Wema Bank Plc

2021 Final Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

WEMA BANK PLC

Rating Assigned:
Bbb-

Outlook: Stable
Issue Date: 10 June 2021
Expiry Date: 30 June 2022
Previous Ratings: Bbb-

Industry: Banking

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A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due.

RATING RATIONALE

The rating assigned to Wema Bank Plc ("Wema Bank" or "the Bank") reflects the Bank's growth in deposit liabilities, good liquidity position and experienced management team with a good understanding of the Nigerian banking industry. However, constraining these positive factors are the sustained obligor concentration in the loan book, low market share and subpar profitability ratios amidst weak macroeconomic conditions and slow economic recovery.

Wema Bank's loans and advances stood at ₦360.1 billion as at 31 December 2020, representing a 24.5% year-on-year growth. However, the loan book remains concentrated as the top 20 obligors accounted for 38.4% of gross loans and advances as at FYE 2020. This makes the Bank vulnerable to deterioration in the financial condition of any of these obligors. In line with the CBN forbearance policy, Wema Bank restructured circa 40% of gross loans; this is higher than most players in the Industry. The Bank's non-performing loan (NPL) ratio declined to 4.7% (FYE 2019: 7.4%) lower than the regulatory threshold of 5% on the back of some recoveries and write offs amounting to ₦1.7 billion. Without these write offs, the NPL ratio would have increased to 5.2% as at FYE 2020. Given the weakness in the macro economic environment which has heightened credit risk for most banks in the country, we believe Wema Bank would need to continually tighten its risk management framework to forestall risk asset deterioration. Overall, we consider Wema Bank's asset quality to be satisfactory.

During the financial year ended 31 December 2020, Wema Bank's interest income decreased by 8.9% to ₦63 billion, reflecting the impact of the prevailing low interest rate and arbitrary CRR debits which increased sterile restricted funds. In the same vein, interest expense declined by 25.5% to ₦32.2 billion on the back of decreased interest rates and a more favourable deposit mix. Income from ancillary activities dipped by 30.5% to ₦16.8

billion as the liquidity squeeze reduced the fixed income trading portfolio. Consequently, Wema Bank reported a 12.2% decline in pre-tax profit to ₦5.9 billion. Profitability metrics were also lower with a pre-tax return on average assets (ROA) of 0.6% (FY 2019: 1%) and a pre-tax return on average equity (ROE) of 10.7% (FY 2019: 13%). We expect profitability to improve in the near term on the back of anticipated loan growth and higher ancillary income sustained by digitisation efforts baring any adverse changes in asset quality.

As at 31 December 2020, Wema Bank's shareholders' fund stood at ₦57.2 billion, reflecting a 6.2% year-on-year growth, and remained well above the ₦25 billion regulatory threshold for commercial banks with national authorisation. The Bank's Basel II Capital Adequacy Ratio increased to 15% (FYE 2019: 13.6%) higher than the regulatory requirement of 10%. Wema Bank intends to increase core capital through a rights issue to support its medium-term expansion plans. However, we believe that the exercise could be constrained by the macroeconomic headwind elicited by the pandemic.

Despite the economic downturn accentuated by the COVID-19 pandemic, Wema Bank grew its deposit liabilities (excluding interbank takings) by 38.6% to ₦804.9 billion as at FYE 2020. The deposit growth which was most prominent in low-cost deposits was propelled by the introduction of fund collection solutions for some corporates amidst the persistent drive for retail deposits. The budding partnership with financial technology companies (FinTechs) also supported the deposit growth. Owing to the improved mix and the repricing of expensive term deposits during the year, Wema Bank's weighted average cost of fund declined to 4.3% (FY 2019: 6.9%). We expect an increase in funding costs in the near term as the anticipated improvement in the funding mix should moderate the impact of the gradual rise in the prevailing interest rate.

Based on the aforementioned, we hereby maintain the **"Bbb-"** rating assigned to Wema Bank Plc.

Strengths

- Strong brand in the South West region of Nigeria
- Good liquidity profile
- Experienced management team

Weaknesses

- Obligor concentration in the loan book
- High cost-to-income ratio
- Concentration in the funding base

Challenges

- The impact of the fragile economic recovery on creating quality risk assets
- Unfavourable regulatory policies
- Maintaining asset quality as the loan book expands

Table 1: Background Information

	31 December 2019	31 December 2020
Total Assets & Contingents	₦789.6 billion	₦1 trillion
Net Earnings	₦44.1 billion	₦42.1 billion
Pre-tax Return on Average Assets & Contingents (ROA)	1.0%	0.6%
Pre-tax Return on Average Equity (ROE)	13.0%	10.7%

PROFILE

Wema Bank Plc ("Wema Bank" or "the Bank") was incorporated in May 1945 as Agbonmade Bank Limited and commenced operations in the same year. In 1968, the government of the defunct Western Region of Nigeria acquired the Bank through its investment management company, Odua Investment Company Limited. Wema Bank was incorporated as a private limited liability company but was converted to a public limited liability company in April 1987. Subsequently, Wema Bank's shares were listed on the Nigerian Stock Exchange in January 1990.

The Central Bank of Nigeria (CBN) granted Wema Bank a universal banking license in February 2001 which allowed it to offer a wide range of banking and financial advisory services. Following the banking consolidation in 2005, Wema Bank acquired the defunct National Bank of Nigeria Plc. Thereafter, the Bank faced management and ownership challenges which led to the replacement of the Board and Executive Management with an interim management team created by the CBN in 2008. A new investor, SW8 Investment Company Limited, acquired a 39% ownership stake in the Bank in 2009 and thereafter took over from the management team appointed by the CBN. After the acquisition, the new management embarked on a strategic repositioning exercise which culminated in the decision to operate as a commercial bank with regional authorisation, streamlining operations to the South-West (including Lagos) and South-South regions as well as the Federal Capital Territory. Wema Bank Plc expanded its capital base in 2013 through a private placement which increased the number of institutional investors who held shares in the Bank. Upon a successful turnaround of the Bank's fortunes, Wema Bank obtained a national banking license in 2015 with authorisation to offer services in all states of the federation.

In 2016, Wema Bank registered a ₦50 billion Debt Issuance Programme through a special purpose vehicle (Wema Bank Funding SPV) and issued a ₦6.3 billion 7-year subordinated bond with an 18.5% coupon rate in October 2016. The Bank raised an additional ₦17.7 billion 7-year subordinated bond with a coupon rate of 16.5% in October 2018 to boost funding while supporting capitalisation. As at 31 December 2020, Neemtree Limited (28.09%), SW8 Investment Limited (14.90%), Petrotab Limited (8.54%) and Odu'a Investment Company (8.27%) each held a significant equity stake in Wema Bank Plc.

In 2017, Wema Bank launched Nigeria's first digital bank, "ALAT", which allows individuals to open accounts and manage funds electronically without visiting a physical branch. The introduction of ALAT was to boost customer deposits, particularly from the youth segment. In 2018, "ALAT for business" was introduced to provide banking services to businesses electronically. Wema Bank launched an upgraded version of the ALAT platform by introducing "ALAT 4.0" in 2020 which offers a wider array of services to customers compared to earlier versions.

Wema Bank operates from the head office that is situated at Wema Tower, 54 Marina, Lagos in addition to 157 branches and 4 cash centres spread across the country. As at 31 December 2020, the Bank had deployed 382 automated teller machines (ATMs) and 12,468 points of sale (PoS) terminals to strengthen its retail drive. As at the same date, Wema Bank's budding agency network had over 4,591 agents, higher than the 3,186 agents maintained in 2019 to further support its retail strategy. In the medium term, the Bank intends to deepen its digital penetration while de-emphasising physical branches. Notwithstanding, the branch network will be extended to cities where Wema Bank has no presence but with significant banking opportunities.

Information, Communication & Technology (ICT)

Wema Bank deploys various hardware and software applications to facilitate business transactions and strengthen its risk management function. The Bank uses Finacle Universal Banking System as the core banking application while Oracle database and EMC storage are used to manage high volume customer data. The head office and other branches are interconnected by Cisco Networking and Security Devices. The Bank also uses IBM servers, HP Servers and HP desktop systems for daily banking operations while SWIFT, RTGS, Reuters and Postilion card transaction applications are used for various operating processes.

