Wema Funding SPV Plc

Series II ₦17.7 billion 7-year Fixed Rate Senior Unsecured Bond

Final Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Wema Funding SPV Plc

Series II ₦17.7 billion 7-year Fixed Rate Bond under the ₦50 billion Debt Issuance Programme

Rating Assigned:

Bbb

Outlook: Negative
Issue Date: 31 August 2020
Expiry Date: 10 Sept 2021
The rating is valid throughout the life of the instrument but will be subject to periodic monitoring and review.

Previous Rating: **Bbb**

Bond Tenor: 7 years

Industry: Banking

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RATING RATIONALE

Agusto & Co. affirms the **'Bbb'** rating assigned to the Series II ₦17.7 billion 7-year fixed rate bond ('the Issue' or 'the Bond') of Wema Funding SPV Plc ("the Issuer" or "the SPV"). The Issue is part of the ₦50 billion debt issuance programme ("the programme") registered by the SPV in 2016. The Bond is backed by Wema Bank Plc ("Wema Bank" or "the Sponsor") which guarantees all obligations of the Issuer under the programme. The rating assigned to the Series II bond is a notch higher than the Sponsor's stand-alone rating of '**Bbb-**' by Agusto & Co, given the bond structure that comprises a 13.53% 7-year Federal Government of Nigeria (FGN) bond investment of ₦9.5 billion in the custody of the Joint Trustee. This provides a recovery prospect in the unlikely event of a default.

The Sponsor's rating reflects its good liability generating capacity evidenced by a growing customer deposit base and the successful issuances of two bonds in the last four years. However, the rating is constrained by obligor concentration risk that threatens asset quality, high volume of restricted funds under the cash reserve requirement (CRR) policy and rising operational costs. The COVID-19 pandemic which has accentuated credit risks in the lending landscape is also a rating concern.

In the first half of 2020, Wema Bank's customer deposits (excluding interbank takings) grew by 17.8% to ₦680.3 billion as at 30 June 2020, with the highest level of growth recorded in low-cost deposits. Thus, the Sponsor's weighted average cost of funds moderated by 55 basis points to 6.42%, supported by a better deposit mix and a lower interest rate environment. The Bank's growing deposit base and bond issuances strengthened its balance sheet to ₦923.7 billion (assets and contingents) as at 30 June 2020.

Wema Bank's loan portfolio stood at ₦350 billion as at 30 June 2020 and remained the dominant asset class. In H1, 2020, the Sponsor's impaired loan ratio moderated to 5.6% from 7.4% as at FYE2019 on the back of repayments and a 16.1% growth in gross loans. Nonetheless, Wema Bank's NPL ratio remained above the regulatory threshold of 5%. Furthermore, obligor concentration risk in the loan book persisted as two of the Sponsor's largest exposures exceeded the regulatory single obligor limit of 20%. While we do not envisage a significant increase in impaired loans in the short term on account of the regulatory forbearance, which propelled the restructuring of approximately 63% of the loan book as at 30 June 2020, we believe that the Sponsor's asset quality remains vulnerable to the weak macroeconomic climate.

The significant growth in risk assets pressured Wema Bank's Basel II capital adequacy ratio (CAR), which declined to 11% as at 30 June 2020 from 13.6% recorded as at FYE 2019. While the CAR is slightly above the regulatory minimum of 10% for a national commercial bank, we believe that Wema Bank requires additional capital for future growth and sustained profits as a CAR of 11% limits its ability to grow the loan book in the short term.

In H1, 2020, Wema Bank's profits declined to ₦1.7 billion (H1, 2019: ₦2.7 billion) due to lower asset yields, aggressive CRR debits and rising operating costs. Thus, the Bank's annualised pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) both weakened to 0.4% (HY2019: 0.9%) and 6.4% (HY2019: 10.5%) respectively. We consider the Sponsor's profitability to be weak. The Bank intends to sell off some non-core assets to boost profits before FYE2020; nonetheless, we believe that earnings will remain subdued in the near term. The Bank's inability to comply with the minimum LDR of 65% stipulated by CBN, further worsens the situation. Hence, the Sponsor's liquidity ratio of 22% as at 30 June 2020 was below the regulatory minimum of 30% for a commercial bank.

In the short term, we expect the Sponsor's asset quality to be preserved by the regulatory forbearance and its good liability generating capacity to remain. However, the Bank's performance will be adversely impacted by higher regulatory costs and the lingering pandemic which heightens business risks. Furthermore, limited growth in the loan book due to low capitalisation ratios (which may be further weakened by another devaluation) will moderate profitability. The Bank projects a 35.4% decline in pre-tax profits in 2020. Based on the aforementioned, we attach a '***negative'*** outlook to the rating of the Issue and will continue to monitor the performance of the Sponsor to reassess the impact of the pandemic.

