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Wema Funding SPV Plc N50bn Debt Issuance Programme (Series 1 & Series 2 Bonds)

Nigeria Bond Analysis **August 2019**

Security class	Amount	Rating Scale	Rating	Rating outlook	Expiry date
Series 1 Senior Fixed Rate Bond	N6.295bn	National	BBB-(NG)	Stable	July 2020
Series 2 Senior Fixed Rate Bond	N17.675bn	National	BBB-(NG)		

Key Counterparties:

Issuer:
Wema Funding SPV Plc

Sponsor:
Wema Bank Plc

Sponsor's long-term national scale credit rating: BBB-(NG)

Summary of Transaction:

Programme limit	N50bn
Series 1 amount	N6.295bn
Current Issue (Series 2)	N17.68bn
Tenor	7 years
Ranking	Senior Fixed Rate
Coupon	Set per Series

Rating History:

Series 1 Bonds

Initial rating (December 2016) ^
Long term: BBB-(NG)
Rating outlook: Stable

Last rating (June 2018)
Long term: BBB-(NG)
Rating outlook: Stable

Series 2 Bonds

Initial/ last rating - (December 2018) ^
Long term: BBB-(NG)
Rating Outlook: Stable

^Final rating.

Related Methodologies/Research:

Criteria for Rating Financial Institutions, updated May 2019
Global Structurally Enhanced Corporate Bonds Rating Criteria, updated November 2018
Sponsor's rating report (2019)

Glossary of Terms/Ratios, February 2016

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Transaction summary

The Series 1 and Series 2 Bonds ("the Bonds") were issued under Wema Funding SPV Plc's ("the Issuer") N50bn Debt Issuance Programme ("DIP"). The enabling resolution of the Issuer's Board of Directors ("board") permits the Directors to issue the Bonds in tranches, different forms, and under different terms and conditions as it may deem fit, subject to the approval of the relevant regulatory authorities.

The first and second Issues under the DIP were undertaken in October 2016 and October 2018 respectively, with an aggregate sum of N23.97bn via the two Issues (Series 1 (N6.295bn) and Series 2 (N17.675bn)).

The *final* ratings accorded to the Bonds relate to ultimate payment of interest and principal (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity).

Summary rating rationale

- Wema Bank Plc ("Wema" or "the bank" or "the Sponsor") is a mid-sized bank in Nigeria by balance sheet size and geographic presence. The bank has a long-term national scale credit rating of BBB-(NG) accorded by Global Credit Rating Company Limited ("GCR").
- The transaction mechanics entails the use of the proceeds of the issuance of Wema Funding SPV Plc Series 1 and Series 2 Bonds, which constitute senior obligations of the Issuer, to purchase (with up to 55% of the Offer proceeds) senior subordinated bonds ("Wema Bank Bonds" or "Subordinated Bonds") issued by the Sponsor. The remaining portion of the proceeds of the Issue (45%) are to be held in the Debt Service Payment Account ("DSPA"), to be invested in Federal Government of Nigeria ("FGN") Securities (collectively, the Subordinated Bonds and FGN Securities are referred to as the Permitted Investments ("PI")). All Subordinated Bonds' debt servicing payments received from the Issue date are to be held in the DSPA and used to pay the coupon on the Bonds.
- The ratings of the Bonds are derived by applying a notching approach starting from the senior subordinated debt credit rating of the Sponsor based on the proportion of the offer proceeds used for purchase of the Sponsor's Subordinated Bonds, as well as the unsubordinated debt rating of the Issuer, in addition to the rating enhancement provided by the 45% of the Offer proceeds retained in the DSPA (invested strictly in risk free FGN Securities).
- According to the Trustees performance reports on the Bonds, the Issuer has been meeting its obligations under the Bond Issues on a timely basis, with total coupon of N2.91bn and N1.45bn paid on Series 1 and Series 2 Bonds respectively from their respective allotment date up to 31 July 2019.

Factors that could trigger a rating action may include

Positive change: Ultimate honouring of the Bonds obligations depends on the performance of the Sponsor (and other parties in line with Transaction Documents). Thus, any rating upgrade of the Sponsor could be positive.

Negative change: A breach of the Master Bonds Purchase Agreement ("MBPA") by the Sponsor, non-compliance with covenants, and a downgrade of the Sponsor's rating, amongst others, could trigger a negative rating action.

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Details of the Bonds

The Series 1 and Series 2 Bonds have common basic features aside from the commencement date and applicable coupon rate as summarised in Table 1.

