



Credit Rating Announcement

GCR affirms Wema Funding SPV Plc's Series 2 Bonds' national scale long-term issue rating of BBB_(NG), with a Negative Rating Watch.

Rating action

Lagos, 16 June 2022 – GCR Ratings ("GCR") has affirmed the national scale long-term issue rating of BBB_(NG) on Wema Funding SPV Plc's Series 2 fixed rate unsubordinated bonds, with the Outlook maintained on negative rating watch.

Rated Entity/Issue	Rating class	Rating scale	Rating	Outlook/Watch
N17.675bn Series 2 Fixed Rate Unsubordinated Bonds	Long Term Issue	National	BBB _(NG)	Rating Watch Negative

Rating rationale

The Series 2 Bonds ("the Bonds") were issued in October 2018 with a tenor of 7 years under Wema Funding SPV Plc's ("Wema Funding" or "the Issuer") N50bn Debt Issuance Programme ("DIP"). The enabling resolution of the Issuer's Board of Directors 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 Bonds constitute direct, unsecured, and unsubordinated obligations of the Issuer and rank pari passu without any preference among themselves, and with every other unsubordinated obligation of the Issuer.

The transaction mechanics entail the use of the proceeds from the issuance of the Bonds to purchase (with up to 55% of the proceeds) subordinated bonds issued by Wema Bank Plc ("the Sponsor"). The remaining portion of the proceeds from the issue (45%) are to be held in Debt Service Payment Account ("DSPA") and invested in Federal Government of Nigeria Securities. 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 bonds are backed by an irrevocable and unconditional undertaking under the Deed of Undertaking between the Sponsor and the Issuer.

While the Issuer is Wema Funding, repayment of the obligations for the Bonds ultimately depends on the performance of the Sponsor, as the direct obligor of the issues. As such, the accorded rating is linked to the Sponsor's credit profile and is a notch lower considering the subordinated status of the bonds issued by the Sponsor to the Issuer. Wema has been accorded a long-term national scale rating of BBB_(NG) with a positive rating watch by GCR.

According to the periodic performance reports provided to GCR by the Trustees to the Bondholders (dated May 6, 2022), the Issuer has been meeting all obligations on a timely basis on the Bonds.

Outlook statement

The Negative Watch Outlook reflects the likelihood of the ratings being lowered a notch over the next six months should the Sponsor not conclude/raise the planned capital. Should the capital raise materialise, we anticipate an improvement in the Sponsor's capitalisation, which would likely result in an uplift of the Sponsor's rating and affirmation of the Bond's rating.

Rating triggers

Given that the ability of the Issuer to meet its obligations on the Bonds is dependent on the financial position of the Sponsor, the accorded rating would be sensitive to a positive rating action on the Sponsor. Non-compliance with set covenants, as well as a downgrade of the Sponsor's rating could trigger negative rating actions.

Analytical contacts

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Related criteria and research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Financial Institutions, May 2019
GCR Ratings Scales, Symbols & Definitions, May 2022
GCR Country Risk Scores, May 2022
GCR Financial Institutions Sector Risk Score, June 2022

Ratings history

Wema Funding SPV Plc – Series 2 Fixed Rate Unsubordinated Bonds

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term issue	Initial	National	BBB-(NG)	Stable	December 2018
Long Term issue	Last	National	BBB-(NG)	Rating Watch Negative	September 2021

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.
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 RATING

GCR affirms that a.) no part of the rating process was 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 ratings have 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 ratings.

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:

- The audited financial results as at 31 December 2021
- Unaudited interim account for 1Q22
- Four years of comparative audited numbers
- Other related documents.

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