Strengths

- Strong affinity in the South West region of Nigeria
- An expanding digital footprint
- An experienced management team

Weaknesses

- Above industry average cost-to-income ratio
- Obligor concentration in the loan book
- Low liquidity ratio caused by CRR debits

Challenges

- Aggressive CRR debits by the apex bank
- Raising capital in a weak macroeconomic environment
- The lingering impact of the COVID-19 pandemic on the performance of commercial, SME and retail businesses

Table 1: Background Information

	31 December 2018	31 December 2019	30 June 2020**
Total Assets & Contingents	₦540.8 billion	₦789.6 billion	₦923.7 billion
Local Currency Deposits (excluding interbank takings)	₦353.5 billion	₦559.5 billion	₦662.2 billion
Net Earnings	₦37.4 billion	₦44.1 billion	₦19.3 billion
Pre-tax Return on Average Assets & Contingents (ROA)	1.0%	1.0%	0.4%*
Pre-tax Return on Average Equity (ROE)	9.7%	13.0%	6.4%*

*Annualised.
**Unaudited

THE ISSUE

The Issue (or 'the Bond') is a Series II ₦17.7 billion 7-year fixed-rate note due in 2025. The Issue represents the second tranche of the ₦50 billion Debt Issuance Programme registered with the Securities and Exchange Commission (SEC) in 2016. The Series II Bonds are direct, unsecured and subordinated obligations of the Issuer and ranks *parri passu* without any preference with all subordinated indebtedness of Wema Funding SPV Plc. The Bond, which forms part of the Sponsor's Tier II capital is callable after five years and priced at 16.5% fixed rate with coupon payable semi-annually and principal repayable at maturity or when called.

Use of Proceeds

The net proceeds of the Series II bond which amounted to ₦17.3 billion were used to purchase a 7-year fixed-rate subordinated unsecured bond issued by Wema Bank Plc and a 7-year fixed-rate bond issued by the Federal Government of Nigeria (FGN) as shown in the table below. Wema Bank deployed proceeds of the bond to fund the loan portfolio and invest in treasury bonds.

Table 2: Use of Bond Proceeds and Structure of the Bond

	Pricing	Percentage	Amount
A 7-year fixed-rate subordinated unsecured bond issued by Wema Bank Plc	19% per annum	55%	₦9.5 billion
A 7-year fixed-rate bond issued by the Federal Government of Nigeria (FGN)	13.53% per annum	45%	₦7.8 billion

Source of Repayment

Repayments comprising coupon (in arrears) and principal relating to the Issue are redeemed from the Sponsor's operating cash flows. Bondholders are repaid from a Debt Service Payment Account (DSPA) which is funded by coupon payments from the Treasury bond and Wema Bank Plc's subordinated bond. Wema Bank Plc through an undertaking also guarantees all obligations of the Issuer under the programme, including any shortfall in the DSPA. The sum payable at maturity or on the call date (final redemption amount) is the outstanding principal in respect of the Issue, together with any applicable accrued interest at the time of the redemption.

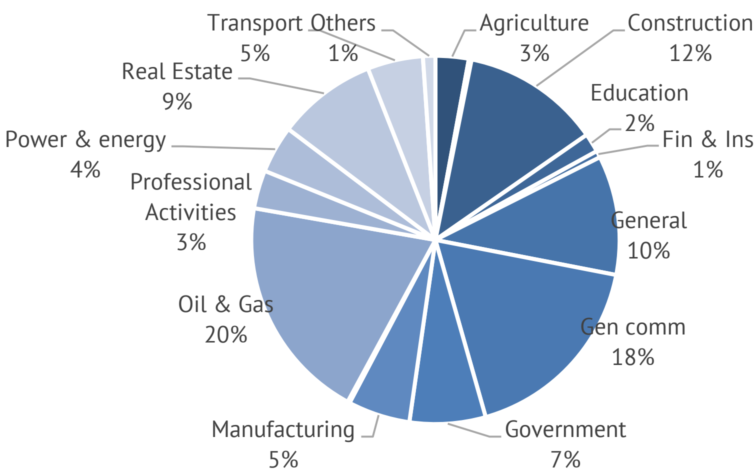
Wema Bank Plc has a **"Bbb-"** rating by Agusto & Co. Limited which expires on 30 June 2021 and is subject to annual reviews. The rating assigned to the Sponsor is reflective of an institution with a satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due.