Table 1: Basic features	Series 1	Series 2
Amount	N6.295	N17.675bn
Issue date	12/10/2016	12/10/2018
Maturity profile (legal)	Seven years	Seven years
Par value	N1,000	N1,000
Coupon rate	18.5%	16.5%
Method of offer	Book build	Book build
Ranking	Unsubordinated	Unsubordinated

Source: Offer prospectuses

Status of the bonds

In terms of ranking status, the Bonds constitute unconditional and unsubordinated obligations of the Issuer, ranking *pari-passu*, without any preference among themselves. Specifically, the Bonds rank *pari-passu* with all senior unsecured creditors of the Issuer, and rank at least equal with the claims of all holders of present and future senior unsecured and unsubordinated obligations of the Issuer.

Use of proceeds

The net proceeds of the Issues were deployed towards the purchase of Subordinated Bonds, issued by the Sponsor and funding of the DSPA, separately maintained for each Series (which are strictly meant for payment of coupons and the principal repayments under the respective Bond series). Funds held in the DSPAs are to be used for the acquisition of other PI (FGN securities). The initial capital structure for the Series 1 and Series 2 Bonds are shown in Table 2.

Table 2: Initial capital structure	%	Amount in Naira
Series 1 Bonds		
Subordinated Bonds – Wema (BB+$_{(NG)}$)	55	3,327,518,906
FGN Securities – (AAA$_{(NG)}$) [1]	45	2,722,515,469
Total	**100**	**6,050,034,375**
Series 2 Bonds		
Subordinated Bonds – Wema (BB+$_{(NG)}$)	55	9,721,250,000
FGN Securities – (AAA$_{(NG)}$)	45	7,953,750,000
Total	**100**	**17,675,000,000**

Source: Offer Prospectuses

Table 3 shows the capital structure at FY18. The slight change in mix was due to accrued interest on the subordinated bond pool during the period.

Table 3: Capital structure at FY18	%	Amount in Naira
Subordinated Bonds – Wema (BB+$_{(NG)}$)	55.5	13,563,338,000
FGN Securities – (AAA$_{(NG)}$)	44.5	10,889,575,000
Total	**100**	**24,452,913,000**

Source: Wema Funding SPV Plc's 2018 audited financial statements

Coupon payment

Coupon is accrued at the rate of 18.5% and 16.5% per annum on Series 1 and Series 2 Bonds respectively (payable on a semi-annual basis and in arrears), commencing from the allotment date of the respective series of Bonds. According to the Trustees performance reports on the Bonds, the Issuer has been meeting its obligations under the Bond Issues on a timely basis, with total coupon of N2.91bn and N1.45bn paid on Series 1 and Series 2 Bonds respectively from the respective allotment date up to 31 July 2019.

Transaction structure and dynamics

The Bond issuances are backed by a MBPA between the Sponsor, the Issuer, and the Trustees (with the Sponsor undertaking to issue subordinated bonds from time to time).

Rating enhancement

As a rating enhancement, the Bonds' legal documentations require the Issuer to (not later than the allotment date) establish the DSPA in the name of the Trustees, which have been funded initially by 45% of the offer proceeds of the Series 1 and Series 2 Bonds. The purpose of the DSPAs is to accumulate monies towards payment of obligations (coupon and principal) due under the Bond Issues and investment in PIs. After the initial amount transferred from the proceeds of the Bond Issues, subsequent DSPAs funding are in the form of coupons and other payments received from the Sponsor on the Subordinated Bonds, and the income received on the other PIs. Amounts (if any) retained within the DSPAs after settling coupon payments on the Bonds are to be re-invested in PIs.

Rating Methodology of the Series 1 and Series 2 Bonds

The ratings of the Bonds are derived by applying a notching approach starting from the senior subordinated debt credit rating of the Sponsor based on the proportion of the offer proceeds used for purchase of the Sponsor's Subordinated Bonds, as well as the unsubordinated debt rating of the Issuer, in addition to the rating enhancement provided by the 45% of the Offer proceeds retained in the DSPA (invested strictly in risk free FGN Securities). In determining the appropriate number of rating notches to be applied, GCR compares the estimated overall recovery rate after a potential default of the Series 1 and Series 2 Bonds with an assumed average corporate senior secured and unsecured debt obligations recovery rate. If overall estimated recoveries are higher than the assumed average recovery rate, a notching uplift may be applicable (Table 4).

[1] Treasury bills and bonds.