Correspondent Banks

In 2020, Wema Bank had correspondent banking relationships with the following 11 banks:

1.	Access Bank UK	**7.**	FBN Bank UK
2.	Bank of Beirut UK	**8.**	African-Export Import Bank Egypt
3.	United Bank for Africa New York	**9.**	British Arab Commercial Bank UK
4.	United Bank for Africa UK	**10.**	Commerz Bank AG
5.	Standard Chartered Bank UK	**11.**	Aktif Bank Turkey
6.	FCMB UK		

Track Record of Performance

Wema Bank's commercial banking operations of over seven decades have survived several economic cycles amidst some restructuring emanating from multiple management changes. In 2020, the journey to strengthening the Bank's franchise was further propelled with total assets and contingents which crossed the ₦1 trillion mark to stand at ₦1.05 trillion (FYE 2019: ₦789.6 billion) as at FYE 2020. As at the same date, gross loans and advances stood at ₦369.5 billion and accounted for 35.2% of total assets and contingents. The Bank's impaired loans declined by 20.9% to ₦17.6 billion, representing a 4.7% (FYE 2019: 7.4%) non-performing loan ratio.

However, Wema Bank's pre-tax profits declined by 12.2% year-on-year to ₦5.9 billion during the year under review. Consequently, pre-tax return on average assets (ROA) and pre-tax return on average equity declined to 0.6% (FY 2019: 1%) and 10.7% (FY 2019: 13%) respectively.

Current Directors	Position/Designation
Mr Babatunde Kasali	*Chairman*
Mr Ademola Adebise	*Managing Director/CEO*
Mr Moruf Oseni	*Deputy Managing Director*
Mr Oluwole Akinleye	*Executive Director*
Mr Oluwole Ajimisinmi	*Executive Director*
*Mr Emeka Obiagwu	*Executive Director*
Mr Adebode Adefioye	*Non-Executive Director*
Mr Samuel Durojaiye	*Non-Executive Director*
Mr Abubakar Lawal	*Non-Executive Director*
Mrs. Abolanle Matel-Okoh	*Non-Executive Director*
Mrs Omobosola Ojo	*Non-Executive Director – Independent*
*Mrs Ibiye Ekong	*Non-Executive Director – Independent*

** Appointment effective April 2021*

MANAGEMENT TEAM

Mr Ademola Adebise was appointed the Managing Director of Wema Bank in 2018 after serving as the Deputy Managing Director and Executive Director overseeing the Corporate Bank and South regions. Before joining Wema Bank, Mr Adebise was the Head of the Finance & Performance Management Practice at Accenture (Lagos Office) where he led several projects for banks in business process re-engineering, information technology and risk management. He has also worked at the National Bank of Nigeria Plc and Chartered Bank Plc (now Stanbic IBTC Bank Plc). Mr Adebise holds a Bachelor of Science degree from the University of Lagos and he obtained a Master's Degree in Business Administration from the Lagos Business School. Asides these qualifications, he is an alumnus of the Advanced Management Programme at Harvard Business School, Fellow of the Institute of Chartered Accountants of Nigeria (ICAN), Associate of the Chartered Institute of Taxation and Computer Professionals (Registration Council of Nigeria), an Honorary Member of the Chartered Institute of Bankers of Nigeria (HCIB) and a member of the Institute of Directors (IoD). Mr Adebise also serves on the board of Nigeria Inter-Bank Settlement System Plc (NIBSS), AIICO Insurance Plc and AIICO Pensions Management Limited.

Other members of Wema Bank's senior management team include:

Mr Moruf Oseni	*Deputy Managing Director*
Mr Oluwole Akinleye	*Executive Director*
Mr Oluwole Ajimisinmi	*Executive Director*
Mr Tunde Mabawonku	*Chief Finance and Strategy Officer*
Mr Olukayode Bakare	*Treasurer*
Mr Johnson Lebile	*Company Secretary and Legal Adviser*

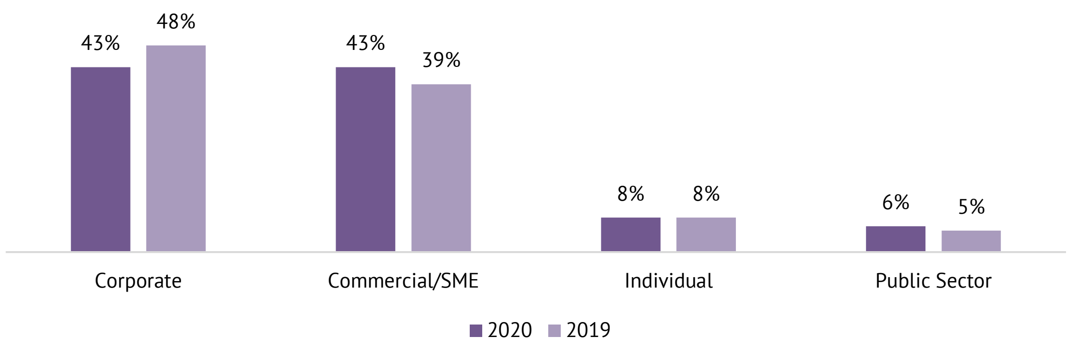
ANALYSTS' COMMENTS

ASSET QUALITY

As at 31 December 2020, Wema Bank's total assets and contingents stood at ₦1 trillion, reflecting a 32.7% year-on-year growth, propelled by an enlarged customer deposit base and additional borrowings. A review of the Bank's asset structure reflects the dominance of the loan portfolio and liquid assets which accounted for 34.3% (FYE 2019: 36.6%) and 28.2% (FYE 2019: 29.2%) respectively of total assets and contingents as at FYE 2020. Wema Bank's restricted funds with the CBN also grew significantly by 79.8% to approximately ₦247 billion and represented 23.6% (FYE 2019: 17.4%) of total assets and contingents. The growth in restricted funds was largely due to the increase in cash reserve requirements (CRR) by 500 basis points to 27.5% in January 2020 and the introduction of discretionary debits by the CBN. Given that the restricted funds are not only sterile but the banks do not earn any interest on the funds, the Bank's performance therefore does not fully reflect the surge in the asset base.

Wema Bank's asset creation strategy focuses primarily on providing financial solutions to small and medium-sized businesses (SMEs) and individuals. The Bank also selectively extends loans to large corporates and the public sector. As at FYE 2020, credits granted to the retail and commercial segment collectively accounted for 51% (FYE 2019: 47%) of the loan book to reflect the Bank's focus on small and medium scale businesses and individuals while loans to the corporate segment accounted for 43% (FYE 2019: 48%) of the loan book. While we believe that the Bank's medium-term digitisation strategy will spur an increase in the volume of retail loans, we do not expect a material change in the structure of the loan book by business segments due to the relatively short tenor and smaller size of retail loans.

Figure 1: Loan Book by Business Segment (FYE 2020 and FYE 2019)



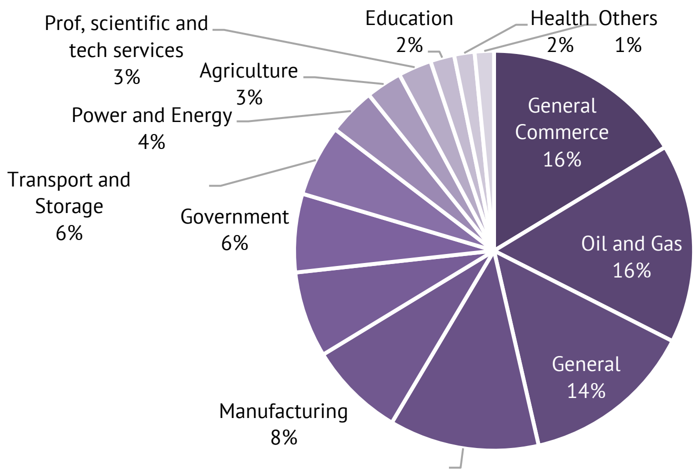
As at 31 December 2020, the Bank's local currency-denominated (LCY) loans accounted for 88.9% (FYE 2019: 90.4%) of the loan book, while foreign currency-denominated (FCY) loans accounted for the remaining 11.1% (FYE 2019: 9.6%). We note positively that the FCY loans are mostly short-tenured trade transactions and loans granted to obligors with FCY receivables. Therefore, the impact of foreign currency volatility is not significant on the loan book unlike some of its counterparts.

