

Wema Bank Plc

Nigeria Bank Analysis

April 2017

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	BBB _(NG)	Stable	April 2018
Short-term	National	A3 _(NG)		

Financial data:

(USDm comparative)*

	31/12/15	31/12/16
NGN/USD (avg.)	197.0	254.5
NGN/USD (close)	197.0	305.0
Total assets	2,013.9	1,390.3
Primary capital	233.8	158.9
Secondary capital	126.9	41.7
Net advances	942.1	744.3
Liquid assets	620.8	259.6
Operating income	133.9	111.8
Profit after tax	11.5	10.1

Market cap.** N19.3bn/USD63.0m

Market share# 1.3%

*Central Bank of Nigeria ("CBN") exchange rates.

**As at 04 April 2017.

#Based on industry assets at 30 June 2016.

Rating history:

Initial/last rating (March 2016)

Long-term rating: BBB_(NG)

Short-term rating: A3_(NG)

Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017

Nigerian Banking Sector Bulletin, 2016

Wema Rating Report 2016

Glossary of Terms/Ratios, February 2017

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Summary rating rationale

- Wema Bank Plc ("Wema", "the bank") is a mid-sized bank in Nigeria by total assets, focusing on deepening market share, particularly within the retail banking space. While the bank competes favourably with peers in terms of product offerings, it lags in balance sheet size, a factor which has restrained earnings growth over the review period.
- Although the bank's shareholders' funds grew by 5.2%, total capital (including Tier 2 capital) dropped by 14% to N61.2bn at FY16. The decline followed a sizeable settlement of the subordinated convertible loan (Tier 2 capital) granted by CBN to the bank in 2009. This, combined with a considerable rise in risk weighted assets saw the risk weighted capital adequacy ratio ("CAR") fall to 12.6% at FY16 (though above the 10% regulatory minimum). Following a successful N6.3bn bond issuance in November 2016 through Wema Bank Funding SPV, Wema plans to raise additional Tier 2 capital before end FY17 to strengthen its capitalisation.
- Asset quality was relatively stable in FY16, underpinned by continuous overhaul of the bank's enterprise risk management ("ERM") framework and recovery mechanisms. Note is also taken of Wema's relatively low foreign currency denominated exposures, which reduced the potential impact of the foreign exchange illiquidity on asset quality. Wema reported a gross non-performing loan ("NPL") ratio of 3.1% at FY16 (FY15: 2.7%). Specific provisions covered 30.1% of gross NPLs at FY16 (FY15: 26.5%). While the gross NPL ratio remains within the tolerable limit of 5%, Global Credit Rating Company Limited ("GCR") expects impairment to rise further by end FY17, as the tough operating conditions continue to constrain debt serviceability of obligors.
- Wema witnessed liquidity pressure during FY16, as evidenced by its liquidity ratio which averaged 30.2% for the period, and stood at 30.3% at year end, marginally above the prudential minimum of 30%. The bank's liquidity profile was negatively impacted by the crowding out effect created by the high yielding government securities, as well as the pay-down of the outstanding CBN loan. Notwithstanding this, the bank managed liquidity risk through interbank funding, short term marketable securities, and credit lines from other financial institutions.
- Wema's profitability has been impacted by low earnings and consistently rising operating expenses over the years, with pre-tax profit hovering around N3bn in the last three years. As in prior years, operating efficiency (as indicated by the cost/income ratio of 87.1% in FY16) remained weak. Although management expects an improved performance by FY17, the cost/income ratio is expected to remain high due to the ongoing transformation strategy (including investment in IT infrastructure) to enhance franchise value.

Factors that could trigger a rating action may include

Positive change: Upward rating movement is currently limited, due to the challenging operating environment. However, a significantly enhanced market position, and a balanced funding structure which translates into a strong liquidity profile, as well as improved profitability would be favourably considered.

Negative change: Downgrade pressure on Wema's ratings could emanate from a weakening in competitive positioning, and further pressure on earnings, asset quality, capitalisation and liquidity.