AN OVERVIEW OF SPONSOR'S FINANCIAL CONDITION

Growing asset base and satisfactory asset quality

Wema Bank Plc's asset base has grown at a five-year cumulative annual growth rate (CAGR) of 17.9% since 2015 when the Bank obtained a national banking license with authorisation to offer services in all states of the federation. Driven by a significant growth in customer deposits, the Sponsor's total assets and contingents stood at ₦923.7 billion as at 30 June 2020. Approximately 28% of these assets was held as restricted funds with the Central Bank of Nigeria in line with cash reserve requirements as at 30 June 2020. Wema Bank's loan portfolio of ₦350 billion - its dominant asset class accounted for 37% of total assets and contingents as at H1 2020 and comprised credits to retail and small and medium enterprises (SMEs), in addition to commercial and corporates obligors operating in key economic sectors. The 16.1% loan growth recorded in H1, 2020 was predominantly in key sectors such as general commerce, retail and oil and gas.

Figure 1: Loan Book as at 30 June 2020



Wema Bank's largest sectorial exposures as at the same date were to the oil and gas (20%), general commerce (18%) and construction (12%) sectors, which Agusto & Co. considers vulnerable given the lingering pandemic. Two of the Bank's largest exposures breached the single obligor limited as at 30 June 2020, as each accounted for well over 20% of the Sponsor's shareholders' funds unimpaired by losses. We view this as a negative rating factor. Agusto and Co. is particularly concerned by the single largest exposure (in the oil and gas upstream sector) which was recently taken over by the Asset Management Company of Nigeria (AMCON) - the appointed receiver/manager. Our concerns are also driven by the foreign currency nature of the exposure and low crude oil prices caused by the pandemic. The exposure has been restructured subsequently for a longer timeline and a moratorium period was granted while efforts are ongoing to reduce the Sponsor's exposure to the obligor in the near term.

Figure 2: Loan book by Stages (FYE2019 and 30 June 2020)

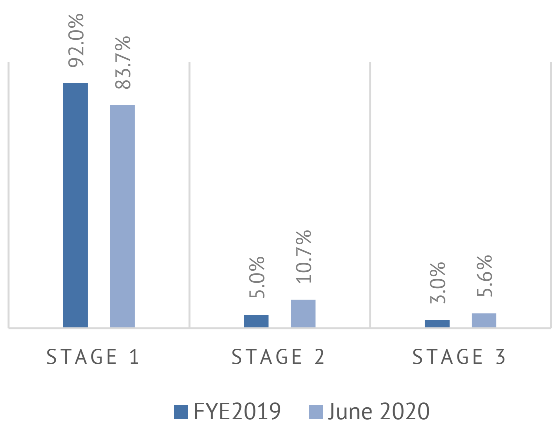
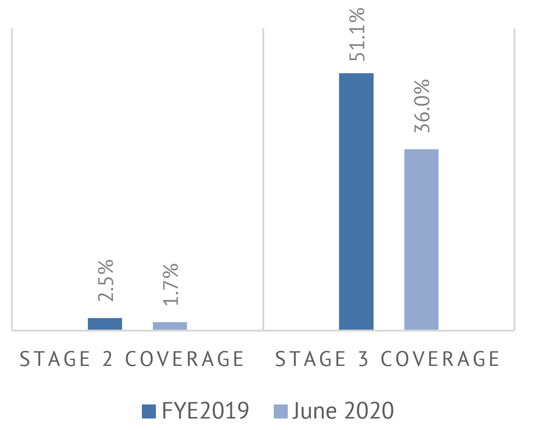


Figure 3: Coverage Ratio by Stages (FYE2019 and 30 June 2020)



As at 30 June 2020, Wema Bank Plc had restructured 62.9% of its loans in line with the CBN's forbearance policy due to the impact of the COVID-19 pandemic on businesses and households. Thus, the architecture of the loan book in terms of IFRS 9 stages changed. Stage 1 loans accounted for a lower 83.7% of total loans as at HY2020 (FYE2019: 92%), while stage 2 loans as a percentage of total loans rose to 10.7% from 5% as at FYE 2019. Stage 3 loans to gross loans also increased to 5.6% as at 30 June 2020. As at the same date, Wema Bank's stage 2 coverage ratio stood at 1.7% (FYE2019: 2.5%) while stage 3 coverage ratio was low at 36% (FYE2019: 51.1%). The deterioration in Wema Bank's asset quality reflects the weak operating environment. Even though the CBN permits banks to restructure loans that have been affected by the pandemic, we envisage more strain on asset quality in the medium term, particularly if the pandemic lingers.