Wema Bank's loans and advances stood at ₦360.1 billion as at 31 December 2020, representing a 24.5% growth compared to the prior year. Growth in the loan book was most prominent in the arts and entertainment, health and education sector which grew approximately 58 times, 20 times and 3 times respectively. We believe that due to prevailing macroeconomic headwinds and the impact on consumer purchasing power, the arts and entertainment sector will remain vulnerable in the near term. Nevertheless, the pandemic has brought about opportunities for growth within the health sector. We also believe that Nigeria's demography supports growth in private education. In the near term, the Bank projects a 13.2% loan growth on the back of additional exposures to the manufacturing, general commerce and general (individuals and SME's) sectors. We believe this level of growth is achievable as the economic activities gradually recover from the pandemic.

As at FYE 2020, Wema Bank's largest sectorial exposure was to the general commerce sector which represented 16.3% (FYE 2019: 17%) of the loan book and were exposures to commercial businesses that trade in general goods. We are concerned that the prevailing macroeconomic headwinds have reduced consumer purchasing power and lengthen the cash cycle for these businesses. However, our concerns are moderated by the necessary nature of some of the goods traded by these obligors.

Credits exposure to the oil and gas sector with a slowed growth of 4.8% during the year under review was the second largest and contributed 16.1% (FYE 2019: 19.2%) to the loan book as at FYE 2020. As at the same date, about 70.7% of the oil and gas loans are to obligors in the downstream segment with supply contracts from reputable companies. While the exposure to the upstream segment accounted for 25.7% of total oil and gas loans, the midstream segment represented just 3.6%. We are concerned that the exposure to the upstream and midstream segments makes the Bank vulnerable to volatile crude oil prices and currency risk, given that the loans are largely foreign currency denominated.

Figure 2: Breakdown of Loans by Sector (FYE 2020)



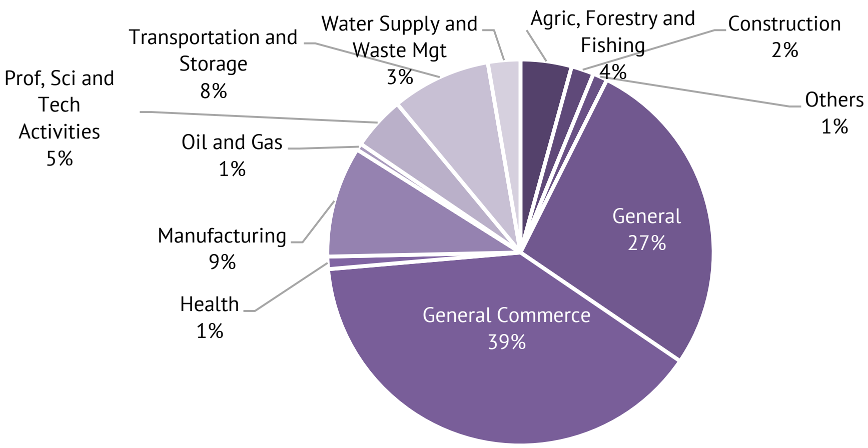
Loans to individuals and Micro and Small Scale Enterprises (SME's), classified under the general sector, grew significantly by 99% year-on-year to account for 13.9% (FYE 2019: 8.7%) of gross loans and advances as at FYE

2020. We are of the opinion that cash flows from small businesses are constrained by the prevailing weak customer purchasing power which has extended trade cycles. Nonetheless, we believe that the implementation of the global standing instruction (GSI) on individual loans moderates our concerns.

Wema Bank's loan book is concentrated by obligor as the top 20 obligors accounted for 38.4% (FYE 2019: 47.2%) of gross loans and advances as at FYE 2020. The largest credit exposure was made to an obligor operating in the upstream segment of the oil and gas sector on a syndicated basis with other lenders. The exposure represented 27.1% of core capital thereby breaching the 20% regulatory limit. While the Bank has obtained regulatory approval for the breach, we are concerned that the exposure makes asset quality susceptible to the financial condition of the obligor. Our concerns are further exacerbated by the fact that the current cash flows from the syndicated facility do not sufficiently cover the repayment plan despite the restructuring of the facility. As at FYE 2020, the second-largest exposure was to a subnational as part of the CBN bailout programme for state governments with financial challenges. The Bank also lends to the state government on a bilateral basis. As at FYE 2020, the total exposure to this state government represented 19.9% of the core capital, almost at par with the regulatory threshold.

In line with the CBN forbearance policy, Wema Bank restructured about 40% of the gross loans, representing obligors that were adversely impacted by the pandemic. Notwithstanding, 85.1% (FYE 2019: 92%) of the loan book was adjudged to have a very low risk of default and therefore classified in the stage 1 category based on the IFRS 9 accounting standard while 9.7% (FYE 2019: 5%) were classified in the stage 2 category. Loans in the stage 3 category represented exposures to obligors with a high risk of default and these accounted for 2.6% (FYE 2019: 3%) of the loan book.

Figure 3: Non-Performing Loans by Sector (FYE 2020)



During the year under review, Wema Bank's non-performing (impaired) loans based on the prudential guidelines declined by 20.9% to ₦17.6 billion on the back of write-offs and recoveries made during the year. These non-performing loans represented 4.7% (FYE 2019: 7.4%) of the loan book, slightly lower than the 5%

regulatory maximum. While the Bank's impaired loan ratio was better than 49.9% recorded by Polaris Bank Plc (Polaris Bank), it was higher than Sterling Bank Plc's (Sterling Bank) impaired loan ratio of 1.9%. As at FYE 2020, obligors in the general (largely individuals) and general commerce dominated the impaired loan portfolio and together accounted for 66.2%, reflecting Wema Bank's lending strategy which focuses on individuals and MSMEs. We believe most of these impaired loans will be written off given the financial state of most of the obligors and the inadequate collateral provided by some individual loans. The impact on future performance will be moderated by the fact that 85% of the impaired loans are covered by the cumulative loan loss provision. When we consider additional provisions in the regulatory risk reserve, the coverage ratio increases to 116.5%.

Overall, we consider Wema Bank's asset quality to be satisfactory. However, we believe loan monitoring needs to be intensified, particularly in the oil and gas, general (individuals and SME's) and general sectors that are vulnerable to the prevailing macroeconomic headwinds.

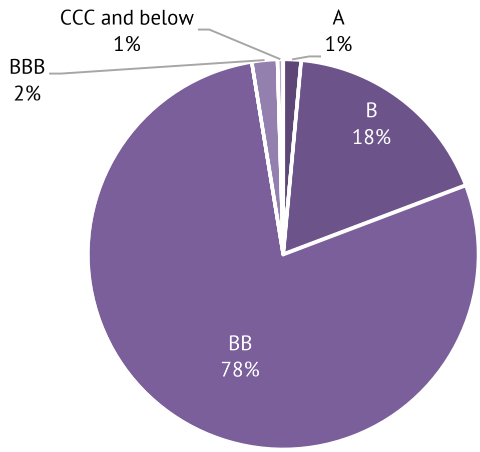
RISK MANAGEMENT

Wema Bank Plc operates an Enterprise Risk Management (ERM) framework in managing risks associated with its commercial banking operations. The ERM framework ensures that risks taken are within the Bank's risk appetite which is determined by the Board of Directors individually and through the standing committees of the Board such as the Board Risk Committee, and the Board Credit Committee. The risk appetite guides the levels of asset creation and liability assumption activities to ensure they are commensurate with the Bank's overall corporate strategy and business goals. The Chief Risk Officer (CRO) who heads the ERM division, ensures that the activities of the Bank are within the defined risk appetite. He reports directly to the Board of Directors and the Managing Director for administrative purposes.