Organisational profile

Corporate summary¹

Incorporated in 1945, Wema is Nigeria's longest surviving indigenous bank. The bank became a public limited liability company in 1987 and its shares were subsequently listed on The Nigeria Stock Exchange ("NSE") in 1991. Following a strategic repositioning exercise in 2009, Wema opted for a regional banking licence in order to focus on its key market jurisdictions and strengths. Pursuant to meeting CBN requirements (including minimum capital requirement for a national bank), Wema applied for and was granted a national banking licence by CBN in November 2015. The bank provides a range of retail and small and medium enterprise ("SME") banking, corporate, treasury, trade services and financial advisory products/services to its numerous corporate and individual customers.

Ownership structure

Wema's shareholding structure is considered diversified, with about 245,476 shareholders at 31 December 2016. Table 1 lists all shareholders holding more than 5% of the bank's shares at that date. Included in 'Others' is Odu'a Investment Company Limited's shareholding of 10%, owned by the six states of the South-West Nigeria. This was precluded from the list of major shareholders in accordance with CBN regulation.

	% Holding	
	FY15	FY16
First Pension Custodian Nigeria Limited	34.9	-
Neemtree Limited	18.3	27.5
Petrotrab Limited	8.5	8.5
Sw8 Investment Company Limited	8.0	8.0
Others (<5%)	30.2	56.0
Total	100.0	100.0

Source: Wema AFS.

Strategy and operations

Wema continued to consolidate on the achievements recorded over the last two years, and has remained committed to its Project LEAP² Transformation Strategy, mitigating and responding proactively to the various challenges within the operating environment. The bank rolled out six additional branches and 98 ATMs during FY16. While taking cognisance of its moderated capital adequacy, 10 additional branches are planned for commissioning in FY17, especially in the northern and eastern areas of the country. Furthermore, the bank is planning to install off-site ATMs and open cash centres to drive retail market penetration.

In an effort to enhance customer base and grow transaction volume within the target market, Wema entered into a USSD (*945#) partnership with a telecommunication company during FY16. The bank

also launched a digital banking platform in March 2017 to enhance service delivery and other value-added offerings.

Currently, Wema operates through 140 branch offices, 274 ATMs, 4,550 active POS terminals across the country, and has 1,011 employees. The bank had initially planned to upgrade its core banking software 'Finacle' to a new version in 2016. However, this was delayed by a need to acquire the relevant hardware required for the effective configuration of the new version. While its present focus remains on growing organically, Wema is also considering inorganic growth opportunities (if considered suitable and in line with its overall business strategy).

Governance structure

The composition of the bank's board of directors ("board") and its governance structure are in line with CBN's code of corporate governance for banks in Nigeria, and that of the Securities and Exchange Commission ("SEC") for listed companies. The board has a satisfactory mix of competencies and experience, and performs oversight functions through various board committees. The bank's board composition and adherence to selected aspects of appropriate corporate governance are as highlighted below.

Description	Findings
Board size	12 members
Number of executive directors	5 (Including Managing Director)
Number of non-executive directors	7 (Including Chairman)
Independent directors	Yes, 2
Tenure of non-executive directors	4 years each/max. 2 cycles
Number of board committees	5-(Risk and Audit, Credit, Finance and General Purpose, Nomination and Governance, and Statutory Audit)
Internal audit and compliance	Yes, independent unit
External auditors and rotation policy	Akintola Williams Deloitte/10 year tenure (renewable annually)

Subsequent to FY16, Mr. Ademola Adebise, (executive director) was appointed as the Deputy Managing Director ("DMD") of the bank. The DMD supervises corporate banking, treasury and finance, South-South and South-East region, and the business support unit. In addition, the operating structure has other three regional directorates (Lagos, South-West, and North), each headed by an executive director; and three support function lines.

Financial reporting

The audited financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), the Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria requirements. The bank's external auditor, Akintola Williams Deloitte, issued an unqualified report on the FY16 financial statements.

¹ Refer to previous report issued by GCR for a detailed background.

