



## Credit Rating Announcement

GCR Affirms Wema Bank Plc's Issuer National Scale Long Term Rating of BBB<sub>(NG)</sub>; Outlook changed to Evolving from Negative

### Rating Action

Lagos, 17 June 2021 - GCR Ratings ("GCR") has affirmed Wema Bank Plc's national scale long and short-term issuer ratings of BBB<sub>(NG)</sub> and A3<sub>(NG)</sub> respectively; with the Outlook changed to Evolving from Negative.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Wema Bank Plc	Long Term issuer	National	BBB <sub>(NG)</sub>	Evolving Outlook
	Short Term issuer	National	A3 <sub>(NG)</sub>	

An "Evolving" outlook means that the rating symbol may be raised, lowered or unchanged over the outlook horizon.

### Rating Rationale

The ratings on Wema Bank Plc ("Wema", "the bank") reflect its stable funding structure, intermediate capitalisation, adequate liquidity, a sustained moderate risk position and the growing competitive position within the Nigerian banking/financial institutions sector.

Wema is a mid-sized commercial bank with track record of over seven decades and remains the longest surviving indigenous bank within the country. The bank controls an estimated market share of 3% and 2.1% based on industry's total deposits and assets respectively at FY20. The bank's asset base has grown significantly over the last three years to date, with an average yearly growth of 30%. In particular, customer deposits peaked at N795.5bn at Q1 FY21 from N369.2bn in FY18, attesting to increased brand acceptance within the local market.

Capitalisation is currently a moderate ratings constraint. The GCR capital ratio was relatively stable at about 14% at FY20 despite the reported growth in risk weighted assets, underpinned by the bank's strong internal capital generation capacity. The anticipated increase in tier one capital through a rights Issue before the end of 2021 is expected to see the capital ratio improve to around 25-30% in the next 18 months. Without the additional capital, we expect the capital ratio to be around 15%, reflecting a sustained strong internal capital generation that outpaces risk weighted asset growth. In addition, the bank intends to dispose some of its non-core assets in the immediate future, which is expected to reduce its risk weighted assets and ultimately improve the capital adequacy ratio. Loan loss reserving is adequate with Stage 3 loans coverage of 76.7% at FY20 (FY19: 54.5%).

Wema's risk position is viewed to be contained, with gross non-performing loans ("NPL") ratio registering an improvement somewhat to 4.7% at FY20, from 7.4% previously, albeit underpinned by restructured loans during the year. Credit losses of 1.7% at FY20 is considered moderate and in line with industry average. Furthermore, concentration by obligor is perceived high, with the twenty largest exposures accounting 37.6% of the loan book at FY20, while the single largest constituted 25.7% of the capital base, breaching the 20% regulatory obligor limit. We expect a more diversified loan book over the short to medium term as the bank continues to strategically expand its lending activities. In addition, foreign currency loans constituted 10.8% of the loan portfolio at FY20, which is favourably viewed and remained below the industry average 35%.

Wema's funding and liquidity position is assessed at an intermediate level. Wema is largely funded through customer deposits, which has constituted around 90% of the funding base over the review period. While the deposit book mix indicated that higher cost of funding (term deposits) constituted the bulk at FY20, it reflects a decreasing rate, reflective of the bank's focus on growing the low-cost deposits. This notwithstanding, the relatively low interest environment saw average cost of funds moderate to 4.3% at FY20 relative from 6.9% at FY19. Liquidity is good, evidenced by the liquid nature of the balance sheet over the review period. As at FY20, the GCR adjusted liquid assets covered total wholesale funding moderately by 3.8x, while the ratio of GCR liquid asset to total customer deposits stood at 35% (FY19: 37.2%). Though the contractual matching of assets and liabilities reflects a liquidity gap of N555bn in the critical 'less than three-month' maturity band, the behavioural trend reflects that a sizeable portion are usually rolled over at maturity.

## Outlook Statement

The Evolving Outlook means that the rating symbol may be raised, lowered or unchanged over the outlook horizon. This reflects the assumption of Wema's ability to raise its planned equity capital within the next 12 months. Should it materialise, we anticipate an improvement in capitalisation. We also expect NPL ratio and credit losses to remain within a sound range over the next 12 – 18 months.

## Rating Triggers

The ratings could be upgraded should Wema successfully raise its capital and the GCR core capital maintained around the 20% level, assuming no change in asset quality and liquidity metrics. Conversely, if capital fails to improve and / or asset quality deteriorates, it could trigger a downward rating movement.

## Analytical Contacts

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## Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019  
 Criteria for Rating Financial Institutions, May 2019  
 GCR Ratings Scale, Symbols & Definitions, May 2019  
 GCR Country Risk Scores, February 2021  
 GCR Financial Institutions Sector Risk Score, February 2021

## Ratings History

Wema Bank Plc					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term Issuer	Initial	National	BBB <sub>(NG)</sub>	Stable	March 2016
Short Term Issuer			A3 <sub>(NG)</sub>		
Long Term Issuer	Last	National	BBB <sub>(NG)</sub>	Negative	July 2020
Short Term Issuer			A3 <sub>(NG)</sub>		

## Risk Score Summary

Rating Components & Factors	Risk scores
<b>Operating environment</b>	<b>7.25</b>
Country risk score	3.75
Sector risk score	3.50
<b>Business profile</b>	<b>0.00</b>
Competitive position	0.00
Management and governance	0.00
<b>Financial profile</b>	<b>-1.00</b>
Capital and leverage	-1.00
Earnings vs. Risk	0.00
Liquidity	0.00
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Government support	0.00
Peer analysis	0.00
<b>Total Score</b>	<b>6.25</b>

## Glossary

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Capital	The sum of money that is invested to generate proceeds.
Cash	Funds that can be readily spent or used to meet current obligations.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Income	Money received, especially on a regular basis, for work or through investments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

## Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings were influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to Wema Bank Plc. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Wema Bank Plc participated in the rating process via video conference management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Wema Bank Plc and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 31 December 2020
- Four years of comparative audited numbers
- Management account as at 31 March 2021
- Other related documents.

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