FitchRatings

Banks
Universal Commercial Banks
Nigeria

Wema Bank PLC

Update

Key Rating Drivers

Standalone Strength Drives IDRs: Wema Bank PLC's Issuer Default Ratings (IDRs) and National Ratings are driven by its standalone creditworthiness, as expressed by its Viability Rating (VR). The VR reflects a challenging operating environment, small franchise, and easing pressure on asset quality and profitability. It also reflects Fitch Ratings' expectation of a material reduction in leverage following the rights issue planned for 3Q21.

Stable Outlook: The Stable Outlook on Wema's Long-Term IDR reflects our view that the current rating has sufficient headroom to absorb moderate shocks from sustained downside risks to the operating environment over the next 12-18 months.

Small Franchise: Market shares in loans and deposits are small at around 3% but brand recognition is improving owing to a unique digital banking offering.

High Credit Concentrations: Single-borrower concentration is exceptionally high, with the largest 20 customer exposures at 4.1x Fitch Core Capital (FCC) at end-2020. Exposure to the problematic oil and gas sector is material, representing 17% of gross loans or 165% of FCC, but exposure to the riskier upstream segment is more limited than for peers.

Pressure on Asset Quality: Wema's impaired loans (Stage 3 loans under IFRS 9) ratio increased moderately to 5.2% at end-2020 from 3% at end-2019 as a result of the pandemic but declined to 3.8% at end-1Q21 owing to customer repayments. Fitch considers that loan quality remains under pressure as a high percentage of gross loans (46% on a cumulative basis at end-1Q21) have been restructured since the onset of the pandemic.

Constrained Profitability: Profitability is constrained by a weak net interest margin (NIM) and a high cost-to-income ratio. Loan impairment charges were fairly contained in 2020 as a result of good collateral coverage on newly-classified impaired loans.

Rights Issue Will Improve Leverage: Wema's tangible leverage ratio of 4.0% at end-1Q21 is significantly below peers' but is expected to improve following a large rights issue in 3Q21. Wema's total capital adequacy ratio (CAR; 14.8% at end-1Q21) is comfortably above the 10% minimum requirement for a bank with a national licence.

Weak Funding Profile: Wema's funding structure is weakened by a very high reliance on term deposits (51% of customer deposits at end-1Q21). Single-depositor concentration is high, with the largest 20 depositors accounting for 36% of customer deposits at end-2020. Liquidity coverage in both local and foreign-currency is adequate.

National Ratings: Wema's National Ratings reflect the bank's creditworthiness relative to that of other issuers in Nigeria. They are at the lower end of the Nigerian national scale, primarily reflecting Wema's small franchise, constrained profitability, adequate leverage following the expected rights issue and a weak funding profile.

Rating Sensitivities

Leverage: Wema's ratings will likely be downgraded if the rights issue does not proceed as intended and its high leverage does not return to acceptable levels in line with peers'. The ratings may also be downgraded if loan and asset growth evolve at a significantly faster pace than projected, exerting material pressure on capital and leverage ratios to the extent that they return to current levels despite the rights issue.

Asset Quality: Wema's ratings would also be downgraded if the impaired loans ratio increased significantly to above 10%, resulting in considerable losses and the erosion of capital buffers, to the extent that the FCC ratio declines to around 12%-14% for a sustained period.

Ratings

Long-Term IDR	B-
Short-Term IDR	B
Viability Rating	b-
Support Rating	5
Support Rating Floor	NF
National	
National Long-Term Rating	BBB-(nga)
National Short-Term Rating	F3(nga)
Sovereign Risk	
Long-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	B
Country Ceiling	B

Outlooks

Long-Term IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Affirms Wema Bank at 'B-'; Removes Rating Watch Negative; Outlook Stable (May 2021)

Nigerian Banks' Near-Term Credit Risks Ease (May 2021)

Nigeria (March 2021)

Fitch Affirms Nigeria at 'B'; Outlook Stable (March 2021)