Credit Risk Management

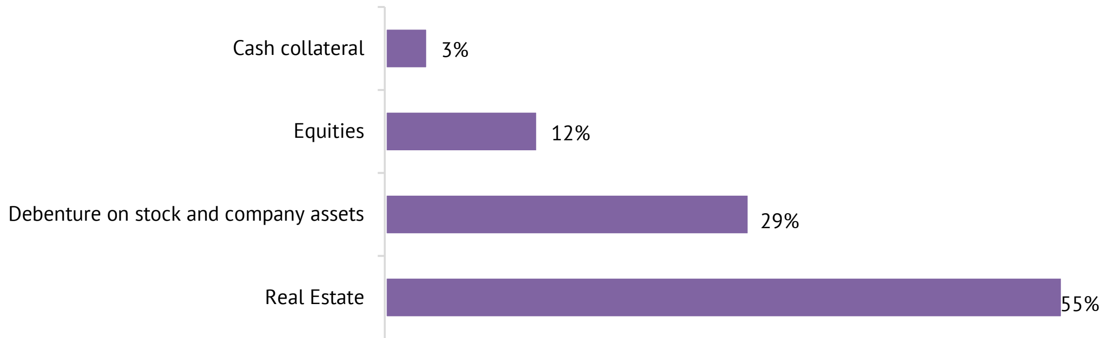
Wema Bank's credit risk emanates primarily from its loan portfolio and the investment securities to a lesser extent. Thus, credit requests initiated by the Strategic Business Units within the Bank are subjected to series of reviews along the management hierarchy. Furthermore, the Bank adopts an internal rating model to assess the risk profile of obligors. The rating model has 10 risk rating scales ranging from AAA to D, where AAA represents obligors with the lowest risk of default and D represents obligors whose exposures are classified as bad and lost. As at FYE 2020, 96.4% (FYE 2019: 54%) of the loan book was rated as non-investment grade (BB and below) reflecting the weak macroeconomic condition that impacted businesses during the year under review as well as the Bank's asset creation strategy which focuses on SME's and individuals. The outstanding 3.6% of the loan book represented investment-grade obligors as at the same date.

Figure 4: Loan portfolio by credit rating (FYE 2020)



In line with the Bank's credit policy, collaterals are taken for all credits and must cover exposures by at least 110%. Wema Bank's collateral value as at FYE 2020 covered 96.1% of gross loans and advances which we consider to be satisfactory. However, the reliance that can be placed on some of these mitigants is contentious due to issues around legal certainty and enforceability should the need to realise these collaterals arises. As at FYE 2020, 15.9% of gross loans were secured with liquid assets (cash and equities) which we consider to be low.

Figure 5: Breakdown of collaterals (FYE 2020)



Market Risk Management

Wema Bank's exposure to market risk emanates from the impact of interest and foreign exchange rate movements on the Bank's trading and non-trading portfolios. Market risk is managed at the Bank through policies and specific limits proposed by the Head of Market Risk Management through the Chief Risk Officer and ultimately approved by the Board. These limits include open position limits, interbank placement limits, management action triggers, stop-loss limits, dealers limits, value at risk (VaR) limits amongst others. In addition, Wema Bank uses monitoring methodologies such as sensitivity analysis, value at risk and stress testing to measure and monitor market risk. A sensitivity analysis conducted as at FYE 2020 reflected that a 200 basis point increase in interest rates would have resulted in a decline in net interest income by ₦6.4 billion (FYE 2019: ₦4.2 billion) which represents 11.2% of shareholders fund.

Operational Risk Management

Operational risk exposures represent potential losses that could arise from people (either through fraud or errors), breakdown of internal processes and systems as well as external events which can include litigation and economic events. Wema Bank's operational risk management philosophy is anchored on implementing a process-driven framework that ensures that all principal risks in the Bank are proactively identified, assessed, measured, adequately mitigated, monitored and reported to Senior Management to aid effective decision-making. Wema Bank currently uses the Basic Indicator Approach methodology in measuring Operational Risk while tools such as the risk and control self-assessment (RCSA), key risk indicators (KRI), key performance indicators (KPI) and internal loss data collection and analysis among others are also adopted. During FY 2020, Wema Bank paid ₦23.4 million (FY 2019: ₦2 million) as regulatory fines to the CBN for opening and closing of a branch without approval, customer complaint resolution, breach of management letter and single obligor limit.

Overall, we consider Wema Bank's risk management framework to be satisfactory. However, we believe that aggressive loan monitoring is crucial in preserving the quality of the loan book, especially given that a sizable portion of the loan book was granted to non-investment grade obligors.

EARNINGS

The year 2020 was unusual in the banking system with the outbreak of the coronavirus which induced lockdowns and the introduction of various heterodox policies by the CBN. Wema Bank's vulnerability to these external events resulted in a 14.5% decline in gross earnings to ₦79.9 billion in the financial year ended 31 December 2020. While fund-based income represented 78.9% (FY 2019: 74.1%) of the Bank's gross earnings, non-interest income accounted for the remaining 21.1% (FY 2019: 25.9%) during the year under review.

During FY 2020, Wema Bank's interest income dipped by 8.9% to approximately ₦63 billion owing to the prevailing low interest rate environment amidst arbitrary cash reserve requirement debits by the CBN which moderated risk asset creation. Interest income from loans and advances decreased by 13.2% to ₦53.7 billion but remained the largest component of fund-based income, accounting for a significant 85.2% (FY 2019: 89.4%) of total interest income during FY 2020. Growth in yields from investment securities in the form of interests was somewhat muted reflecting a measly 4.3% increase as a result of the huge dip in money market rates during the year 2020. We expect interest income from the loan portfolio to grow albeit marginally in the near term and continue to dominate fund-based income. Our expectation is underpinned by the gradual rise in interest rates and the 13.2% projected growth in the loan book which we consider achievable.

Figure 6: Breakdown of Interest income (FY 2020)

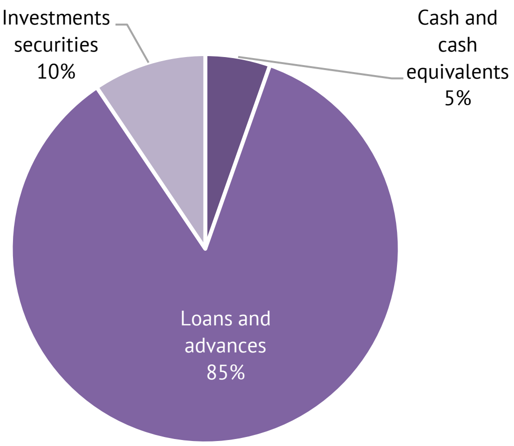
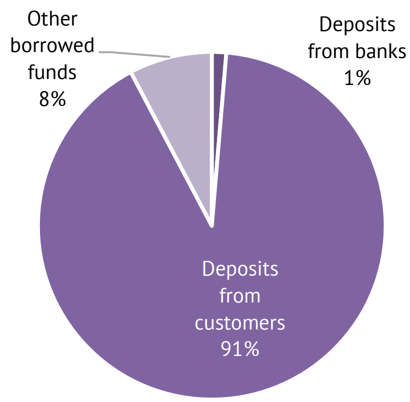


Figure 7: Breakdown of interest expense (FY 2020)



During FY 2020, Wema Bank's interest expense also declined by 25.5% to ₦32.2 billion on the back of the prevailing low interest rates and a more favourable deposit mix. We anticipate a growth in the Bank's interest expense in the near term based on the expected increase in the prevailing interest rates. We however note that the Bank's plan to exercise the call option on the 7-year subordinated bond issued in 2016 and 2018 could moderate the growth in interest expense.

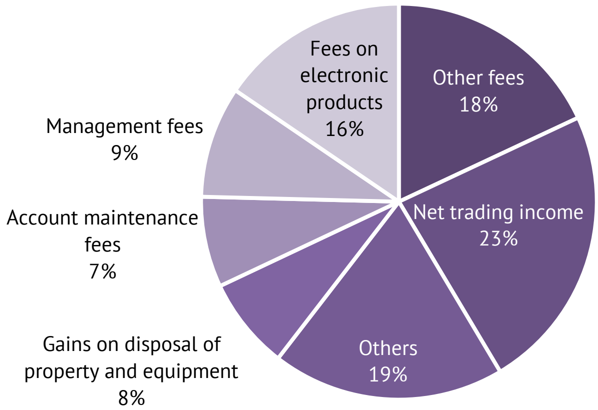
Overall, in FY 2020, Wema Bank's net interest spread (NIS) improved to 48.9% (FY 2019: 37.6%) due to the faster decline in funding cost compared to interest income. The Bank's NIS which was the highest since it obtained national banking authorisation in 2015 compared unfavourably to Polaris Bank's 78.7% and Sterling Bank's 56.9%. Subsequent to the year-end, in the first quarter of 2021, Wema Bank's NIS maintained its upward trajectory to 58.8%. We expect the Bank's NIS to remain relatively stagnant in the near term due to the anticipated increase in funding cost which will be moderated by the growth in yields on earning assets.