² LEAP stands for Low cost funding, Efficiency, Alternative platforms and Performance

Operating environment³

Economy overview

Nigeria's macroeconomic fundamentals remained volatile throughout 2016 owing to low and unstable international oil prices (which has severely affected the country's foreign reserve levels and fiscal planning capacity), as well as a variety of local and global challenges. Other factors contributing to the heightened levels of economic uncertainty include the significant fall in the value of the Naira against the US dollar, largely due to the role oil plays in funding Nigeria's fiscus. According to National Bureau of Statistics ("NBS"), the nation's real gross domestic product ("GDP") contracted by 1.5% in 2016 (compared to 2.8% and 6.2% growth recorded in 2015 and 2014 respectively), placing the country in a recession. The negative trend was exacerbated by the resurgence of disturbances in the Niger Delta region (which affected crude oil production outputs) and the impact of reduced foreign exchange earnings on the economy. As such, inflation rose steadily from 9.5% at end-December 2015 to 18.6% at end-December 2016, before dropping to 17.8% at end-February 2017.

In order to mitigate the foreign exchange shortages and stimulate economic activity, CBN implemented a more restrictive foreign exchange policy that denied access to foreign currency (from the official CBN window) for 41 items, and removed the exchange rate peg to the USD in favour of a flexible exchange rate policy in June 2016. Despite these interventions, the currency remained under pressure, with the inadequate foreign exchange supply from the official CBN window driving much weaker exchange rates in the parallel market. While the rate rose above N500/USD up to mid-March 2017, off late, it fluctuates between N360-N400/USD following CBN interventions. During the last Monetary Policy Committee meeting held in March 2017, CBN maintained the monetary policy rate ("MPR") at 14%, the cash reserve ratio ("CRR") at 22.5% and the liquidity ratio at 30%, in line with efforts to combat inflation and maintain price stability.

Industry overview

At 31 December 2016, Nigeria's financial sector comprised twenty-one commercial banks, one non-interest bank, four merchant banks and over 4,000 other financial institutions. The commercial banks include ten international, nine national, and two regional banks (SunTrust Bank Nigeria Limited and Providus Bank Plc, licensed in November 2015 and May 2016 respectively). Keystone Bank Limited, the only bridge bank under the management of Asset Management Corporation of Nigeria ("AMCON") since 2009, was sold to Sigma Golf Nigeria Limited and Riverbank Investment Resources Limited (Sigma Golf-Riverbank consortium) in March 2017. The

other two banks, Enterprise Bank Limited and Mainstreet Bank Limited, formerly under AMCON, have since been sold to Heritage Bank and Skye Bank Plc respectively. Nigeria's eight largest banks (excluding Wema) accounted for about 70% of total industry assets at FY16.

The banking sector witnessed downward pressure on core earnings in 2016, driven by deteriorating asset quality, moderating foreign exchange volumes and margin compression. Per CBN statistics, the dominant sectors with high credit exposure at end-June 2016 include: oil and gas (28.8%), manufacturing (12.9%), public (8.8%) and general commerce (8.7%). The banks' aggregate gross NPL ratio rose to 11.7% at end-June 2016 compared to 4.9% at December 2015, exceeding the prudential tolerable limit of 5.0%. The position was largely skewed by outliers recorded within some banks. Although CBN has allowed banks to write off fully provisioned NPLs since July 2016, GCR expects the industry NPL ratio to remain high, and above the regulatory limit in 2017, given the continuous rise in delinquencies within some sectors. Furthermore, the industry risk weighted CAR stood at 15.6% at end-June 2016 (December 2015: 16.1%). While some players are already falling short of the required threshold, additional Naira devaluation could increase pressure on banks' moderated capital buffer.

A major shift in banks' lending focus to the middle market segment was noticeable in 2016, raising concern about a possible rise in delinquent assets, considering the segment's over-reliance on foreign exchange for business. Similarly, exposures to the power sector (which continues to face high debt burdens and low capacity to generate sufficient cash flows due to poor infrastructure and management issues) may also raise credit risk.

The year 2017 is expected to remain challenging for Nigerian financial institutions, given the persistent macroeconomic uncertainties. However, CBN is poised to drive monetary policy in such a way as to enable fiscal policy to foster public investment in infrastructure. In view of the current pressure on capital adequacy, banks are likely to raise additional capital (via debt or equity issues) to absorb additional losses and meet regulatory capital requirements. Factors that will shape the industry performance in the current year include individual and collective institutional development in the areas of product innovation, proactive risk management, ability to employ cutting edge technology, and improved competitive advantage in the area of mobile and retail banking.