Table 4: Recovery rate calculations	Amount in Naira
Principal amount outstanding upon default	23,970,000,000
Assumed missed interest upon default	2,040,475,000
Assumed missed interest to give time to realise recoveries	2,040,475,000
Aggregate exposure Senior Noteholders	**28,050,950,000**
Assumed recoveries on sale of Securities	(14,958,576,400)
Assumed sales and legal costs	1,495,857,640
Unsecured claim on Issuer	**14,588,231,240**
Assumed recovery on unsecured claim	NA
Remaining claim	**14,588,231,240**
Overall estimated recovery rate	47.99%

*Calculation based on Series 1 and Series 2 Bonds

Based on GCR's Global Structurally Enhanced Corporate Bonds Rating Criteria, the calculated overall recovery rates of 47.99 for Series 1 and Series 2 Bonds carry the qualification "*Good Recovery Prospects*". Accordingly, the Series 1 and Series 2 Bonds have been accorded a *final* long term 'BBB-$_{(NG)}$' rating.

In calculating the above, GCR made the following conservative assumptions:

- One coupon payment (six months) of missed interest payments per annum upon default of Wema.
- Thereafter GCR assumed a further semi-annual interest payment would be missed on the Subordinated Bonds.
- GCR used the coupon rate of 18.5% and 16.5% for Series 1 and Series 2 Bonds respectively to calculate the above missed interest.
- A 10% legal cost on recoveries in the event of default.

Other key features

Maturity profile
The tenor of the Bonds is seven years, commencing from the respective date of issuance.

Conversion
The Bonds are not convertible to equity.

Principal repayment
Unless previously redeemed in accordance to the stated conditions for an early payment in the Trust Deed, the principal amounts outstanding on the Bonds will be repaid in full on the maturity date.

Optional redemption
The Bonds are callable at the option of the Issuer after five years post-issuance on any interest payment date, subject to a notice period of between 30 and 60 days.

Covenants
In terms of the covenants, the Issuer undertakes to:

– As at when due, unconditionally pay or procure to be paid to or to the order of the Trustees (from the immediately available funds) any payment due under the Bonds;
– Faithfully perform, at all times, all covenants, undertakings and stipulations contained in the Trust Deed;
– Advise the Trustees upon the occurrence of an event, of which it is aware or ought reasonably to be aware of constituting a Force Majeure Event[2], the steps being taken and proposed to be taken by the Issuer in relation to such event and the date on which such event no longer exists;
– Ensure that the rating of the Bonds is reviewed annually in line with the Investments and Securities Act ("ISA") and Securities and Exchange Commission ("SEC") Rules;
– At all times keep books of accounts and allow the Trustees and any appointees, to whom the Issuer shall have no reasonable objection, free access to such books of account at all reasonable times;
– Send to the Trustees, in addition to any copies to which the Trustees may be entitled as a holder of any securities of the Issuer, two copies of any report, circular and notice of general meeting, every other document sent to its shareholders within ten business days after the issue or publication thereof;
– Give immediate notice to the Trustees of the coming into existence of any security interest that would require any security to be given to the Bonds in accordance to the Trust Deed;
– Within five business days of a demand in writing by the Trustees, provide a certificate signed by two of its directors confirming that no Event of Default has occurred in the relevant period and that it has complied with all its obligations as contained in the Trust Deed; and
– Use its best endeavours to maintain the quotation or listing of the Bonds on the relevant Stock Exchange or any other securities' markets.

In terms of the covenants, the Sponsor undertakes to:

– Within 90 days of the end of its financial year, provide to the Trustees and the rating agency the audited consolidated financial accounts of the Sponsor, provided that the approval of the regulatory authorities for the publication of such accounts has been obtained within the stipulated period;
– Within 30 days of the end of the first six months of its financial year, provide to the Trustees and the rating agency its unaudited consolidated financial accounts for that six month period;
– Provide to the Trustees an annual Directors' Certificate, confirming the absence of any Event of Default, and if there is an Event of Default, describing the action the Sponsor is taking or proposes to take to remedy the same;

[2] Where the Trustees are reasonably satisfied that such event impedes the Issuer's ability to discharge its obligations under the Series 2 Bonds.

- Permit its auditor to communicate directly with the Trustees or their appointees following the occurrence of an Event of Default and the continuance of such Event of Default;
- Ensure that the Issuer duly performs and complies with the obligations expressed to be undertaken by it under the Bond Issue;
- For as long as any part of the Wema Bank Bonds certified by Central Bank of Nigeria ("CBN") as forming part of the Sponsor's regulatory capital remains outstanding, not exercise its call option, unless the early redemption will not result in the Sponsor's capital adequacy ratio falling below the regulatory minimum prescribed by CBN, and has obtained the consent of CBN for such early redemption;
- At all times comply with all rules, regulations and prudential ratios of CBN applicable to banks in Nigeria;
- Obtain and maintain in full force and effect all licenses unless such are being contested in good faith by it and where failure to maintain such licenses will reasonably be expected to have a material adverse effect; and
- Not engage in a merger with any other person unless such person assumes the Sponsor's obligation under the Bond Issue, and that no Event of Default will occur as a result of such merger.