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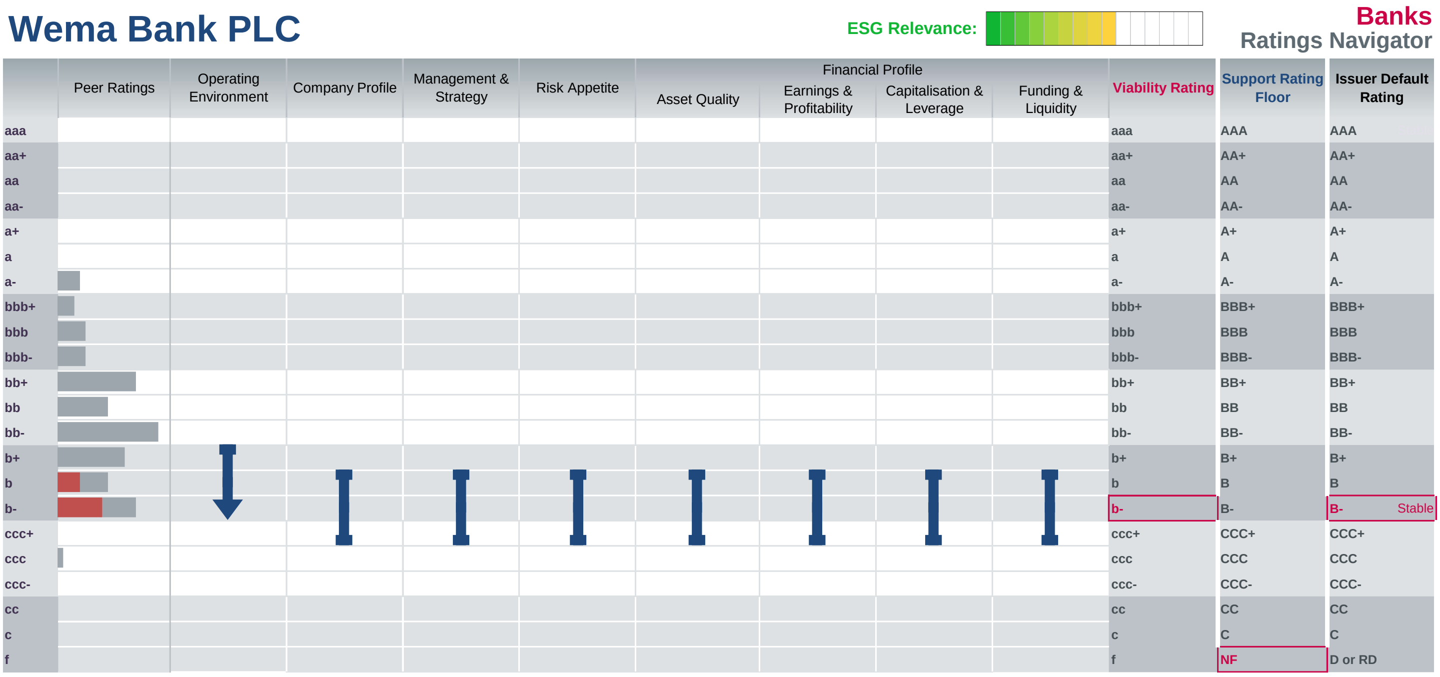

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			B
Actual country D-SIB SRF			NF
Support Rating Floor:			**NF**
Support Factors	**Positive**	**Neutral**	**Negative**
Sovereign ability to support system			
Size of banking system relative to economy	✓		
Size of potential problem			✓
Structure of banking system		✓	
Liability structure of banking system			✓
Sovereign financial flexibility (for rating level)			✓
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in		✓	
Track record of banking sector support	✓		
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance			✓
Liability structure of bank			✓
Ownership		✓	
Specifics of bank failure		✓	

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧ Positive ⇩ Negative
⇳ Evolving ▫ Stable

High Propensity to Support; Weak Ability

Fitch considers the authorities' propensity to support the Nigerian banking system to be high and there is a record of recent support across the sector. However, we believe that sovereign support for commercial banks cannot be relied on given Nigeria's weak ability to support, particularly in foreign currency (FC). The Support Rating Floors of all commercial banks are at 'No Floor' and all Support Ratings are at '5', reflecting our view that senior creditors cannot rely on receiving full and timely extraordinary support from the authorities should a bank become non-viable.

