsidiary expansions to protect operational efficiency.

- Financial Metrics: Gross Earnings crossed ₦2.15 Trillion, generating an elite PAT of ₦865.7 Billion. It holds the absolute industry-leading Cost-to-Income Ratio (CIR) of 27.9%, a 28.3% ROE, and an unprecedented 43.8% CAR. It delivered a sector-topping total dividend of ₦12.76, tracking a 8.86% dividend yield.
- Operational Footprint: Operates as the premier efficiency benchmark on the NGX, capitalizing on a massive retail CASA deposit base to run an unmatched low cost-of-funds structure.

C. Access Holdings Plc

- Strategic Vector: Pursued aggressive pan-African geographic expansion and financial conglomerate diversification (Assets, Pensions, and Digital Lending Ecosystems).
- Financial Metrics: Reached a sector-leading total asset footprint of ₦51.57 Trillion, with Gross Earnings printing at ₦3.90 Trillion and PAT at ₦743.0 Billion.
- Operational Footprint: While balance sheet growth printed at +24.3% YoY, its ROE (15.4%) and CIR (54.6%) reflect integration friction from rapid acquisitions. The institution declared a 0.00% dividend yield due to strict regulatory compliance provisions regarding capital structures in foreign subsidiaries.

TIER 2: THE AGILE CHALLENGERS

A. Wema Bank Plc

- Strategic Vector: Wema acted as the ultimate growth-disruptor of the FY2025 cycle, executing an aggressive capital raise program totaling over ₦200 billion through successive rights issues and private placements.
- Financial Metrics: Grounded in verified financial matrices, Wema's Gross Earnings exploded to ₦661.39 Billion (comprising ₦576.07 Billion in interest income and ₦85.32 Billion in non-interest lines). PBT printed at ₦221.89 Billion, while PAT reached ₦194.48 Billion, reflecting a massive 125.4% YoY net income surge. Operating with an industry-topping 46.59% Return on Equity (ROE) and a highly compressed 44.53% CIR, its solvency expanded to an all-time high 28.05% CAR. The board approved a ₦1.25 payout, reflecting a 3.24% dividend yield.
- Operational Footprint: Successfully moved its structural profiling from a regional player to an ultra-efficient national alpha, expanding total assets by 41.16% YoY to close at ₦5.07 Trillion.

B. Stanbic IBTC Holdings

- Strategic Vector: Operated a highly integrated wealth management, investment banking, and universal retail platform, heavily backed by its parent, Standard Bank Group.
- Financial Metrics: Gross Earnings printed at ₦895.7 Billion, with a PBT of ₦325.4 Billion and PAT of ₦278.5 Billion. Delivered a 35.2% ROE, a 38.1% CIR, and distributed a total dividend of ₦4.50 (4.28% yield).

- Operational Footprint: Expanded its balance sheet by +34.0% YoY to ₦9.26 Trillion, capitalizing on low-cost institutional fund allocations across its market-leading asset management arms.

C. Fidelity Bank Plc

- Strategic Vector: Positioned heavily as an engine for corporate SME trade finance, expanding its structural footprint internationally via targeted pan-European/UK banking acquisitions.
- Financial Metrics: Gross Earnings broke past the trillion mark at ₦1.11 Trillion, pulling in a PAT of ₦214.2 Billion. Maintained an excellent asset quality framework with an NPL ratio of just 2.2%, declaring a ₦0.75 total dividend (4.21% yield).
- Operational Footprint: Total asset scale expanded by +13.9% to close at ₦8.12 Trillion, positioning the bank at the absolute apex of the Tier-2 banking ladder.

D. Sterling Financial Holdings

- Strategic Vector: Driven by a specialized holdco configuration separating its core retail franchise (Sterling Bank) from its fast-scaling ethical banking alternative (The Alternative Bank).
- Financial Metrics: Total assets expanded by +11.0% to hit ₦3.96 Trillion. Gross Earnings printed at ₦285.4 Billion with a highly controlled NPL profile.
- Operational Footprint: Serves as a dominant player in niche agricultural funding frameworks and specialized alternative Islamic finance solutions across West Africa.