The Sponsor's non-performing loans (according to the prudential guidelines) moderated by 12.3% to ₦19.5 billion as at 30 June, 2020 largely on account of repayments. Thus, the impaired loan ratio improved to 5.6% from 7.4% as at FYE2019, also supported by a 16.1% growth in the loan book without which Wema bank's NPL ratio would have been 6.6%. At this level, the Bank's NPL ratio was higher than the regulatory minimum of 5%. Total loss provisions covered non-performing loans by 104% when we include regulatory risk reserves of ₦7.9 billion as at 30 June 2020. In the short term, we expect an increase in the Sponsor's provisions for its largest exposure in the oil and gas sector given the recent takeover of the company by AMCON.

We believe the Sponsor's asset quality requires improvement. Although the Bank grew its loan portfolio significantly in H1, 2020 to comply with the CBN's minimum loans to deposits ratio (LDR) of 65% and strengthen profitability, its LDR stood at 49.7% as at 30 June 2020, considerably lower than the 65% minimum. The Sponsor plans to further grow the loan book in the short term, but is constrained by a low capital base reflected in its capital adequacy ratio of 11% that is at the brink of the regulatory threshold.

In response to the weak macroeconomic climate and a capital base that limits the Bank's ability to grow the loan book, Wema Bank is focused on short term loan facilities that can be used in multiple lending cycles to sustain profitability.

Subdued profitability- a twin impact of a weak macroeconomic climate and low capitalisation ratios

In the first half of 2020, the Sponsor's profitability was pressured by lower asset yields and higher operating costs driven by inflationary pressures. The Bank's interest income of ₦29.7 billion was 8% lower than its interest income in the corresponding period of 2019 and the yield on the loan book declined by 580 basis points to an annualised 14.7% in June 2020. Nonetheless, Wema Bank's interest expense also moderated by a higher 12% compared to the reduction in interest income, due to the low interest rate environment. Thus, Wema Bank's Net Interest Spread (NIS) strengthened to 39.8% (June 2019: 37.1%) but was notably lower than its industry peer, Sterling Bank Plc (57.4%) in the same period. Given capital restraints, Wema Bank's appetite for short term loans that can be replicated in multiple lending cycles has increased and we believe that this should strengthen income, going forward. However, the Bank's funding structure needs to be further improved to drive down its funding costs.

Wema Bank's non-interest income grew by a marginal 4.4% to ₦8.3 billion in HY2020 compared to the corresponding period in 2019. Although a considerable 27.5% growth in treasury bills trading activities was recorded year-on-year, other non-interest income generating lines contracted. We believe that the decline in most non-interest income lines, particularly electronic banking income was caused by the COVID-19 induced lockdown that moderated business activities and lower consumer purchasing power elicited by job losses. We expect a rally in electronic banking income in the second half of the 2020FY on the back of increased customer migrations to electronic banking platforms.

High Cost to Income Ratio compared to the Industry's Average

The Sponsor's operating expenses (OPEX) continued in an upward trajectory in 2020. We recognised cost savings from efficiencies occasioned by the pandemic as reflected in lower expenses on cost lines such as business expenses and diesel expenses. However, higher regulatory (AMCON and NDIC) costs and donations (largely related to the COVID-19 pandemic) masked the impact of these savings. Thus, Wema Bank's OPEX rose by 7.3% to ₦17.6 billion and translated to a cost-to-income ratio (CIR) of 91.1%, higher than Sterling Bank's 85.1% and the Industry's estimated CIR of 70.7% for 2020. While the Sponsor's OPEX as a percentage of average assets and contingents of 4.1% was lower than Sterling Bank's 4.6% in the same period, its higher CIR is more reflective of lower earnings compared to its peer. We expect the Sponsor's OPEX to remain elevated for the rest of the 2020 financial year on the back of inflationary pressures and a probable devaluation of the naira.