Competitive position

Wema competes well with peers in terms of product offerings, increasing penetration within its retail segment to capture higher market share. However, the bank lags in balance sheet size and strength, a major earnings enabler within the industry. Table 3 shows

³ Refer to GCR's Nigerian Financial Institutions Ratings Overview 2016 for a brief economic, regulatory and industry review.

the bank's key performance indicators against selected peers.

Financial profile

Likelihood of support

Wema enjoys adequate support from its diversified shareholder base and Federal Government of Nigeria, ("FGN"), as demonstrated during previous capital raising exercises.

Funding composition

Wema, like most Nigerian banks, is largely deposit funded. Total deposits constituted 70.6% and 66.8% of the bank's total funding base and total assets at FY16 respectively. Other sources of funds include capital and borrowings, representing 15.3% and 14.1% respectively of the total funding base. These are discussed extensively in the sections which follow.

Customer deposits and interbank funding

Customer deposits remained relatively stable at N283.3bn at FY16. Deposit growth was constrained by several factors during the year, including foreign exchange illiquidity, which prompted large corporate customers to move funds to where they can access foreign exchange faster; market perception of mid-sized banks during CBN's intervention within some troubled banks, which led to movement of funds to the top-tier banks; and the impact of the pay-down of the outstanding CBN loan of N25bn at FY15.

Table 2: Deposit book characteristics (%)

By type:	FY15	FY16	
Demand	30.3	31.0	
Savings	12.5	16.0	
Term	56.6	50.1	
Other	0.6	2.8	
Concentration:	FY16	Maturity:	FY16
Single largest	3.4	0-3 months	60.3
Five largest	12.9	3-6 months	5.8
Ten largest	17.5	6-12 months	3.9
Twenty largest	23.8	> 12 months	30.0

Source: Wema AFS.

A breakdown of the deposit book shows a deposit growth of 12.5% from retail customers, while deposits from corporates declined by 6.6%, driven by the bank's increased focus on retail markets. The bulk of

Table 3: Competitive position*

Wema vs. selected banks	Fidelity	UBN	Stanbic IBTC	Sterling	Wema
As at 31 December 2016 (except Fidelity at 9M FY16)					
Shareholders' funds (N'bn)	185.0	266.6	109.3	85.7	48.5
Total assets (N'bn)†	1,395.9	1,227.5	953.3	824.6	423.6
Net loans (N'bn)	729.0	507.2	353.0	468.3	227.0
Net profit after tax (N'bn)	8.8	15.4	15.0	5.7	2.6
Total capital/Total assets (%)	22.0	22.1	14.4	12.0	14.4
Liquid and trading assets/total short-term funding (%)	18.3	21.5	59.1	5.9	13.0
Gross bad debt ratio (%)	4.5	6.9	5.0	9.9	3.1
Net interest margin (%)	8.6	10.9	8.1	11.9	7.4
Cost ratio (%)	73.3	66.2	61.9	74.1	88.4
ROaE (%)	6.3	6.1	14.7	5.7	5.4
ROaA (%)	0.9	1.4	1.6	0.6	0.6

*Ranked by total assets. †Excludes balances held in respect of letters of credit.

Source: Audited Financial Statements.

the deposit mix was largely term deposits, necessitated by the need to support the bank's liquidity profile. While the book was largely short-tenored, concentration risk is considered moderate, with the 20 largest deposits accounting for 23.8% of total. A negligible 2.3% of the deposit book is denominated in USD, highlighting the bank's low exposure to foreign currency risk. Wema also relied on interbank funding during FY16 to support its liquidity profile. As a result, total interbank borrowings amounted to N37.4bn at FY16 (FY15: nil).

Wema has forecast deposit growth of about 15% for FY17, to be driven partly by innovative products targeting the youths, salary earners, traders, artisans, and SMEs. The bank is also channelling its digital banking platform to enhance deposit mobilisation and strengthen existing client relationships. Overall, Wema aims to establish a balanced funding structure in FY17 and reduce reliance on expensive term deposits to boost profitability.