During the year 2020, ₦5.6 billion was expensed as an impairment charge reflecting a stagnant loan loss expense to interest income ratio of 8.9% compared to the previous year. This compares unfavourably with Polaris Bank and Sterling Bank's loan loss expense to interest income ratio of 8.7% and 7.3% respectively. Notwithstanding, we anticipate a marginal decrease in impairment charge as the impact of the pandemic subsides with increased vaccinations and higher crude oil price.

Supporting interest income was income from ancillary activities which amounted to ₦16.8 billion during the year under review, representing a 30.5% decline owing to the relatively lower gains from the trading portfolio. However, a 249.3% growth in other income comprising profits from asset disposal, foreign exchange revaluation gains among others moderated the decline. Notwithstanding the CBN induced reduction on the electronic banking fees, the surge in digital transactions as a result of the lockdown ensured that its contribution to ancillary income remained significant.

Given the impact of increasing interest rates on fixed income pricing, we do not expect significant growth in gains from trading income in the near term. Nonetheless, the recently launched Alat 4.0 which has supported the uptime of the Bank's virtual channels coupled with new product offerings is expected to support ancillary income in the near term.

Figure 8: Breakdown of Non-Interest income (FY 2020)



During FY 2020, Wema Bank's operating expenses (OPEX) decreased slightly by 3.2% reflecting the cost-saving opportunities engendered by the COVID-19 pandemic. Staff cost remained the largest contributor to OPEX, accounting for approximately 39% despite declining by 5.3% to ₦14.1 billion. Security expenses, transportation and diesel expenses declined by 27.3%, 24.3% and 12.1% respectively owing to the flexible working environment and travelling restrictions elicited by the pandemic in the year under review. However, regulatory costs comprising AMCON charge and NDIC levy increased by 44.9% and 37.7% respectively, reflecting the enlarged asset base and the growth in the deposit liabilities.

Given the relatively higher decline in earnings relative to operating expenses, Wema Bank's cost-to-income ratio (CIR) increased to 85.9% (FY 2019: 84.6%), higher than Polaris Bank's 68.2% but was at par with Sterling Bank's 85%. Subsequent to the year end, Wema Bank's CIR increased even further to 87%. Although we anticipate a marginal increase in earnings in the near term, we believe that expected growth in OPEX arising from inflationary pressures will keep the Bank's CIR to remain relatively static in FY 2021.

In the financial year ended 31 December 2020, Wema Bank reported a pre-tax profit of ₦5.9 billion, a 12.2% decline from the prior year. Consequently, profitability metrics were lower with a pre-tax return on average assets (ROA) of 0.6% (FY 2019: 1%) and a pre-tax return on average equity (ROE) of 10.7% (FY 2019: 13%). In terms of ROA, Wema Bank compared unfavourably with Polaris Bank's 2.4% and Sterling Bank's 0.9%. Similarly, the Bank's ROE was lower than Polaris Bank's 33.2% but was almost at par with Sterling Bank's 10.4%. Subsequent to the year end, in the first quarter of 2021, the Bank's profitability ratios remained stagnant with annualised ROA and annualised ROE of 0.6% and 10.4% respectively.

We consider the profitability of Wema Bank Plc to be low given that the ROE stood lower than the 13.2% inflation rate during the year under review. We believe that the profitability ratios should improve slightly in the near term on the back of increased yields on earning assets.

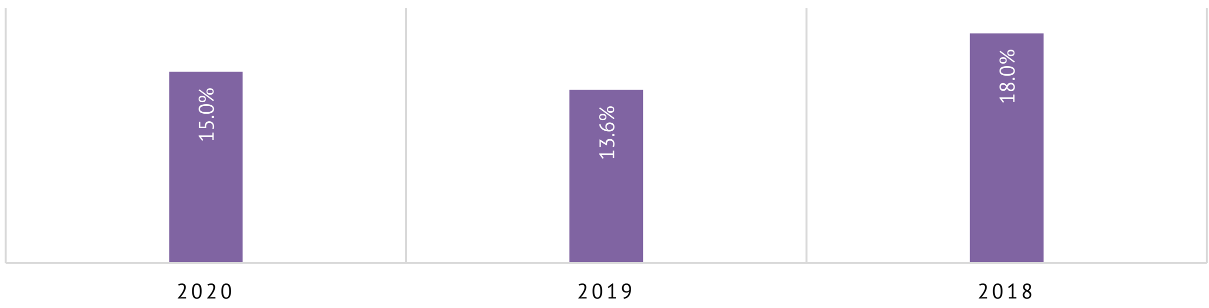
CAPITAL ADEQUACY

As at 31 December 2020, Wema Bank's shareholders' fund stood at ₦57.2 billion, a 6.2% increase from the prior year, and remained well above the regulatory requirement of ₦25 billion for commercial banks with national authorisation. The Bank's core capital which was propped by accretions to retained earnings and appropriations to non-distributable reserves funded 5.5% of total assets and contingents as at FYE 2020. Tier 2 capital comprising revaluation surpluses and the 7-year subordinated bonds issued in 2016 and 2018 reflected a moderate 4.3% growth to stand at ₦15.7 billion as at FYE 2020.

Wema Bank's Basel II Capital Adequacy Ratio computed using the IFRS 9 transitional arrangement prescribed by the CBN increased to 15% (FYE 2019: 13.6%) as at FYE 2020. This was due to the 23.4% relatively faster growth witnessed in total qualifying capital owing to the growth in retained earnings and statutory reserves when compared to the 11.7% increase in the risk-weighted assets. While the CAR stood higher than the regulatory threshold of 10%, it was lower than the 15.9 and 18% recorded by Polaris Bank and Sterling Bank respectively as at FYE 2020.

Subsequent to the year end, in the first quarter of 2021, Wema Bank's CAR decreased slightly to 14.75% owing to a 1.8% increase in risk-weighted assets. Overall, we consider the Bank's CAR to be good considering the current level of business risk undertaken. In the near term, Wema Bank intends to increase its capital through a rights issue to support its medium-term growth plans. However, we believe that the exercise could be constrained by the macroeconomic headwind caused by the pandemic.

Figure 9: Capital Adequacy Ratio (FYE 2020 – 2018)

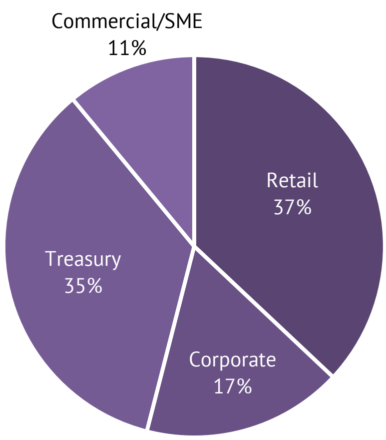


LIQUIDITY AND LIABILITY GENERATION

Wema Bank Plc is one of Nigeria's oldest banks and currently has operations in the southwest region as well as the south-south in addition to Abuja and some states in the north region. The Bank leverages ALAT, a digital banking platform with about 600,000 customers, coupled with a focused marketing drive in mobilising deposits from the retail and SME segment - the target market for Wema Bank. Furthermore, as at 31 December 2020, the Bank had 157 branches and ramped up the number of agents to 4,591 (FYE 2019: 3,186) as part of the retail deposits mobilisation strategy. Over the last three years, the Bank has penetrated the financial institution space and attracted deposits from asset management companies and pension fund administrators (PFAs). Leveraging the digitalisation strategy, partnerships with financial technology companies (FinTechs) and an uptick in the provision of fund collection solutions to medium and large-sized corporates have also supported the deposit liabilities base.