Overall, Wema Bank's pre-tax profits amounted to ₦1.7 billion in the period ended 30 June 2020 (H1, 2019: ₦2.7 billion) and resulted in an annualised pre-tax return on average assets (ROA) of 0.4% (H1, 2019: 0.9%) and an annualised pre-tax return on average equity (ROE) of 6.4% (H1, 2019: 10.5%). This was lower than Sterling Bank's ROA and ROE of 0.8% and 9.1% respectively in the same period. In our opinion, the Sponsor's profitability is weak. In the short term, we believe Wema Bank's ability to generate sufficient profits will be hinged on a successful capital raise to a large extent and a moderated impaired loan portfolio, improved non-interest income and cost containment to lesser extents. The Bank intends to sell some redundant assets in the short term which is expected to generate an estimated ₦2 billion in profits by the end of the 2020 financial year, if concluded. Nonetheless, we believe that the Sponsor has adequate capacity to meet its obligations to bondholders in the short term. Wema Bank Plc projects a 35.4% drop in pre-tax profits to ₦5 billion, according to its revised 2020 budget. The expected decline in profits will stem from lower asset yields, subdued liquidity and reduced fee income due to the downward revision of bank tariffs. We consider this projection to be optimistic given that only 34.6% of this target was achieved in the first half of the 2020FY.

Weakening Capitalisation Ratios

As at 30 June 2020, Wema Bank's core (tier 1) capital (excluding capitalised retained earnings for the period) stood at ₦53.9 billion, at par with FYE2019's position. The Sponsor's tier II capital which comprised revaluation surpluses and subordinated medium-term notes (the Series I and II bonds) totalled ₦14.5 billion as at the same date. Wema Bank's capital adequacy ratio (CAR) computed by Basel II standards, declined by 260 basis points to 11% on account of the 17.1% rise in risk weighted assets. At this level, the Bank's CAR was slightly higher than the regulatory minimum of 10% for commercial banks operating with national authorisation.

We consider the Sponsor's capitalisation ratios to be just adequate and a rating concern. Wema Bank is in dire need of additional capital buffer to cushion macroeconomic headwinds that threatens asset quality. The Bank has commenced discussions with existing shareholders on a tier I capital raise, but, we do not expect this to be concluded in the short term given current macroeconomic headwinds and negative investor sentiments. In the meantime, the Sponsor intends to strengthen its capital base by capitalising profits and selling redundant non-core assets.

Good liability generation capacity; Liquidity suppressed by aggressive CRR debits

The Sponsor's good liability generating capacity is upheld by its 158 branches, over 3,000 agency banking partners across the country and digital touchpoints including the ALAT digital banking platform that enables retail and corporate customers complete banking transactions online without the need to visit a branch. Wema Bank's brand acceptance that stems from its position as Nigeria's longest surviving indigenous bank also supports liability generation. As at 30 June 2020, Wema Bank's customer deposits (excluding interbank takings) stood at ₦680.3 billion, up by 17.8% over FYE2019's position. The Bank's deposits are largely in the local currency which accounted for 97.3% of total deposits as at the same date. A further assessment of the Bank's deposits mix showed a dominance of tenured deposits that accounted for 60.5% (FYE2019: 62.9%) of LCY deposits while 39.5% (FYE2019: 37.1%) was in low-cost current and savings accounts. In H1, 2020, significant levels of growths were observed across all deposit types which we view positively. However, the Sponsor's deposit mix that remains largely skewed to tenured funds continues to pressure its weighted average cost of funding (WACF) which stood at 6.42% as at 30 June 2020, slightly better than 6.97% as at 31 December 2019.

Although Wema Bank's liability generation capacity has translated to considerable growth in its customer deposits over the years, the Sponsor's liquidity ratio has been suppressed, particularly in H1, 2020 on account of the Central Bank of Nigeria's aggressive cash reserves debits. Wema Bank's inability to comply with the minimum LDR of 65% further exacerbates the situation as this results in additional CRR debits. Thus, as at 30 June 2020, the Bank's liquidity ratio of 22% was lower than the minimum ratio of 30% prescribed by the CBN. This is a rating concern. Nonetheless, we draw some comfort from the Sponsor's ability to access short term funding from the interbank market if the need arises.

We consider Wema Bank's refinancing capacity to be acceptable; however, its liquidity profile requires improvement.

OUTLOOK

Wema Bank's performance in the first half of 2020 was characterised by a considerable level of growth in its balance sheet, supported by a larger customer deposit base, which reflects a good domestic brand. The Sponsor's impaired loans ratio improved in the first half of 2020 on account of repayments and the CBN's forbearance which allows banks restructure COVID-19 affected exposures. Nonetheless, earnings from the Bank's core lending activities were subdued due to lower asset yields elicited by the pandemic. Wema Bank's capital base was also pressured by the growth in risk assets and the naira devaluation, to a lesser extent.