Capital structure

Wema remained well capitalised at FY16, with shareholders' funds of N48.5bn, well above regulatory requirement for a national bank. However, total capital declined to N61.2bn at FY16 (FY15: N71.1bn) mainly due to the repayment of subordinated loan (qualifying as a Tier 2 capital) from the CBN amounting to N18.6bn. This, combined with a significant rise in the bank's risk weighted assets due to an expanded loan book, led to a decline in the bank's CAR to 12.6% at FY16 (FY15: 15.1%), albeit remaining above the regulatory threshold of 10%.

Table 4: Capitalisation	FY15 N'bn	FY16 N'bn
Tier 1 capital	19.3	20.3
Tier 2 capital	6.5	3.7
Total regulatory capital	25.8	24.0
Total risk weighted assets ("RWA")	170.9	189.9
Regulatory capital: RWA (%)	15.1	12.6

Source: Wema AFS.

The outstanding amount of N6.4bn (representing the final repayment) due to CBN at FY16 has been paid

by the bank in January 2017 and the bank received a letter from CBN confirming the full settlement of the financial accommodation granted to the bank in 2009. While supporting capital adequacy through organic growth initiatives, the bank is also planning to raise additional Tier 2 capital in 2017 depending on the market condition.

Borrowings

Wema's long term borrowings declined to N19.4bn at FY16 (FY15: N27.3bn), largely driven by settlement of its debt securities. Osun bailout fund remained relatively stable, while other borrowings were paid down. Growth in borrowing from Shelter Afrique was driven by currency translation effect, being a USD denominated loan.

	FYE15	FYE16
	N'm	N'm
Debt securities	8,140.3	-
National Housing Fund	122.4	113.8
CBN MSMEDF	40.0	140.0
Due to BOI	6,171.0	5,177.7
CBN Agricultural loan	848.3	1,048.0
Osun Bailout Fund	9,975.0	9,735.1
Shelter Afrique	1,993.0	3,147.5
Total	27,289.9	19,361.8

Source: Wema AFS.

Liquidity positioning

Wema witnessed severe liquidity pressure during FY16, as evidenced by its liquidity ratio which averaged 30.2% for the period marginally above the prudential minimum of 30%. In addition, the bank's liquid and trading assets to total short term funding ratio declined significantly to 13.2% at FY16 from 26% at FY15. Furthermore, a maturity analysis of the bank's assets and liabilities at FY16 showed a significant mismatch of N222.7bn within the 'less than one month' maturity bucket. Notwithstanding this, the bank managed its liquidity risk through interbank borrowings, short term marketable securities and credit lines from other financial institutions.

Operational profile

Risk management

Wema continued to review its ERM framework in line with the economic and industry conditions. The board risk management oversight is supported by various management committees, which help develop, implement and modify risk strategies. In view of its lending activities, credit risk is the most significant risk for the bank.

Asset composition

Total assets grew by 6.9% to N424.0bn at FY16, largely supported by interbank funding. The asset mix is skewed towards loans and advances, which constituted a higher 53.5% of total assets at FY16 (FY15: 46.8%). Cash and liquid assets decreased by 35.2%, following a significant decline in available for sale and held for trading investment securities, as well as unrestricted balances with central bank (which

impacted balances with other banks as shown in Table 6). 'Other investment securities' represents held to maturity investment securities, which rose twofold to N58.7bn. Overall, investment securities comprised risk free assets (FGN's treasury bills and bonds) which accounted for a combined 99.8% of total, while equity constituted the remainder. Thus, the investment risk profile is considered to be low.

	FY15		FY16	
	N'bn	%	N'bn	%
Cash and liquid assets	122.3	30.8	79.2	18.7
<i>Cash</i>	9.5	2.4	13.0	3.1
<i>Liquidity reserve deposits</i>	53.4	13.5	48.2	11.4
<i>Treasury bills and bonds</i>	12.3	3.1	3.4	0.8
<i>Balances with other banks</i>	47.0	11.9	14.7	3.5
Customer advances	185.6	46.8	227.0	53.5
Other investment securities	28.8	7.3	58.7	13.8
Investment in property	0.4	0.1	0.4	0.1
Property, plant and equipment	16.0	4.0	16.6	3.9
Other assets	43.7	11.0	42.2	10.0
Total	396.7	100.0	424.0	100.0

Source: Wema AFS.