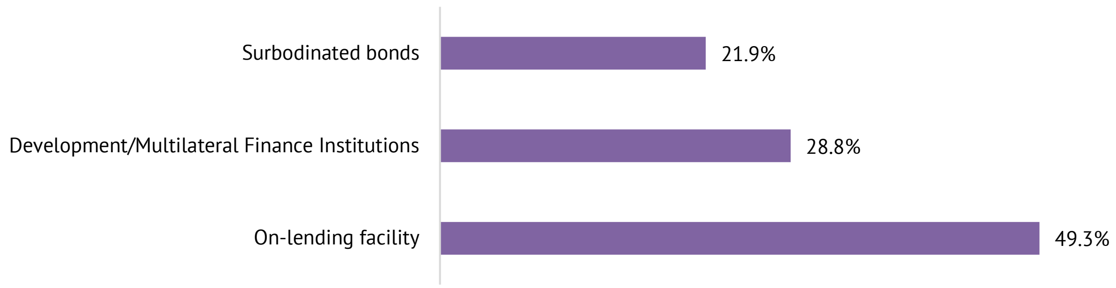
As at 31 December 2020, Wema Bank's total deposit liabilities (excluding interbank takings) stood at ₦804.9 billion reflecting a 38.6% year-on-year growth and funded 76.8% of total assets and contingents. The growth in customer deposits was most prominent in low-cost (demand and savings) deposits which increased by 60.3% to ₦332.4 billion and accounted for 43.6% (FYE 2019: 39%) of local currency (LCY) deposit liabilities as at FYE 2020. The relatively expensive term deposits also expanded by 22.1% to approximately ₦430 billion and represented 56.4% (FYE 2019: 62.5%) of LCY deposits as at the same date. Domiciliary account deposits grew markedly by 139.6% to ₦42.6 billion and were sufficient to cover the FCY loan book by 102%, reducing the vulnerability of the Bank to foreign currency liquidity squeeze.

Figure 10: Customer Deposits by Source (FYE 2020)



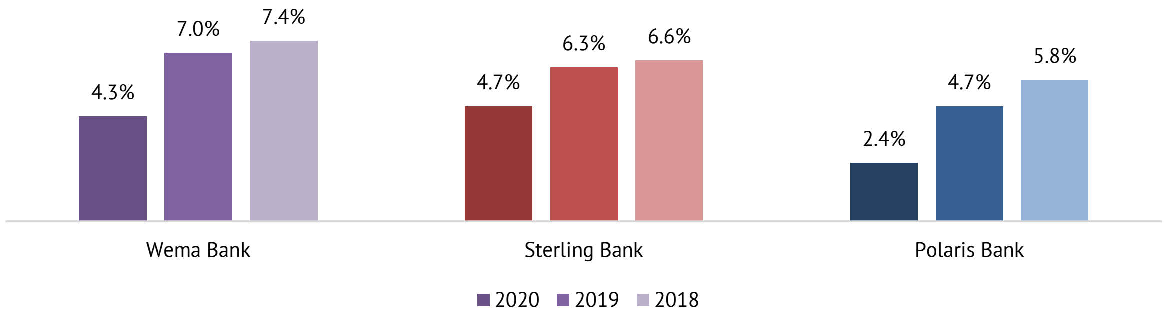
Asides from customer deposits, Wema Bank's activities are also funded by borrowings from multilateral financial institutions, development finance institutions, on-lending facilities and subordinated bonds. As at FYE 2020, total borrowings amounted to ₦62.4 billion, reflecting a 65.6% growth largely due to the anchor borrowers fund and the real sector support facility granted by the CBN. As at FYE 2020, the 7-year subordinated bonds, issued in 2016 and 2018 accounted for 21.9% of total borrowings, down from the 36.2% recorded in 2019 as a result of the growth in total borrowings.

Figure 11: Borrowings by Source (FYE 2020)



Given the improved funding mix and the prevailing low interest rate climate witnessed during the year under review, Wema Bank's weighted average cost of funds (WACF) declined to 4.3%, lower than the 6.9% recorded in the prior year. Compared to its peers, Wema Bank's WACF stood higher than Polaris Bank's 2.4% but was better than Sterling Bank's WACF of 5.3% due to the growth in the Bank's low cost deposits. Subsequent to the year end, in the first quarter of 2021, the Bank's WACF declined to 2.9% in line with the low interest rate environment. Nonetheless, we expect a growth in the WACF in the near term owing to the gradual rise in interest rates and the dominance of rate-sensitive term deposits in Wema Bank's deposit mix. Although we expect the Bank's aggressive drive for low-cost deposits to moderate the increase in funding cost.

Figure 12: Peer Comparison – WACF (FY 2020 – FY 2018)



As at 31 December 2020, an aggregation of Wema Bank's deposits liabilities and borrowings were not sufficient to fund the corresponding loans in most of the maturity buckets. Only deposit liabilities and borrowings in the "less than 3 months" maturity bucket were sufficient to fund loans in the corresponding maturity bucket. While the funding mismatch exposes the Bank to potential interest rate risk, especially in a rising interest rate environment, Wema Bank's large pool of treasury securities and access to the interbank market serve as mitigants.

In FY 2020, Wema Bank witnessed a slower growth of 28.3% in liquid assets compared to the last two years on the account of low yields in the fixed income market and the aggressive implementation of the CRR policy by the CBN. As a result, liquidity ratios (liquid assets to LCY deposits) declined marginally to 38.8% (FYE 2019: 40.6%). Notwithstanding, Wema Bank's liquidity ratios remained higher than the regulatory requirement of 30% as prescribed by the CBN. Overall, we consider Wema Bank's liquidity position to be good and its ability to refinance adequate.

OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2020, Wema Bank had 38.5 billion issued shares owned by 244,796 corporates, individuals and institutions. Based on the shareholders' register, there were four significant shareholders, each with an equity stake of more than 5% as at FYE 2020, and jointly held 59.8% of the Bank's issued shares.

Table 2: Significant Shareholders as at 31 December 2020

Shareholder	Shareholding Percentage
Neemtree Limited	28.09%
SW8 Investment Limited	14.90%
Petrotab Limited	8.54%
Odu'a Investment Company	8.27%
Total	**59.80%**

As at 2020 FYE, Wema Bank's twelve-member Board of Directors comprised seven Non-Executive Directors (of which two are Independent Non-Executive Directors) and five Executive Directors. The Board performs its oversight functions through six standing committees, namely; the Board Risk Management Committee, the Board Credit Committee, the Board Finance and General-Purpose Committee, the Board Nomination and Governance Committee, the Board Audit Committee, and the Statutory Audit Committee. Mr Babatunde Kasali chairs the Board of Directors while Mr Ademola Adebise is the Managing Director and Chief Executive Officer of Wema Bank Plc. During the year under review, Ms Tina Vuko-Quarshie (an Independent Non-Executive Director) retired from the Board effective 16 August 2020 after completing eight years of service with the Bank. Subsequently, Mrs Ibiye Ekong joined the Board as an Independent Non-Executive Director effective 7 September 2020 and Mr Oluwole Ajimisinmi was appointed an Executive Director effective 1 July 2020. In the year 2021, Mrs Folake Sanu retired as an Executive Director in March 2021 while Mr Emeka Obiagwu was appointed as her replacement effective 1 April 2021.

Mrs Ibiye Ekong has over 28 years of professional experience in accounting, banking and finance. Prior to joining Wema Bank, she worked with Skye Bank Plc, Chartered Bank Plc and John Holt Plc in various capacities. Mrs Ekong is a Fellow and former council member of the Chartered Institute of Bankers of Nigeria (CIBN) and currently serves on the Finance and General Purposes Committee of the Governing Council of the CIBN. She is also a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN) and a member of the Institute of Directors (IoD) and the Risk Management Association of Nigeria.

Mr Oluwole Ajimisinmi joined Wema Bank in June 2009 as a legal adviser to the Bank but was redeployed to the position of a regional executive in charge of the retail, commercial and public sector before he was appointed an Executive Director. Mr Ajimisinmi is a law graduate from the University of Jos, and an associate member of the Institute of Chartered Secretaries & Administrators of Nigeria and the UK. He is also a member of the Institute of Advanced Legal Studies, University of Lagos, Akoka Lagos.