TIER 3: THE SPECIALIST / EMERGING GRIDS

A. Providus Bank Limited

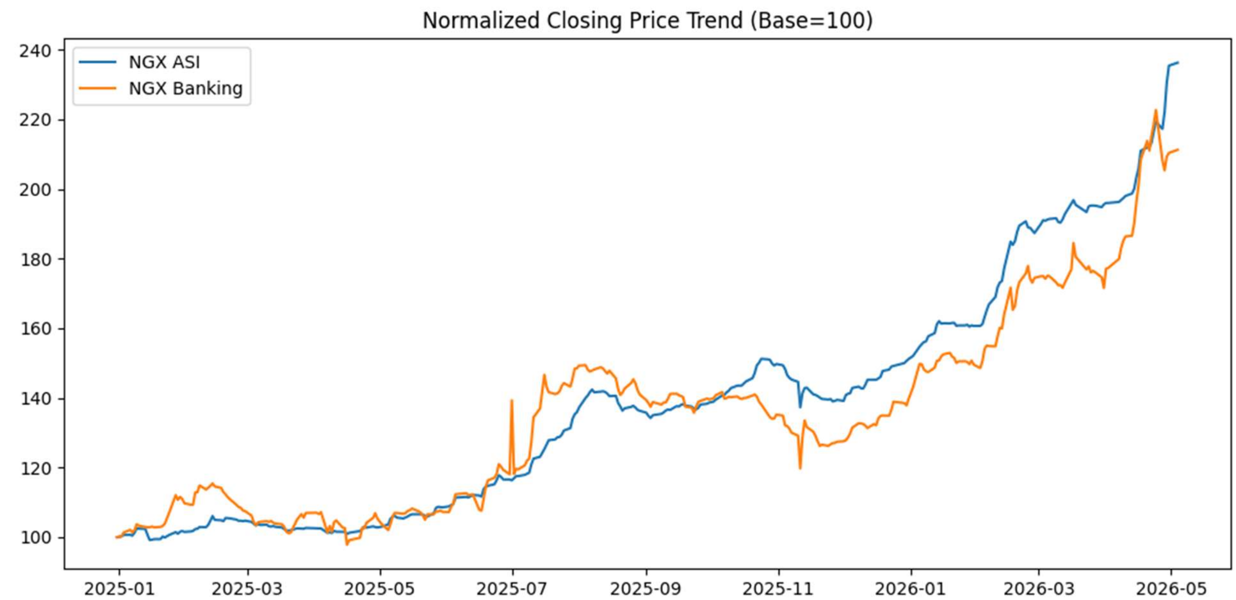
- Strategic Vector: Positioned as a high-end corporate boutique, trade service specialist, and advanced digital API integration partner for tier-one fintech companies.
- Financial Metrics: Successfully secured required equity injections to cross the national banking license capital floor without major public dilution.
- Operational Footprint: Maintained strong focus on custom corporate payment gateways, settlement clearing infrastructure, and mid-tier fast-moving consumer goods (FMCG) importer funding lines.

B. Globus Bank Limited

- Strategic Vector: Championed as one of the fastest organic balance sheet constructors in the national category, utilizing rapid physical corporate node expansion paired with aggressive commercial deposits capture.
- Financial Metrics: Raised ₦52.9 Billion and followed up with an additional ₦102 Billion strictly through existing shareholder rights and internal private placement blocks to cross the ₦200 Billion national baseline.

- Operational Footprint: Focuses strictly on corporate trade clearing, treasury optimization solutions, and high-tier energy value chain infrastructure support.