Events of Default

Events of Default under the DIP (applicable to the Bond Issues) include the following:

- *Non-payment* – if any payment due under the Bond Issue or other Wema Bank Bond issues remains unpaid for more than five business days, or for more than 15 business days in respect of a Force Majeure Event.
- *Breach of other obligations* – if there is non-compliance with any other obligations under the Bond Issue, and such non-compliance is not remedied within 30 days (where such can be remedied).
- *Cross-default* – if the Issuer or the Sponsor are unable to meet their obligations in respect of other indebtedness (in excess of USD35m or its Naira equivalent) as at when due.
- *Enforcement of proceedings* – where a legal process is levied against the assets or revenues (in excess of USD35m or its Naira equivalent) of the Issuer or Sponsor, and such legal process is not discharged or stayed within 90 days.
- *Withdrawal of license* – if the banking license of the Sponsor is revoked or suspended and it is not replaced within 180 days thereafter.
- *Release of Sponsor* – if there is a release of the Sponsor from its obligations under the Wema Bank Bonds Issue other than in accordance with the Series 1 and Series 2 Bonds Trust Deeds.
- *Event of default under the MBPA* – if an Event of Default occurs under the MBPA.
- *Security enforced* – if any encumbrance created over a material part of the assets or revenues of the Sponsor becomes enforceable.
- *Insolvency* – if the Issuer or the Sponsor is deemed by a law or a court to be insolvent or unable to pay its debts.
- *Winding-up* – if an order is made or an effective resolution is passed for the dissolution of the Issuer or the Sponsor.
- *Failure to take action* – failure of the Issuer or the Sponsor to take any action or condition necessary to enable them to comply with their obligations under the Bond Issues.
- *Nationalisation* – if there is any step taken to compulsorily acquire or nationalise any material part of the assets of the Issuer or the Sponsor.

A breach of any of the covenants or occurrence of any of the Events of Default would result in an early redemption of the Bonds.

Key transaction parties

Trustees

The appointed Trustees in respect of the Series 1 Bonds are FBN Trustees Limited, STL Trustees Limited, and United Capital Trustees Limited, while that of Series 2 Bonds are GTL Trustees Limited, STL Trustees Limited, and United Capital Trustees Limited.

Issuer

The Issuer is Wema Funding SPV Plc, a special purpose entity incorporated on 30 June 2016 for the purpose of issuing bonds to the public, exclusively to cater for the funding needs of the Sponsor.

The financial position of the Issuer at FY18 is summarised in Table 5.

Table 5: Financial position (N'm)	FY17	FY18
Statement of comprehensive income		
Net interest income	(7.8)	(22.8)
Impairment charge	-	(42.4)
Operating expenses	(37.9)	(10.0)
Profit before tax	**(45.7)**	**(75.2)**
Selected statement of financial position items		
Debt instruments	6,317.0	24,452.9
Capital	(75.9)	(184.4)

Source: Issuer's 2018 financial statements.

Sponsor[3]

Wema, incorporated in 1945 (under the old name of Agbonmagbe Bank Limited), 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. The bank provides a range of retail and small and medium enterprise ("SME") banking,

[3] Refer to GCR's 2018 Issuer rating report on Wema Bank Plc for more detail.

corporate, treasury, trade services and financial advisory products/services to corporate and individual customers.

Ownership structure
Wema enjoys a wide ownership base of over 244,000 investors, albeit the ownership structure is somewhat concentrated with a sizeable 54.4% of issued shares owned by four institutional investors at 31 December 2018.

Corporate governance
The composition of the bank's board and its governance structure are in line with CBN's code of corporate governance for banks in Nigeria, and that of SEC for listed companies. A major change to the board during FY18 was the retirement of Mr Segun Oloketuyi, the immediate past Managing Director, having served in the capacity for over nine years. He has been replaced by Mr Ademola Adebisi with effect from October 2018.

Financial reporting
The audited financial statements were prepared in accordance with International Financial Reporting Standards, the Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria requirements. The bank's external auditor, Deloitte & Touche, issued an unqualified report on the 2018 financial statements.

Performance update
A five year financial synopsis is presented on page 8 of this report, and supplemented by the commentary below.