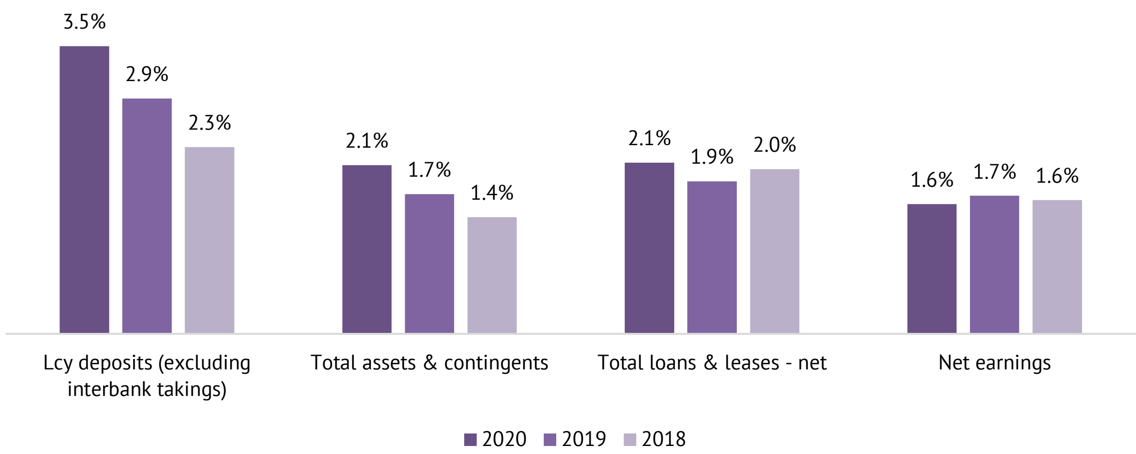
Mr Emeka Obiagwu is a finance professional with a background in accounting, insurance, corporate finance, stockbroking and public finance. He has over three decades of experience in banking, financial services and public service. He currently serves on the Board of Fidelity Pension Managers as a Non-Executive Director and Chairperson of the Board, Audit Committee. Mr Obiagwu is an alumnus of the Lagos Business School (SMP 16); a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN); a Fellow of the Chartered Institute of Stockbrokers; Honorary Senior Member, Chartered Institute of Bankers of Nigeria; a Fellow of the Chartered Institute of Taxation, and an Associate of the Chartered Insurance Institute (London).

In FY 2020, Wema Bank employed an average of 1,223 persons, higher than the 1,161 persons employed in the prior year. Despite the growth in staff numbers, the Bank's staff cost declined slightly by 5.3% and represented 39% of operating expenses during the year. Net earnings per staff decreased by 9.4% to ₦34.3 million on the back of depressed earnings but covered average staff cost 3 times which was at par with FY 2019 coverage. This coverage ratio was lower than the 3.2 and 5.4 times recorded by Polaris Bank and Sterling Bank respectively. Overall, we believe Wema Bank's Board of Directors is competent and possesses the requisite experience to govern the Bank. However, we are of the opinion that staff productivity requires improvement.

MARKET SHARE

Wema Bank's share of the banking industry's resources improved in the year under review. The Bank's total assets and contingents which stood at ₦1.04 trillion represented 2.1% (FYE 2019: 1.85%) of the industry's asset base as at FYE 2020, on the back of improved deposit mobilisation. At this level, it was lesser than Polaris and Sterling Bank's market share of total assets and contingents which stood at 2.7% and 2.9% respectively. Wema Bank's market share of LCY deposits improved to 3.5% from the 2.9% recorded in the previous year. While the share of LCY deposits was somewhat at par with Sterling Bank's 3.4% it was lower than Polaris Bank's 4.1% LCY deposits market share. Notwithstanding the decline in pre-tax profits in FY 2020, the Bank's market share improved, albeit marginally to 0.76% from 0.73% in the prior year.

Figure 13: Market Share Indicators (FY 2018–2020)



Despite the slight improvement in some indicators, Wema Bank's market share was still lower than selected peers in the industry emphasizing the need for better efficiency in capturing market share which reflects its standing as the oldest indigenous commercial bank in Nigeria.

OUTLOOK

Wema Bank's strategy in the medium term is to drive growth by leveraging on technology and expanding its digital capabilities. The Bank has identified eight key levers which include expanding the capital base and optimising the balance sheet for better efficiency. Wema Bank intends to grow the loan book by 13.2% in the year 2021. The lending strategy will focus on tested MSMEs with a good performance record while the digital platform will drive retail loans. Wema Bank also intends to extract more value from the digital banking platform by strengthening fee income and preventing revenue losses from ALAT. We believe this level of growth is achievable given the gradual increase in economic activities.

Despite the adverse impact of the COVID-19 pandemic which continues to threaten the banking sector and strain asset quality, we believe Wema Bank will harness its experience in navigating turbulent cycles to achieve its projections in the near term. Thus, we expect asset quality to remain satisfactory and profitability metrics to improve while liquidity ratios remain good. We also believe that the intended capital injection through rights issue will boost the capital base and strengthen the Bank further. Based on the abovementioned, Agusto & Co. hereby attaches a **'stable'** outlook to the rating of Wema Bank Plc.

Financial Summary

WEMA BANK PLC

	STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-20 N'000		31-Dec-19 N'000		31-Dec-18 N'000	
	ASSETS						
1	Cash & equivalents	68,653,862	6.5%	35,285,484	4.5%	23,942,433	4.4%
2	Government securities	198,469,083	18.9%	164,818,339	20.9%	79,087,472	14.6%
3	Money market placements	28,873,996	2.8%	30,681,544	3.9%	18,180,366	3.4%
4	Quoted investments						
5	Placements with discount houses						
6	LIQUID ASSETS	295,996,941	28.2%	230,785,367	29.2%	121,210,271	22.4%
7	BALANCES WITH NIGERIAN BANKS						
8	BALANCES WITH BANKS OUTSIDE NIGERIA						
9	Direct loans and advances - Gross	369,509,979	35.2%	297,099,270	37.6%	259,681,642	48.0%
10	Less: Cumulative loan loss provision	(14,963,578)	-1.4%	(12,128,432)	-1.5%	(9,394,109)	-1.7%
11	Direct loans & advances - net	354,546,401	33.8%	284,970,838	36.1%	250,287,533	46.3%
12	Advances under finance leases - net	5,529,679	0.5%	4,269,032	0.5%	1,902,080	0.4%
13	TOTAL LOANS & LEASES - NET	360,076,080	34.3%	289,239,870	36.6%	252,189,613	46.6%
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	21,883,615	2.1%	4,879,789	0.6%	4,459,906	0.8%
16	DEFERRED LOSSES	18,236,111	1.7%	19,195,906	2.4%	20,206,217	3.7%
17	RESTRICTED FUNDS	246,974,959	23.6%	137,392,701	17.4%	58,054,204	10.7%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATES						
19	OTHER LONG-TERM INVESTMENTS	1,883,979	0.2%	1,340,305	0.2%	2,265,444	0.4%
20	FIXED ASSETS & INTANGIBLES	23,530,399	2.2%	22,121,666	2.8%	19,530,087	3.6%
21	**TOTAL ASSETS**	**968,582,084**	**92.4%**	**704,955,604**	**89.3%**	**477,915,742**	**88.4%**
22	TOTAL CONTINGENT ASSETS	80,093,635	7.6%	84,658,750	10.7%	62,920,282	11.6%
23	**TOTAL ASSETS & CONTINGENTS**	**1,048,675,719**	**100%**	**789,614,354**	**100%**	**540,836,024**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	57,266,051	5.5%	53,919,261	6.8%	50,033,711	9.3%
25	TIER 2 CAPITAL	15,729,100	1.5%	15,075,547	1.9%	14,016,873	2.6%
26	Medium to Long Term Borrowings	48,774,057	4.7%	24,064,369	3.0%	21,349,319	3.9%
27	Demand deposits	212,314,116	20.2%	131,591,519	16.7%	102,165,340	18.9%
28	Savings deposits	120,103,127	11.5%	75,740,488	9.6%	62,891,853	11.6%
29	Time deposits	429,811,619	41.0%	352,155,600	44.6%	188,444,840	34.8%
30	Inter-bank takings			3,638,400	0.5%		
31	TOTAL DEPOSIT LIABILITIES - LCY	762,228,862	72.7%	563,126,007	71.3%	353,502,033	65.4%
32	Customers' foreign currency balances	42,644,530	4.1%	17,795,862	2.3%	15,812,131	2.9%
33	TOTAL DEPOSIT LIABILITIES	853,647,449	81.4%	604,986,238	76.6%	369,314,164	68.3%
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	41,939,484	4.0%	30,974,558	3.9%	23,201,675	4.3%
36	**TOTAL CAPITAL & LIABILITIES**	**968,582,084**	**92.4%**	**704,955,604**	**89.3%**	**477,915,742**	**88.4%**
37	TOTAL CONTINGENT LIABILITIES	80,093,635	7.6%	84,658,750	10.7%	62,920,282	11.6%
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**1,048,675,719**	**100%**	**789,614,354**	**100%**	**540,836,024**	**100%**
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes	13,939,976	1.3%	13,076,960	1.7%	13,511,351	2.5%
40	Guarantees, bonds etc..	66,153,659	6.3%	71,581,790	9.1%	49,408,931	9.1%
41	Short-term self liquidating contingencies						