Loan portfolio

Gross loans and advances grew by 22.3% to N229.8bn at FY16. Accordingly, the ratio of net advances to deposits and other short term funding rose further to 70.9%, from a review period low of 42.1% at FY12.

By Sector:	%		%
Agriculture	1.0	Manufacturing	5.4
Oil and gas	17.9	General commerce	9.0
Real estate	14.6	Transportation	3.0
Construction	15.7	Power	4.5
Public sector	6.0	Other	22.9
Maturity:		Product type:	
< 1 month	10.1	Overdrafts	6.7
1-3 months	18.8	Term loans	91.0
3-12 months	6.0	Other	2.3
> 12 months	65.1		
Concentration:			
Single largest	4.4	Ten largest	30.1
Five largest	18.6	Twenty largest	46.6

Source: Wema AFS.

Although the loan book is diversified across different sectors, Wema increased participation within the real estate and construction sector. This was driven by improved performance within these sectors, in terms of earnings and low impairments. The loan book is largely long dated and fairly concentrated, with the single largest obligor accounting for 4.4% and 16.5% of gross loans and shareholders' funds respectively, while the twenty largest obligors represented 46.6% of the book. At FY16, 9.3% of the loan book was denominated in USD.

In view of the bank's retail strategy, lending will mainly target the retail and SME sectors, though mainly on short cycle credits. On the corporate side, the bank is taking a cautious approach to loan growth pending return to stable market condition.

Asset quality

Asset quality was relatively stable in FY16, underpinned by continuous overhaul of the bank's ERM framework and recovery mechanisms. In addition, the bank's relatively low foreign currency denominated exposures also mitigated the potential impact of the foreign currency illiquidity. Accordingly, Wema reported a gross NPL ratio of 3.1% at FY16 (FY15: 2.7%). Specific provisions covered 30.1% of gross NPLs at FY16 (FY15: 26.5%). Some loans were restructured during the year, particularly within the general commerce and consumer credit segments. The bank's management has indicated stricter selection of quality assets and collateral to keep the NPL ratio within a predetermined level of 3% by end FY17.

	FY15 N'bn	FY16 N'bn
Gross Advances	188.0	229.8
Performing	183.0	222.8
Impaired	5.0	7.1
Provision for impairment	(2.4)	(2.8)
Individually impaired	(1.3)	(2.1)
Collectively impaired	(1.1)	(0.7)
Net NPLs	3.7	4.9
Selected asset quality ratios:		
Gross NPLs ratio (%)	2.7	3.1
Net NPLs ratio (%)	2.0	2.2
Net NPLs/Capital (%)	5.2	8.1

Source: Wema AFS.

Given the cumbersome judicial process and the associated time lags involved in realising security in Nigeria, collateral is not of primary consideration in this analysis. However, management noted that about 70% of the loan book was secured by real estate, 2% by shares, and 28% was otherwise secured.

Financial performance

A five year financial synopsis is presented at the back of this report, and supplemented by the commentary below.

Despite a 20% increase in interest income in FY16, net interest income growth was moderated to a lowly 5.3% due to a sharp rise in interest expense driven by the crowding-out effect which affected Wema's pricing of fixed deposits. Most of the larger corporate customers re-priced their deposits to match yields on FGN securities, thus increasing Wema's funding cost. Non-interest income grew by 13.1% to N9.8bn, driven by foreign exchange trading gain. Overall, total operating income increased 7.8% to N28.5bn. This, combined with the higher operating expenses for the period, saw cost/income ratio remaining high at 87.1%, indicating a weakened operating efficiency (a major challenge for Wema).

Supported by additional loan write-offs and recoveries, impairment was moderated around N4bn, leaving pre-tax profit at N3.2bn for FY16. After

recognising a tax deduction of N685m, NPAT stood at N2.6bn, resulting in ROaE and ROaA of 5.4% and 0.6% respectively.