According to the Sponsor's "COVID-19 adjusted" budget for the 2020 financial year, pre-tax profit is expected to decline by 35.4% to ₦5 billion. The Bank foresees a possible moderation in dividends for the year as it intends to retain more earnings to support capital. In our view, the profit projection may be optimistic given that only 34.6% of this target was achieved in the first half of 2020. Nonetheless, we expect a stronger performance in the second half of the year *vis-a-vis* the first half of the year, as the economy gradually opens up. We view positively, the Bank's balance sheet projections that were achieved to a large extent in H1, 2020, such as a 15.5% growth in total assets (compared to 5% growth expected by FYE2020) and customer deposits, which grew by 17.8% in H1, 2020 compared to 4% growth projected for the year.

Given persistent weaknesses in the macroeconomic and operating climates, we expect the Sponsor's performance in the short term to be adversely impacted by a weak capital base that constrains its ability to create risk assets and subsequently weakens profitability levels. The aggressive and discretionary CRR debits by the CBN, in addition to the Bank's inability to comply with the minimum LDR policy, will also strain the Sponsor's liquidity and profitability given that these funds are unavailable for daily operations. While Wema Bank intends to sell off some non-core assets to boost profits and improve CAR in the near term, we recognise that this is unsustainable. Thus, additional capital is required in the short to medium term to support the Bank's growth ambitions. This will be somewhat challenging given the fragile state of the economy and negative investor sentiments.

Based on the highlighted concerns, Agusto & Co. hereby attaches a "***negative***" outlook to the rating of Wema Funding SPV Plc's ₦17.7 billion 7-year Fixed Rate Bond. We will continue to monitor the Sponsor's performance in the short term to reassess the impact of the pandemic on our outlook.

For more comprehensive information, kindly refer to the credit rating report of Wema Bank Plc.