The bank's performance recorded an improvement year-on-year across most metrics during FY18. While interest income reported a growth of 8.6% to N57.6bn during the year, a decline of 8% was recorded in interest expense, which saw the net interest income report a notable 36.6% growth in FY18. Non-interest income grew 13.9% to N13.9bn during the year, supported by growth in securities trading. Accordingly, total operating income increased 27.9% to N40.9bn during FY18, surpassing the budgeted N35.6bn for the period.

Operating expenses reported a 21.7% rise to N32.6bn in FY18, underpinned by increases in technology costs (given the digital focus of the bank) and personnel expenses driven by branch and business expansion. That said, the outpaced growth of the bank's income saw a decline in the cost to income ratio to 79.7% in FY18 (FY17: 83.8%). Accordingly, Wema reported pre-tax profit of N4.8bn in FY18, which represented a 59.5% growth over FY17 position, which led to an improved ROaE and ROaA of 6.6% and 0.8% in FY18 from 4.6% and 0.6% in prior year respectively.

Table 6: Budget vs. interim results	Actual FY18 N'bn	Budget FY19 N'bn	Actual 1H FY19 N'bn	% of budget* FY19
Income statement				
Net interest income	27.0	27.8	11.9	85.6
Other income	13.9	12.0	7.9	131.7
Total income	**40.9**	**39.8**	**19.8**	**99.5**
Impairment charge	(3.5)	-	(0.8)	-
OPEX	(32.6)	(33.8)	(16.4)	97.0
NPBT	**4.8**	**6.0**	**2.6**	**86.7**
Balance sheet				
Customers deposits	369.2	500.1	446.1	89.2
Net advances	252.2	301.3	281.0	93.3
Total assets	484.2	632.7	626.0	98.9
Tier 1 capital	50.9	54.9	52.0	94.7

*Annualised Source: Wema

Management has forecast 25% growth at the pre-tax profit level, which will be highly driven by reduction in impairment charges. Operating income is expected to remain stable as the bank pursues loan recovery with slight growth in risk assets. However, for the six months period ending 30 June 2019, the bank delivered a pre-tax profit of N2.6bn, translating to 86.7% of the FY19 budget on annualised basis, and management expects stronger performance in the remaining part of the year (based on its strategic initiatives) to offset the negative variance recorded in profit in the first half 1H FY19.

Other considerations (Sponsor)

Liquidity positioning
The bank's liquidity ratio remained above the statutory minimum (30%), albeit with a thin buffer relative to statutory requirement, ranging between 30.9% and 38.1% throughout FY18 and close the year at 34.6%. Furthermore, a matching of Wema's asset and liability maturities at balance sheet date shows a negative contractual liquidity gap of N206.4bn (2.7 times capital) in the 'less than three months' maturity bucket. In this regard, cognisiance has been taken of the behavioural trend in the Nigerian banking space, with a significant portion of deposits usually rolled over at maturity.

Table 7: Net liquidity gap profile (N'bn)	<3 months	3-6 months	6-12 months	>1 year
Assets	168.0	31.2	66.1	123.1
Liabilities	(374.4)	(6.5)	(2.2)	(53.5)
Net liquidity gap	**(206.4)**	**24.7**	**63.9**	**69.6**
Cumulative liquidity	**(206.4)**	**(181.7)**	**(117.8)**	**(48.2)**

Source: Wema AFS

Capital adequacy
Wema's shareholders' funds grew 2.6% to N50.9bn at FY18 (underpinned by internal capital generation, equating to 2x the statutory minimum capital required for the bank's license category). While Tier 1 risk weighted CAR rose marginally to 13.5% from 12.3% previously, an additional N17.7bn raised in Tier 2 capital during the year accelerated total capital by 35.1% to N75.6bn at FY18 and translated to an

increase in risk weighted CAR to 18.0% (FY17:14.3%).

Borrowings

While the bank secured additional foreign credit facilities during FY18, total outstanding borrowings (excluding qualifying Tier 2 capital) declined 37.3% to N20.8bn as Commercial Papers which constituted bulk of the borrowing book at FY17 have been fully settled accordingly. The breakdown of liability funding at the balance sheet date is shown in Table 5. The bank's borrowings comprise various credit facilities secured from financial institutions, including intervention funds granted by Nigerian government-owned financial institutions (Bank of Industry and CBN) under its agriculture, small and medium scale sector, for on-lending to qualified customers.