8. TREND ANALYSIS OF THE NGX ALL SHARE INDEX VS NGX BANKING (JAN. 2024 – MAY 2026)



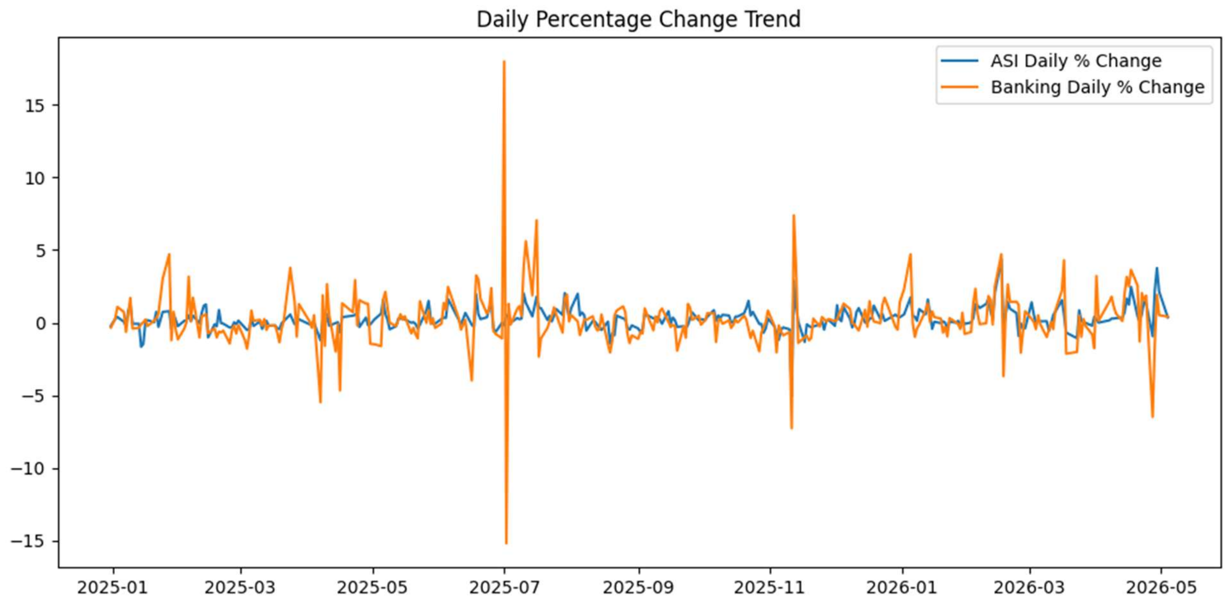
Key Findings

- NGX ASI Total Return: 136.25%
- NGX Banking Index Total Return: 111.23%
- Correlation between ASI and Banking Index Closing Prices: 0.9695

Interpretation

- Both indices exhibited a very strong positive relationship, with a correlation of approximately 97%.
- The NGX Banking Index broadly tracked the direction of the broader market throughout the period.
- However, the NGX ASI outperformed the Banking Index, delivering a higher cumulative return over the sample period.

The NGX Banking Index exhibited a strong positive relationship with the NGX All Share Index throughout the review period, confirming the strategic importance of banking stocks in driving overall market performance.



Key observations include:

The Banking Index generated a cumulative return of 111.23%, while the NGX ASI delivered 136.25%. The closing-price correlation between both indices was 0.97, indicating an almost identical directional movement.

The Banking Index demonstrated a high market sensitivity (beta close to market levels), confirming that banking stocks remain one of the primary drivers of broad market sentiment.

Despite strong absolute returns, the Banking Index lagged the broader market over the entire period, suggesting that non-banking sectors contributed significantly to market expansion.

Trend Conclusion

The NGX Banking Index remained one of the strongest-performing sectoral indices during the review period and maintained a very high correlation with the NGX ASI. Nevertheless, the broader market outperformed the banking sector, indicating that market gains became increasingly diversified beyond financial stocks. This suggests that while banks remain the backbone of the Nigerian equity market, leadership has broadened across sectors, making sector allocation and stock selection increasingly important for generating excess returns.

8. EQUITY RESEARCH OUTLOOK & INVESTMENT CONCLUSION

The FY 2025 reporting cycle confirms that Nigerian listed banking equities remain resilient profit engines. As extraordinary FX windfall dynamics normalize, investor sentiment in 2026 will prioritize core operating efficiency, low-cost deposit depth (CASA dominance), and strict asset quality containment.

GAM Model Recommendation

Institutions that have successfully structured their fresh capital bases directly into high-yielding, capital-light assets while keeping strict operational cost boundaries—most notably Wema Bank (delivering a sector-topping 46.59% ROE alongside a 28.05% CAR) and Stanbic IBTC (35.2% ROE)—are fundamentally positioned to outpace larger Tier-1 institutions in equity growth metrics over the coming quarters.

Report Compiled by GAM Equity Research Division.