FINANCIAL SUMMARY

WEMA BANK PLC

	STATEMENT OF FINANCIAL POSITION AS AT	30-Jun-20		31-Dec-19		31-Dec-18	
		N'000		N'000		N'000	
	ASSETS						
1	Cash & equivalents	37,297,291	4.0%	35,285,484	4.5%	23,942,433	4.4%
2	Government securities	78,265,700	8.5%	164,818,339	20.9%	79,087,472	14.6%
3	Money market placements	82,315,251	8.9%	30,681,544	3.9%	18,180,366	3.4%
4	Quoted investments						
5	Placements with discount houses						
6	LIQUID ASSETS	197,878,242	21.4%	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	345,039,865	37.4%	297,099,270	37.6%	259,681,642	48.0%
10	Less: Cumulative loan loss provision	(12,434,374)	-1.3%	(12,128,432)	-1.5%	(9,394,109)	-1.7%
11	Direct loans & advances - net	332,605,491	36.0%	284,970,838	36.1%	250,287,533	46.3%
12	Advances under finance leases - net	4,941,504	0.5%	4,269,032	0.5%	1,902,080	0.4%
13	TOTAL LOANS & LEASES - NET	337,546,995	36.5%	289,239,870	36.6%	252,189,613	46.6%
14	INTEREST RECEIVABLE						
15	OTHER ASSETS	4,565,561	0.5%	4,879,789	0.6%	4,459,906	0.8%
16	DEFERRED LOSSES	19,195,906	2.1%	19,195,906	2.4%	20,206,217	3.7%
17	RESTRICTED FUNDS	226,529,539	24.5%	137,392,701	17.4%	58,054,204	10.7%
18	UNCONSOLIDATED SUBSIDIARIES & ASSOCIATE						
19	OTHER LONG-TERM INVESTMENTS	5,432,089	0.6%	1,340,305	0.2%	2,265,444	0.4%
20	FIXED ASSETS & INTANGIBLES	23,113,121	2.5%	22,121,666	2.8%	19,530,087	3.6%
21	**TOTAL ASSETS**	**814,261,453**	**88.2%**	**704,955,604**	**89.3%**	**477,915,742**	**88.4%**
22	TOTAL CONTINGENT ASSETS	109,458,115	11.8%	84,658,750	10.7%	62,920,282	11.6%
23	**TOTAL ASSETS & CONTINGENTS**	**923,719,568**	**100%**	**789,614,354**	**100%**	**540,836,024**	**100%**
	CAPITAL & LIABILITIES						
24	TIER 1 CAPITAL (CORE CAPITAL)	53,871,533	5.8%	53,919,261	6.8%	50,033,711	9.3%
25	TIER 2 CAPITAL	14,486,359	1.6%	15,075,547	1.9%	14,016,873	2.6%
26	Medium to Long Term Borrowings	21,409,703	2.3%	24,064,369	3.0%	21,349,319	3.9%
27	Demand deposits	167,869,966	18.2%	131,591,519	16.7%	102,165,340	18.9%
28	Savings deposits	93,763,263	10.2%	75,740,488	9.6%	62,891,853	11.6%
29	Time deposits	400,592,341	43.4%	352,155,600	44.6%	188,444,840	34.8%
30	Inter-bank takings			3,638,400	0.5%		
31	TOTAL DEPOSIT LIABILITIES - LCY	662,225,570	71.7%	563,126,007	71.3%	353,502,033	65.4%
32	Customers' foreign currency balances	18,094,649	2.0%	17,795,862	2.3%	15,812,131	2.9%
33	TOTAL DEPOSIT LIABILITIES	701,729,922	76.0%	604,986,238	76.6%	390,663,483	72.2%
34	INTEREST PAYABLE						
35	OTHER LIABILITIES	44,173,639	4.8%	30,974,558	3.9%	23,201,675	4.3%
36	**TOTAL CAPITAL & LIABILITIES**	**814,261,453**	**88.2%**	**704,955,604**	**89.3%**	**477,915,742**	**88.4%**
37	TOTAL CONTINGENT LIABILITIES	109,458,115	11.8%	84,658,750	10.7%	62,920,282	11.6%
38	**TOTAL CAPITAL, LIABILITIES & CONTINGENTS**	**923,719,568**	**100%**	**789,614,354**	**100%**	**540,836,024**	**100%**
	BREAKDOWN OF CONTINGENTS						
39	Acceptances & direct credit substitutes	27,202,083	2.9%	13,076,960	1.7%	13,511,351	2.5%
40	Guarantees, bonds etc..	82,256,032	8.9%	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	30-Jun-20 N'000		31-Dec-19 N'000		31-Dec-18 N'000	
42	Interest income	29,654,884	78.1%	69,181,727	74.1%	57,012,819	80.4%
43	Interest expense	(17,857,695)	-47.1%	(43,197,658)	-46.3%	(29,997,631)	-42.3%
44	Loan loss expense	(766,336)	-2.0%	(6,130,600)	-6.6%	(3,510,537)	-5.0%
45	NET REVENUE FROM FUNDS	11,030,853	29.1%	19,853,469	21.3%	23,504,651	33.1%
46	ALL OTHER INCOME	8,295,858	21.9%	24,208,084	25.9%	13,894,940	19.6%
47	**NET EARNINGS**	**19,326,711**	**50.9%**	**44,061,553**	**47.2%**	**37,399,591**	**52.7%**
48	Staff costs	(7,047,310)	-18.6%	(14,870,989)	-15.9%	(12,336,818)	-17.4%
49	Depreciation expense	(1,893,758)	-5.0%	(3,316,846)	-3.6%	(2,622,568)	-3.7%
50	Other operating expenses	(8,657,029)	-22.8%	(19,102,890)	-20.5%	(17,609,656)	-24.8%
51	TOTAL OPERATING EXPENSES	(17,598,097)	-46.4%	(37,290,725)	-39.9%	(32,569,042)	-45.9%
52	PROFIT (LOSS) BEFORE TAXATION	1,728,614	4.6%	6,770,828	7.3%	4,830,549	6.8%
53	TAX (EXPENSE) BENEFIT	(233,363)	-0.6%	(1,560,080)	-1.7%	(1,471,290)	-2.1%
54	**PROFIT (LOSS) AFTER TAXATION**	**1,495,251**	**3.9%**	**5,210,748**	**5.6%**	**3,359,259**	**4.7%**
55	NON-OPERATING INCOME (EXPENSE) - NET						
56	PROPOSED DIVIDEND						
57	**GROSS EARNINGS**	**37,950,742**	**100%**	**93,389,811**	**100%**	**70,907,759**	**100%**
58	AUDITORS	DELOITTE		DELOITTE		DELOITTE	
59	OPINION	CLEAN		CLEAN		CLEAN	