Future prospects

The banking industry is expected to witness additional earnings growth pressure in the current year due to the tough operating environment (including increasing regulation), persistent forex illiquidity and worsening asset quality. Given the increased participation of players within the retail banking segment to source cheaper funding, GCR envisages constraints for Wema in this segment, in view of its relatively low geographical coverage and non-availability of extensive alternative distribution channels. Notwithstanding these constraints, GCR takes note of the bank's resilience and aggressive customer acquisition strategy, as well as investment in IT infrastructure.

	Actual FY16	Budget FY16	% of Budget achieved	Budget FY17
Income statement				
Net interest income	18.2	17.1	106.7	21.2
Other income	9.8	8.2	119.4	11.4
Total income	28.0	25.3	110.8	32.6
Bad debt charge*	(0.0)	0.5	0.8	(0.0)
OPEX	(24.8)	(21.8)	113.7	(27.3)
NPBT	3.2	4.0	81.1	5.3
Balance sheet				
Customers deposits	282.9	302.1	93.6	325.0
Net advances	227.0	190.0	119.5	222.5
Total assets	423.6	450.0	94.1	503.6
Tier 1 capital	48.5	48.1	100.8	99.2

*Actual FY16 is N4.0m, while FY17 budget is N26.1m.

The bank has forecast pre-tax profit of N5.3bn for FY17, driven largely by balance sheet optimisation, aggressive loan recovery, lower funding cost, better yields on the risk asset portfolio, higher non-interest income and moderated operating expenses. Non-interest income is expected to grow as transaction volume increases on the digital banking platform. However, the cost/income ratio is expected to remain elevated given on-going investment in IT infrastructure in line with transformation initiatives within the retail banking segment.

Wema Bank Plc

(Naira in millions except as noted)

Year end: 31 December

Statement of Comprehensive Income Analysis	2012	2013	2014	2015	2016
Interest income	25,056	28,542	35,453	37,128	44,560
Interest expense	(13,287)	(16,018)	(16,901)	(19,408)	(25,910)
Net interest income	11,768	12,524	18,552	17,720	18,650
Other income	5,661	7,103	6,734	8,664	9,801
Total operating income	17,429	19,628	25,286	26,383	28,451
Impairment charge	(4,953)	1,330	(88)	78	(412)
Operating expenditure	(17,786)	(19,941)	(22,103)	(23,470)	(24,793)
Share of profit in associate	368	930	-	-	-
Net profit before tax	(4,942)	1,947	3,094	2,991	3,245
Tax	(98)	(351)	(721)	(718)	(685)
Net profit after tax	(5,041)	1,597	2,372	2,273	2,561
Other comprehensive income	51	104	1	22	(154)
Total comprehensive income	(4,990)	1,700	2,373	2,295	2,407

Statement of Financial Position Analysis					
Subscribed capital	31,112	68,157	68,157	68,157	68,157
Reserves (incl. net income for the year)	(29,834)	(26,762)	(24,389)	(22,093)	(19,687)
Hybrid capital (incl. eligible portion of subordinated term debt)	50,062	50,062	50,062	25,000	12,732
Total capital and reserves	51,340	91,457	93,830	71,064	61,202
Bank borrowings (incl. deposits, placements & REPOs)	731	3,397	3,243	-	37,434
Deposits	133,312	177,308	217,606	265,494	198,091
Other borrowings	-	-	-	-	-
Short-term funding (< 1 year)	134,043	180,705	220,850	265,494	235,525
Bank borrowings (incl. deposits, placements & REPOs)	-	-	-	-	-
Deposits	40,990	40,427	41,350	19,484	85,212
Other borrowings	6,945	7,526	8,320	27,290	19,362
Long-term funding (> 1 year)	47,935	47,953	49,670	46,774	104,574
Payables/Deferred liabilities	12,386	10,757	18,212	13,411	22,743
Other liabilities	12,386	10,757	18,212	13,411	22,743
Total capital and liabilities	245,705	330,872	382,562	396,743	424,044
Balances with central bank	20,511	25,673	70,056	53,386	48,162
Property, Plant and Equipment	12,433	12,468	14,043	15,968	16,614
Receivables/Deferred assets (incl. zero rate loans)	38,734	49,659	52,436	43,709	42,197
Non-earnings assets	71,678	87,800	136,535	113,062	106,973
Short-term deposits & cash	6,622	11,863	12,577	9,535	12,951
Loans & advances (net of provisions)	73,746	98,632	149,294	185,597	227,009
Bank placements	13,006	19,451	39,577	47,049	14,673
Marketable/Trading securities	7,594	7,180	3,723	12,319	3,396
Other investment securities	70,346	102,380	37,490	28,789	58,680
Investment in properties	665	602	402	394	362
Investment in subsidiaries/associates	2,049	2,965	2,965	-	-
Total earning assets	174,027	243,073	246,027	283,681	317,070
Total assets	245,705	330,872	382,562	396,743	424,044
Contingencies	7,686	14,740	21,112	19,057	37,526