Significant Changes

Rating Watch Negative Removed

The removal of the Rating Watch Negative (RWN) on Wema's IDRs, VR, and National Ratings in May 2021 reflects Fitch's expectation that, having recently received shareholder approval, plans for a significant rights issue in 3Q21 will likely proceed as intended and improve capitalisation and leverage to more acceptable levels. Following the rights issue, we expect Wema's tangible leverage ratio to increase from 4.0% at end-1Q21 to over 7%, which is more consistent with peers'. This follows the recent approval of the resolution to raise additional capital at the bank's annual general meeting, the commitment from its largest shareholders to participate in the rights issue, and the start of the regulatory approval process.

The removal of the RWN also reflects our view that loan and asset growth will evolve at a slower pace than in recent years, and that near-term risks to the bank's financial profile from the economic fallout of the pandemic have receded.

Easing of Operating Environment Pressures

Operating conditions are gradually stabilising with banks performing better than anticipated in 2020. Our baseline scenario is that business volumes and earnings will rebound in 2021, with Nigeria's (B/Stable) economy forecast to grow by 1.9% compared to a decline of 1.8% in 2020. The stabilisation of oil prices is also positive and a pick-up in economic activity after the lockdown means near-term pressures on banks' operating environment have eased. However, downside risks linger, with banks still exposed to FC shortages, further currency devaluation, rising inflation and regulatory intervention by the Central Bank of Nigeria (CBN).

The biggest risk to Nigeria and the banks' recovery path is a material worsening in the Covid-19 crisis considering the potential for a new wave and the slow pace of the vaccination programme.

Under our baseline, we assume loan growth of 10% in 2021, reflecting pent-up credit demand, currency devaluation (around 40% of sector loans are in USD) and a regulatory push for banks to increase lending to priority sectors. Loan growth will also come from a strategic shift towards consumer lending, with many banks investing in, and rolling out, digital channels. Asset quality deterioration was contained in 2020 owing to the loan moratoriums and other support measures from the authorities.

As support measures expire, we expect the sector impaired loan ratio to rise to around 10% by end-2021, which would still be significantly lower than in previous crises. Most new impaired loans will come from the SME segment given the extent of the economic shock on businesses.

Current oil prices are supportive of banks' asset quality as they take pressure off the upstream sector, a traditionally problematic sector when prices and production drop. Oil-related loans form around 30% of sector loans. Early indications show that most customers benefiting from moratoriums resumed payments in 2021.

Rising credit costs, slow growth, rate cuts and regulatory caps on fees depressed earnings and profitability last year. While performance metrics are unlikely to return to pre-pandemic levels for at least another two years, we believe banks will remain profitable in 2021 with a rebound in core revenue, even though loan impairment charges are likely to remain elevated. A rate rise is likely in 2021, which would support higher margins.

We also believe net interest income will continue to benefit from renewed volume growth, a persistent low cost of funding (owing to abundant liquidity) and the increase in yields on government securities. Non-interest income will remain healthy, benefiting from stronger credit and digital banking related fees, still strong trading income and currency translation gains. Adequate capital, funding and liquidity will continue to underpin banks' credit fundamentals.

Since October 2020, most Nigerian banks' ratings have been on Stable Outlook, reflecting headroom at the current rating level to absorb moderate shocks from the still challenging and volatile operating environment.