Table 8: Borrowings	FY17 N'm	FY18 N'm
Qualifying Tier 2 capital	**6,328.2**	**24,676.3**
Wema SPV	6,328.2	24,676.3
Other borrowings*	**33,131.3**	**20,772.3**
Commercial Paper	15,557.9	-
National Housing Fund	104.0	93.6
CBN MSMEDF	108.0	1,000.1
Due to BOI	3,672.6	2,776.5
CBN Agricultural loan	992.9	825.2
Osun Bailout Fund	9,549.6	-
Shelter Afrique	3,146.3	2,938.3
AFDB	-	5,639.4
ICD	-	7,493.8
AGSMEIS	-	5.4
Total	**39,459.5**	**45,448.6**

*Excluding Qualifying Tier 2 capital Source: Wema AFS

Rating considerations

Meaning of the Rating of the Series 2 Bonds

The ratings accorded to the Series 1 and Series 2 Bonds are *final* national scale ratings. GCR has reviewed the final transaction documentation.

The *final* ratings accorded to the Series 1 and series 2 Bonds relate to ultimate payment of interest and principal (as opposed to timely, akin to an expected loss rating, which is a function of probability of default and loss severity).

Should the rating of the Sponsor change, the ratings of the Series 1 and Series 2 Bonds may also change, but not necessarily in the same quantum.

The suffix code identifies to which country the rating relates; 'NG' means Federal Republic of Nigeria. A rating outlook indicates the likely direction of a rating change over the medium term, typically a one or two year period. The ratings of the Series 1 and Series 2 Bonds will be monitored, and thereafter GCR will perform regular surveillance on the transaction. Surveillance reports will be made available to subscribers to GCR's information services.

Rating Criteria application

The methodology used here is the "Criteria for Rating Financial Institutions", updated May 2019 and the "Global Structurally Enhanced Corporate Bonds Rating Criteria, updated November 2018"; these documents (and any amendments made from time to time) are available on GCR's website at *globalratings.com.ng.*

Information provided

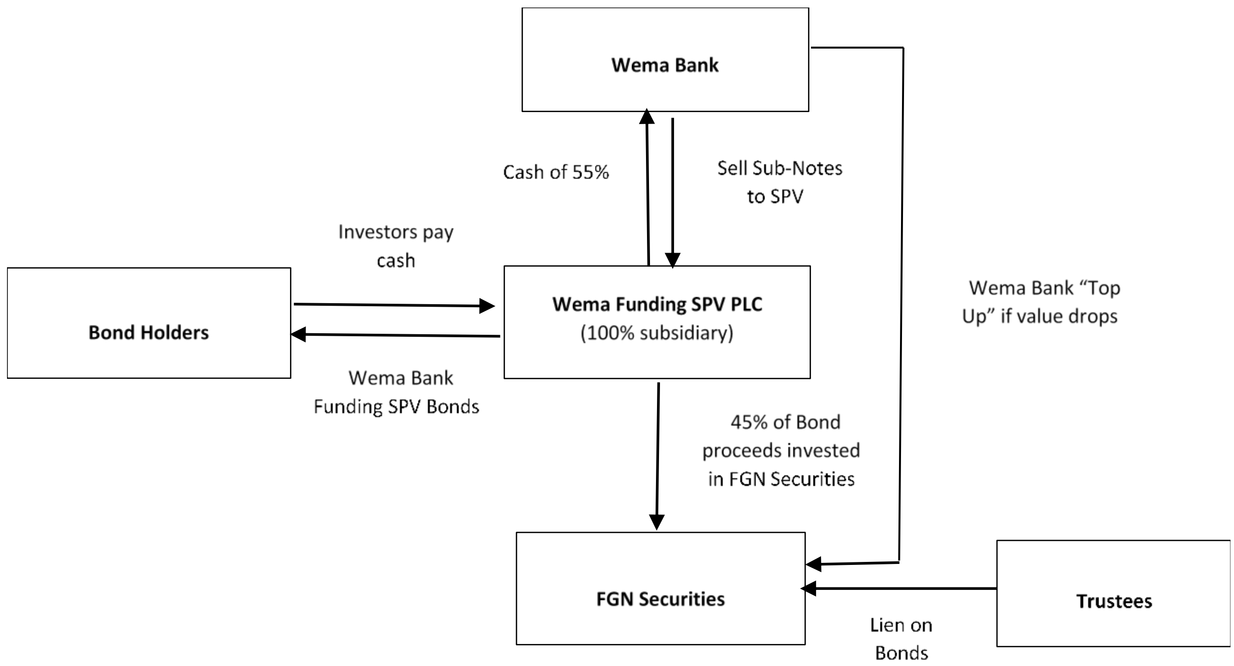
Table 9 lists all relevant information required/ provided.