Ratio Analysis (%)

Capitalisation					
Internal capital generation	n.a.	4.1	5.4	5.0	5.0
Total capital / Net advances + net equity invest. + guarantees	33.8	42.4	45.1	30.4	18.9
Total capital / Total assets	20.9	27.6	24.5	17.9	14.4
Liquidity ‡					
Net advances / Deposits + other short-term funding	42.1	44.6	56.9	65.1	70.8
Net advances / Total funding (excl. equity portion)	40.5	43.1	55.2	59.4	66.7
Liquid & trading assets / Total assets	11.1	11.6	14.6	17.4	7.3
Liquid & trading assets / Total short-term funding	20.3	21.3	25.3	26.0	13.2
Liquid & trading assets / Total funding (excl. equity portion)	15.0	16.8	20.7	22.1	9.1
Asset quality					
Impaired loans / Gross advances	15.4	6.0	2.2	2.7	3.1
Total loan loss reserves / Gross advances	11.9	4.0	2.0	1.3	1.1
Bad debt charge (income statement) / Gross advances (avg.)	6.6	(1.5)	0.1	(0.0)	0.2
Bad debt charge (income statement) / Total operating income	28.4	(6.8)	0.3	(0.3)	1.4
Profitability					
Net income / Total capital (avg.)	n.a.	2.4	2.6	2.8	3.6
Net income / Total assets (avg.)	n.a.	0.6	0.7	0.6	0.6
Net interest margin	10.3	10.7	11.4	8.0	7.5
Interest income + com. fees / Earning assets + guarantees (a/avg.)	8.7	8.3	8.0	5.8	5.7
Non-interest income / Total operating income	32.5	36.2	26.6	32.8	34.4
Non-interest income / Total operating expenses (or burden ratio)	31.8	35.6	30.5	36.9	39.5
Cost ratio	102.1	101.6	87.4	89.0	87.1
OEaA (or overhead ratio)	7.6	6.9	6.2	6.0	6.0
ROaE	(133.6)	7.5	5.6	5.1	5.4
ROaA	(2.2)	0.6	0.7	0.6	0.6
Nominal growth indicators					
Total assets	11.1	34.7	15.6	3.7	6.9
Net advances	9.7	33.7	51.4	24.3	22.3
Shareholders funds	(79.6)	3,138.3	5.7	5.2	5.2
Total capital and reserves	(9.5)	78.1	2.6	(24.3)	(13.9)
Deposits (wholesale)	18.3	24.9	18.9	10.0	(0.6)
Total funding (excl. equity portion)	15.4	25.7	18.3	15.4	8.9
Net income	50.3	131.7	(48.6)	4.2	(12.6)

‡ Please note that for these ratios, liquid assets exclude the statutory reserve balance.

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GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and (d) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

The ratings were solicited by, or on behalf of, Wema Bank Plc, and therefore, GCR has been compensated for the provision of the ratings.

Wema Bank Plc participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings above were disclosed to Wema Bank Plc with no contestation of/changes to the ratings.

The information received from Wema Bank Plc and other reliable third parties to accord the credit rating included the latest audited annual financial statements as at 31 December 2016 (plus four years of audited comparative numbers), latest internal and/or external audit report to management, full year detailed budgeted financial statements for 2017, reserving methodologies and capital management policies. In addition, information specific to the rated entity and/or industry was also received.

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