	KEY RATIOS	30-Jun-20	31-Dec-19	31-Dec-18
	EARNINGS			
60	Net interest margin	39.8%	37.6%	47.4%
61	Loan loss expense/Interest income	2.6%	8.9%	6.2%
62	Return on average assets (Pre - tax)	0.4%	1.0%	1.0%
63	Return on average equity (Pre - tax)	6.4%	13.0%	9.7%
64	Operating Expenses/Net earnings	91.1%	84.6%	87.1%
65	Gross earnings/Total assets & contingents	4.4%	14.0%	14.6%
	EARNINGS MIX			
66	Net revenue from funds	57.1%	45.1%	62.8%
67	All other income	42.9%	54.9%	37.2%
	LIQUIDITY			
68	Total loans & leases - net/Total lcy deposits	45.0%	43.3%	59.4%
69	Liquid assets/Total lcy deposits	29.9%	40.6%	34.3%
70	Demand deposits/Total lcy deposits	25.3%	23.4%	28.9%
71	Savings deposits/Total lcy deposits	14.2%	13.5%	17.8%
72	Time deposits/Total lcy deposits	60.5%	62.5%	53.3%
73	Inter-bank borrowings/Total lcy deposits		0.6%	
74	Interest expense - banks/Interest expense	2.1%	11.6%	3.3%
75	**NET FOREIGN CURRENCY ASSETS (LIABILITIES)**	(18,094,649)	(17,795,862)	(15,812,131)

WEMA BANK PLC

	KEY RATIOS CONT'D	**30-Jun-20**	**31-Dec-19**	**31-Dec-18**
	ASSET QUALITY			
76	Performing loans (N'000)	325,529,865	274,859,270	246,565,889
77	Non-performing loans (N'000)	19,510,000	22,240,000	13,115,753
78	Non-performing loans/Total loans - Gross	5.6%	7.4%	5.0%
79	Loan loss provision/Total loans - Gross	3.6%	4.1%	3.6%
80	Loan loss provision/Non-performing loans	63.7%	54.5%	71.6%
81	Risk-weighted assets/Total assets & contingents	44.2%	43.4%	55.2%
	CAPITAL ADEQUACY			
82	Adjusted capital/risk weighted assets	11.9%	14.2%	14.4%
83	Tier 1 capital/Adjusted capital	70%	69%	67%
84	Adjusted capital/Total loans - net	697%	592%	588%
85	Capital unimpaired by losses (N'000)	34,675,627	34,723,355	29,827,494
	STAFF INFORMATION			
86	Net earnings per staff (N'000)	33,293	37,951	36,630
87	Staff cost per employee (N'000)	12140	12809	12083
88	Staff costs/Operating expenses	40.0%	39.9%	37.9%
89	Average number of employees	1,161	1,161	1,021
90	Average staff per branch	8	8	7
	OTHER KEY INFORMATION			
91	Legal lending limit(N'000)	6,935,125	6,944,671	5,965,499
92	Number of branches	147	147	147
93	Age (in years)	76	75	74
94	Government stake in equity (Indirect)	10%	10%	10%
		Actual	**Actual**	**Actual**
	MARKET SHARE OF INDUSTRY TOTAL	2020	2019	2018
95	Lcy deposits (excluding interbank takings)	3.4%	2.9%	2.3%
96	Total assets & contingents	2.1%	1.8%	1.4%
97	Total loans & leases - net	2.1%	1.8%	2.0%
98	Net earnings	0.7%	1.6%	1.6%
99	Profit before tax	0.2%	0.7%	0.6%
100	Core capital	1.2%	1.2%	1.4%

RATING DEFINITIONS

Aaa	Bonds rated 'Aaa' are judged to offer highest safety of timely payment of interest and principal. Though the circumstances providing this degree of safety are likely to change, such changes as can be envisaged are most unlikely to affect adversely the fundamentally strong position of such issues.
Aa	Bonds rated 'Aa' are judged to offer high safety of timely payment of interest and principal. They differ in safety from 'Aaa' issues only marginally.
A	Bonds rated 'A' are judged to offer adequate safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.
Bbb	Bonds rated 'Bbb' are judged to offer sufficient safety of timely payment of interest and principal for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than for bonds in higher rated categories.
Bb	Bonds rated 'Bb' are judged to carry inadequate safety of timely payment of interest and principal; while they are less susceptible to default than other speculative grade bonds in the immediate future, the uncertainties that the issuer faces could lead to in adequate capacity to make timely interest and principal payments.
B	Bonds rated 'B' are judged to have greater susceptibility to default; while currently interest and principal payments are met, adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.
C	Bonds rated 'C' are judged to have factors present that make them vulnerable to default; timely payment of interest and principal is possible only if favourable circumstances continue.
D	Bonds rated 'D' are in default and in arrears of interest and principal payments or are expected to default on maturity. Such bonds are extremely speculative and returns from these bonds may be realised only on reorganisation or liquidation.

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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