Table 9: Wema Funding SPV PLC's DIP (Series 1 and Series 2 Bonds) - general transaction documents	
Description of documents	**Data provided**
2018 audited financial statements of the Sponsor	Yes
2018 audited financial statements of the Issuer	Yes
Sponsor's 1H FY19 unaudited results	Yes
Programme Trust Deed for the DIP	Yes
Programme Shelf Prospectus for the DIP	Yes
Master Bonds Purchase Agreement	Yes
Pricing Supplements (Series 1 and Series 2 Bonds)	Yes
Bonds Trust Deeds (Series 1 and series 2)	Yes
Issuer's Certificate of Incorporation	Yes
Vending Agreement (Issuer & Sponsor)	Yes
Vending Agreement (Issuer & Purchaser)	Yes
Deed of Undertaking	Yes
Final/signed transaction documents	Yes

Disclaimer

Note that GCR is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws nor can it be regarded as an audit. Moreover, GCR is not a party to the transaction documents. Users of our credit rating should familiarise themselves with the transaction (including the legal opinion), and should form their own views in this respect. They should not rely on GCR for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

Figure 1: Wema Funding SPV PLC Bond – Transaction structure



Source: Wema

Wema Bank Plc

(Naira in millions except as noted)

Year end: 31 December						
Statement of Comprehensive Income Analysis	**2014**	**2015**	**2016**	**2017**	**2018**	**1H 2019**
Interest income	35,453	37,128	44,560	53,073	57,635	32,893
Interest expense	(16,901)	(19,408)	(25,910)	(33,306)	(30,643)	(20,996)
Net interest income	**18,552**	**17,720**	**18,650**	**19,767**	**26,992**	**11,897**
Other income	6,734	8,664	9,801	12,196	13,895	7,943
Total operating income	**25,286**	**26,383**	**28,451**	**31,963**	**40,887**	**19,839**
Impairment charge	(88)	78	(412)	(2,180)	(3,511)	(824)
Operating expenditure	(22,103)	(23,470)	(24,793)	(26,774)	(32,579)	(16,408)
Share of profit in associate	-	-	-	-	-	-
Net profit before tax	**3,094**	**2,991**	**3,245**	**3,009**	**4,798**	**2,608**
Tax	(721)	(718)	(685)	(754)	(1,471)	(360)
Net profit after tax	**2,372**	**2,273**	**2,561**	**2,255**	**3,326**	**2,248**
Other comprehensive income	1	22	(154)	140	0	55
Total comprehensive income	**2,373**	**2,295**	**2,407**	**2,396**	**3,327**	**2,303**
Statement of Financial Position Analysis						
Subscribed capital	68,157	68,157	68,157	27,985	27,985	27,985
Reserves (incl. net income for the year)	(24,389)	(22,093)	(19,687)	21,630	22,904	24,050
Hybrid capital (incl. eligible portion of subordinated term debt)	50,062	25,000	12,732	6,328	24,676	24,096
Total capital and reserves	**93,830**	**71,064**	**61,202**	**55,943**	**75,565**	**76,132**
Bank borrowings (incl. deposits, placements & REPOs)	3,243	-	37,434	26,575	-	50,500
Deposits	217,606	265,494	198,091	180,428	316,291	375,195
Other borrowings	-	-	-	-	20,772	26,679
Short-term funding (< 1 year)	**220,850**	**265,494**	**235,525**	**207,003**	**337,064**	**452,373**
Bank borrowings (incl. deposits, placements & REPOs)	-	-	-	-	-	-
Deposits	41,350	19,484	85,212	74,033	52,908	70,896
Other borrowings	8,320	27,290	19,362	33,131	-	-
Long-term funding (> 1 year)	**49,670**	**46,774**	**104,574**	**107,164**	**52,908**	**70,896**
Payables/Deferred liabilities	15,742	12,766	14,501	12,558	18,681	26,563
Other liabilities	**15,742**	**12,766**	**14,501**	**12,558**	**18,681**	**26,563**
Total capital and liabilities	**380,092**	**396,098**	**415,802**	**382,669**	**484,219**	**625,964**
Balances with central bank	70,056	53,386	48,162	26,496	58,054	84,742
Property, Plant and Equipment	14,043	15,968	16,614	17,079	18,603	19,786
Receivables/Deferred assets (incl. zero rate loans)	52,436	43,709	42,197	61,799	46,177	108,226
Non-earnings assets	**136,535**	**113,062**	**106,973**	**105,373**	**122,834**	**212,753**