Summary Financials and Key Ratios

		31 Mar 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
	3 Months - 1st Quarter	3 Months - 1st Quarter	Year End	Year End	Year End	Year End
	USDm	NGNb	NGNb	NGNb	NGNb	NGNb
	Unaudited	Unaudited	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
Summary Income Statement						
Net interest and dividend income	23	8.8	30.9	26.1	27.0	19.9
Net fees and commissions	7	2.6	8.5	8.1	6.6	5.6
Other operating income	1	0.5	7.0	15.9	7.3	6.3
Total operating income	31	11.8	46.4	50.0	40.9	31.9
Operating costs	27	10.1	36.1	37.3	32.6	26.8
Pre-impairment operating profit	4	1.7	10.3	12.7	8.3	5.1
Loan and other impairment charges	1	0.2	5.6	6.1	3.5	2.2
Operating profit	4	1.5	4.7	6.6	4.8	3.0
Other non-operating items (net)	0	0.0	1.3	0.2	0.0	0.1
Tax	1	0.2	1.4	1.6	1.5	0.8
Net income	3	1.3	4.6	5.2	3.3	2.3
Other comprehensive income	0	0.0	0.6	0.5	0.0	0.1
Fitch comprehensive income	3	1.3	5.2	5.7	3.3	2.4
Summary Balance Sheet						
Assets						
Gross loans	1,009	382.8	375.0	301.4	261.6	220.1
- of which impaired	38	14.5	19.5	9.1	13.1	2.5
Loan loss allowances	40	15.1	15.0	12.1	9.4	4.2
Net loans	969	367.7	360.1	289.2	252.2	215.8
Interbank	94	35.7	28.9	30.6	18.1	1.2
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	545	206.8	211.3	177.1	92.2	69.9
Total earning assets	1,608	610.2	600.2	496.9	362.6	287.0
Cash and due from banks	961	364.6	326.3	173.4	82.7	58.4
Other assets	159	59.8	53.0	45.5	43.5	42.2
Total assets	2,726	1,034.6	979.5	715.9	488.8	387.5
Liabilities						
Customer deposits	2,096	795.5	804.9	577.3	369.2	254.5
Interbank and other short-term funding	152	57.8	n.a.	3.6	0.0	42.1
Other long-term funding	190	71.9	73.5	48.8	45.4	23.9
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding	2,438	925.2	878.4	629.7	414.6	320.5
Other liabilities	129	48.9	42.0	31.0	23.3	17.4
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.	0.0
Total equity	159	60.4	59.1	55.2	50.9	49.6
Total liabilities and equity	2,726	1,034.6	979.5	715.9	488.8	387.5
Exchange rate		USD1 = NGN379.5	USD1 = NGN381	USD1 = NGN307	USD1 = NGN306.31	USD1 = NGN305.5

Source: Fitch Ratings, Fitch Solutions, Wema

Summary Financials and Key Ratios

	31 Mar 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.2	1.7	2.7	2.5	1.7
Net interest income/average earning assets	5.9	5.9	5.9	8.3	6.8
Non-interest expense/gross revenue	85.6	77.8	74.6	79.7	83.9
Net income/average equity	8.8	8.1	9.9	6.6	4.6
Asset quality					
Impaired loans ratio	3.8	5.2	3.0	5.0	1.2
Growth in gross loans	2.1	24.5	15.2	18.9	-4.3
Loan loss allowances/impaired loans	104.5	76.7	133.4	71.6	167.2
Loan impairment charges/average gross loans	0.2	1.3	1.4	1.3	0.9
Capitalisation					
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	14.4	14.2	14.1	15.7	15.8
Tangible common equity/tangible assets	4.0	4.1	5.0	6.4	7.6
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	-1.6	11.5	-8.7	12.5	-6.2
Funding and liquidity					
Loans/customer deposits	48.1	46.6	52.2	70.9	86.5
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	86.0	91.6	91.7	89.0	79.4
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Wema

Environmental, Social and Governance Considerations

FitchRatings **Wema Bank PLC**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Wema Bank PLC has 5 ESG potential rating drivers

- Wema Bank PLC has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.