WEMA BANK PLC

	STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED	**31-Dec-20** N'000		**31-Dec-19** N'000		**31-Dec-18** N'000	
42	Interest income	63,046,722	78.9%	69,181,727	74.1%	57,012,819	80.4%
43	Interest expense	(32,189,452)	-40.3%	(43,197,658)	-46.3%	(29,997,631)	-42.3%
44	Loan loss expense	(5,635,165)	-7.1%	(6,130,600)	-6.6%	(3,510,537)	-5.0%
45	NET REVENUE FROM FUNDS	25,222,105	31.6%	19,853,469	21.3%	23,504,651	33.1%
46	ALL OTHER INCOME	16,830,273	21.1%	24,208,084	25.9%	13,894,940	19.6%
47	**NET EARNINGS**	**42,052,378**	**52.6%**	**44,061,553**	**47.2%**	**37,399,591**	**52.7%**
48	Staff costs	(14,082,228)	-17.6%	(14,870,989)	-15.9%	(12,336,818)	-17.4%
49	Depreciation expense	(3,136,273)	-3.9%	(3,316,846)	-3.6%	(2,622,568)	-3.7%
50	Other operating expenses	(18,887,354)	-23.6%	(19,102,890)	-20.5%	(17,609,656)	-24.8%
51	TOTAL OPERATING EXPENSES	(36,105,855)	-45.2%	(37,290,725)	-39.9%	(32,569,042)	-45.9%
52	PROFIT (LOSS) BEFORE TAXATION	5,946,523	7.4%	6,770,828	7.3%	4,830,549	6.8%
53	TAX (EXPENSE) BENEFIT	(1,354,306)	-1.7%	(1,560,080)	-1.7%	(1,471,290)	-2.1%
54	**PROFIT (LOSS) AFTER TAXATION**	**4,592,217**	**5.7%**	**5,210,748**	**5.6%**	**3,359,259**	**4.7%**
55	NON-OPERATING INCOME (EXPENSE) - NET						
56	PROPOSED DIVIDEND						
57	**GROSS EARNINGS**	**79,876,995**	**100%**	**93,389,811**	**100%**	**70,907,759**	**100%**
58	AUDITORS	DELOITTE		DELOITTE		DELOITTE	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	**31-Dec-20**	**31-Dec-19**	**31-Dec-18**
	EARNINGS			
60	Net interest margin	48.9%	37.6%	47.4%
61	Loan loss expense/Interest income	8.9%	8.9%	6.2%
62	Return on average assets (Pre - tax)	0.6%	1.0%	1.0%
63	Return on average equity (Pre - tax)	10.7%	13.0%	9.7%
64	Operating Expenses/Net earnings	85.9%	84.6%	87.1%
65	Gross earnings/Total assets & contingents	8.7%	14.0%	14.6%
	EARNINGS MIX			
66	Net revenue from funds	60.0%	45.1%	62.8%
67	All other income	40.0%	54.9%	37.2%
	LIQUIDITY			
68	Total loans & leases - net/Total lcy deposits	41.0%	43.3%	59.4%
69	Liquid assets/Total lcy deposits	38.8%	40.6%	34.3%
70	Demand deposits/Total lcy deposits	27.9%	23.4%	28.9%
71	Savings deposits/Total lcy deposits	15.8%	13.5%	17.8%
72	Time deposits/Total lcy deposits	56.4%	62.5%	53.3%
73	Inter-bank borrowings/Total lcy deposits		0.6%	
74	Interest expense - banks/Interest expense	1.3%	11.6%	3.3%
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	(42,644,530)	(17,795,862)	(15,812,131)

WEMA BANK PLC

	KEY RATIOS CONT'D	**31-Dec-20**	**31-Dec-19**	**31-Dec-18**
	ASSET QUALITY			
76	Performing loans (N'000)	350,035,030	274,859,270	246,565,889
77	Non-performing loans (N'000)	19,474,949	22,240,000	13,115,753
78	Non-performing loans/Total loans - Gross	5.2%	7.4%	5.0%
79	Loan loss provision/Total loans - Gross	4.0%	4.1%	3.6%
80	Loan loss provision/Non-performing loans	76.8%	54.5%	71.6%
81	Risk-weighted assets/Total assets & contingents	41.1%	43.4%	55.2%
	CAPITAL ADEQUACY			
82	Adjusted capital/risk weighted assets	12.4%	14.2%	14.4%
83	Tier 1 capital/Adjusted capital	71%	69%	67%
84	Adjusted capital/Total loans - net	675%	592%	588%
85	Capital unimpaired by losses (N'000)	39,029,940	34,723,355	29,827,494
	STAFF INFORMATION			
86	Net earnings per staff (N'000)	34,385	37,951	36,630
87	Staff cost per employee (N'000)	11514	12809	12083
88	Staff costs/Operating expenses	39.0%	39.9%	37.9%
89	Average number of employees	1,223	1,161	1,021
90	Average staff per branch	8	8	7
	OTHER KEY INFORMATION			
91	Legal lending limit(N'000)	7,805,988	6,944,671	5,965,499
92	Number of branches	157	147	147
93	Age (in years)	76	75	74
94	Government stake in equity (Indirect)	10%	10%	10%
		Estimates	**Actual**	**Actual**
	MARKET SHARE OF INDUSTRY TOTAL	2020	2019	2018
95	Lcy deposits (excluding interbank takings)	3.5%	2.9%	2.3%
96	Total assets & contingents	2.0%	1.7%	1.4%
97	Total loans & leases - net	2.1%	1.9%	2.0%
98	Net earnings	1.6%	1.7%	1.6%
99	Profit before tax	0.8%	0.7%	0.6%
100	Core capital	1.2%	1.3%	1.4%

Rating Definitions

Aaa	A financial institution of impeccable financial condition and overwhelming capacity to meet obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) are unlikely to lead to deterioration in financial condition or an impairment of the ability to meet its obligations as and when they fall due. In our opinion, regulatory and/or shareholder support will be obtained, if required.
Aa	A financial institution of very good financial condition and strong capacity to meet its obligations as and when they fall due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a slight increase the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain strong. Although regulatory support is not assured, shareholder support will be obtained, if required.
A	A financial institution of good financial condition and strong capacity to meet its obligations. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain largely unchanged. In our opinion, shareholder support should be obtainable, if required.
Bbb	A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due. It may have one major weakness which, if addressed, should not impair its ability to meet obligations as and when due. Adverse changes in the environment (macro-economic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution.
Bb	Financial condition is satisfactory and ability to meet obligations as and when they fall due exists. May have one or more major weaknesses. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly.
B	Financial condition is weak but obligations are still being met as and when they fall due. Has more than one major weakness and may require external support, which, in our opinion, is not assured. Adverse changes in the environment (macro-economic, political and regulatory) will increase risk significantly.
C	Financial condition is very weak. Net worth is likely to be negative and obligations may already be in default.
D	In default.

A "+" (plus) or "-" (minus) sign may be assigned to ratings from Aa to C to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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