Short-term deposits & cash	12,577	9,535	12,951	13,268	17,115	17,997
Loans & advances (net of provisions)	149,294	185,597	227,009	215,840	252,190	280,965
Bank placements	37,106	46,404	6,431	3,675	20,422	34,383
Marketable/Trading securities	3,723	12,319	3,396	19,569	12,589	37,060
Other investment securities	37,490	28,789	58,680	24,898	59,029	42,766
Investment in properties	402	394	362	46	40	40
Investment in subsidiaries/associates	2,965	-	-	-	-	-
Total earning assets	**243,556**	**283,036**	**308,828**	**277,296**	**361,385**	**413,210**
Total assets†	**380,092**	**396,098**	**415,802**	**382,669**	**484,219**	**625,964**
Contingencies	**21,112**	**19,057**	**37,526**	**48,301**	**62,920**	**75,173**
Ratio Analysis (%)						
Capitalisation						
Internal capital generation	5.4	5.0	5.0	4.8	6.5	4.4
Total capital / Net advances + net equity invest. + guarantees	45.1	30.4	18.9	19.4	20.2	19.1
Total capital / Total assets	24.7	17.9	14.7	14.6	15.6	12.2
Liquidity ‡						
Net advances / Deposits + other short-term funding	56.9	65.1	70.8	76.8	64.7	53.7
Net advances / Total funding (excl. equity portion)	55.2	59.4	66.7	68.7	64.7	53.7
Liquid & trading assets / Total assets	14.1	17.2	5.5	9.5	10.4	14.3
Liquid & trading assets / Total short-term funding	24.2	25.7	9.7	17.6	14.9	19.8
Liquid & trading assets / Total funding (excl. equity portion)	19.7	21.9	6.7	11.6	12.9	17.1
Asset quality						
Impaired loans / Gross advances	2.2	2.7	5.1	4.9	5.0	3.6
Total loan loss reserves / Gross advances	2.0	1.3	1.3	1.4	1.1	1.0
Bad debt charge (income statement) / Gross advances (avg.)	0.1	(0.0)	0.2	1.0	1.5	0.3
Bad debt charge (income statement) / Total operating income	0.3	(0.3)	1.4	6.8	8.6	4.2
Profitability						
Net income / Total capital (avg.)	2.6	2.8	3.6	4.1	5.1	3.0
Net income / Total assets (avg.)	0.7	0.6	0.6	0.6	0.8	0.4
Net interest margin	11.5	8.1	7.7	8.2	10.0	7.2
Interest income + com. fees / Earning assets + guarantees (a/avg.)	8.1	5.8	5.7	6.0	7.2	2.5
Non-interest income / Total operating income	26.6	32.8	34.4	38.2	34.0	40.0
Non-interest income / Total operating expenses (or burden ratio)	30.5	36.9	39.5	45.6	42.6	48.4
Cost ratio	87.4	89.0	87.1	83.8	79.7	82.7
OEaA (or overhead ratio)	6.2	6.0	6.1	6.7	7.5	3.0
ROaE	5.6	5.1	5.4	4.6	6.6	8.7
ROaA	0.7	0.6	0.6	0.6	0.8	0.8
Nominal growth indicators						
Total assets	15.1	4.2	5.0	(8.0)	26.5	29.3
Net advances	51.4	24.3	22.3	(4.9)	16.8	11.4
Shareholders funds	5.7	5.2	5.2	2.4	2.6	2.3
Total capital and reserves	2.6	(24.3)	(13.9)	(8.6)	35.1	0.7
Deposits (wholesale)	18.9	10.0	(0.6)	(10.2)	45.1	20.8
Total funding (excl. equity portion)	18.3	15.4	8.9	(7.6)	24.1	34.2
Net income	39.6	(3.3)	4.8	(0.5)	38.9	38.5

† Excludes balances held in respect of letter of credit.

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

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SALIENT FEATURES OF ACCORDED RATINGS

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; 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 as indicated by the applicable credit rating document.

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

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 to accord the credit ratings included the Issuer's 31 December 2018 audited annual financial statements, Sponsor's 31 December 2018 audited annual financial statements (plus four years of comparative numbers), Sponsor's 1H FY19 unaudited results, the Programme Trust Deed for the Debt Issuance Programme, the Programme Shelf Prospectus, the Series 1 and Series 2 Trust Deeds, the Series 1 and series 2 Pricing Supplements, the Master Bonds Purchase Agreement, Deed of Undertaking, Vending Agreements between the Issuer and the Sponsor, Vending Agreements between the Issuer and the Purchaser, as well as the Trustees performance reports, up to 31 July 2019.