

Wema Bank PLC

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). Wema's VR reflects a challenging operating environment and the bank's small franchise and weak capitalisation, funding and liquidity, which are balanced against sound asset quality.

Rating Watch Negative: The Rating Watch Negative (RWN) on Wema's Long-Term IDR, VR and National Ratings reflects the expectation that the bank will experience material pressures from a weaker operating environment due to the oil price crash, potential further devaluation of the naira and the impact of coronavirus on borrowers. The RWN will be resolved when Fitch Ratings has more clarity on the impact of these pressures on Wema's credit profile.

Small Franchise: Market shares of loans and deposits are small at around 2% but brand recognition is improving due to Wema's unique digital offering. We expect market shares to increase moderately, in line with Wema's growth strategy.

Increased Problem Loans Expected: Wema's impaired loans (Stage 3 loans under IFRS 9) ratio (2.8% at end-1Q20) remains lower than peers' due to lower exposure to the oil sector and lower foreign-currency (FC) lending. However, exposure to the oil sector is still significant (19% of gross loans; largely downstream) and we expect asset quality to come under pressure from this and other sectors.

Pressure on Profitability: Profitability is constrained by a weak net interest margin and a high cost-to-income ratio. Profitability will come under pressure from increased loan impairment charges, moratoria on principal and interest payments for borrowers, and waved retail fees.

High Leverage Considering Risks: Wema's total capital adequacy ratio of 13.6% at end-2019 displays a comfortable buffer over the 10% minimum regulatory requirement, but leverage is particularly high when considering high country and credit concentration risks. Single-borrower concentration is a key risk, with the largest 20 exposures measuring at 450% of Fitch Core Capital at end-1H19. Wema is considering a rights issue to fund growth, which may bring leverage to more acceptable levels.

Reliance on Term Deposits: Wema relies more on expensive and less stable term deposits (61% of customer deposits at end-2019) than peers do. FC liquidity risks are lower than for similarly sized peers considering Wema's less-dollarised funding profile.

No Sovereign Support: Fitch believes that sovereign support for commercial banks in Nigeria cannot be relied on given the authorities' weak ability to provide support, particularly in FC.

National Ratings: Wema's National Ratings reflect its creditworthiness relative to other issuers in Nigeria and are driven by its standalone creditworthiness. They are at the lower end of the scale, reflecting Wema's weaker company profile, capital, funding and liquidity.

Rating Sensitivities

Downside Potential: Wema's ratings are primarily sensitive to deterioration in asset quality, which may result from the economic fallout of the pandemic or a crystallisation of high single-borrower concentration risk and lead to a knock-on effect on profitability and capitalisation.

Upside Potential: An upgrade is unlikely considering the RWN on Wema's ratings. Wema's Long-Term IDR may be affirmed with a Stable Outlook if operating conditions stabilise without having a material impact on asset quality, profitability and capitalisation.

Ratings

Long-Term IDR	B-
Short-Term IDR	B
Viability Rating	b-
Support Rating	5
Support Rating Floor	No Floor

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 and Watches

Long-Term IDR	RWN
Short-Term IDR	RWN
National Long-Term Rating	RWN
National Short-Term Rating	RWN
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

- [Bank Rating Criteria \(February 2020\)](#)
- [National Scale Rating Criteria \(June 2020\)](#)

Related Research

- [Fitch Downgrades 3 Nigerian Banks to 'B'; Places All 10 Banks on Negative Watch \(March 2020\)](#)
- [Fitch Downgrades Nigeria to 'B'; Outlook Negative \(April 2020\)](#)
- [Nigeria \(April 2020\)](#)

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Ratings Navigator - Standalone Assessment

Wema Bank PLC



Banks
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+ RWN	AA+	AA+
aa										aa RWN	AA	AA
aa-										aa- RWN	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A-
bbb+										bbb+ RWN	BBB+	BBB+
bbb										bbb RWN	BBB	BBB
bbb-										bbb- RWN	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+ RWN	B+	B+
b										b RWN	B	B
b-										b- RWN	B-	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC	CCC
ccc-										ccc-	CCC-	CCC-
cc										cc RWN	CC	CC
c										c RWN	C	C
f										f RWN	NF	D or RD

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 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

Deteriorating Operating Environment

Nigerian banks will face material pressures from a significantly weaker operating environment in 2020 and into 2021 given the oil price crash, potential further devaluation of the naira and the impact of the coronavirus pandemic on individuals and businesses. Fitch downgraded the Nigerian sovereign to 'B' with a Negative Outlook in April due to the effects of these pressures on the country's external finances and now forecasts GDP to contract by 3.1% in real terms in 2020. Nigeria is highly reliant on oil, which provides more than half of government revenue and accounts for 90% of the country's foreign-exchange earnings.

The Central Bank of Nigeria (CBN) devalued the official exchange rate by 15% in March and has allowed the exchange rate on the Investor and Exporter Window to depreciate by 7% during 1H20. Continued pressure on the naira stems from a fall in Nigeria's international reserves, which stood at USD36 billion at end-1H20, and a reversal of internal portfolio inflows due to heightened global risk aversion.

The CBN has announced a raft of relief measures for businesses, which should alleviate some near-term asset-quality pressures for banks. These measures include requesting banks to restructure loans for consumers and businesses most affected by the pandemic, in particular borrowers in the oil, agriculture and manufacturing sectors. The CBN still requires banks to comply with a minimum 'loans-to-deposits' ratio (which is, in fact, essentially a loans-to-funding ratio) of 65%, while maintaining a high cash reserve requirement of 27.5% for local-currency deposits and a minimum liquidity ratio of 30%. Earlier in the year, the CBN also directed banks to reduce fees on customer transactions.

Impact Assessment on the Banking Sector

Our outlook for the Nigerian banking sector was negative even before the onset of the current crisis, reflecting the impact of challenging operating conditions stemming from weak economic growth and rising regulatory risks. Given the current crisis, we now expect further pressure on all commercial banks' credit profiles resulting from weaker asset quality, earnings and capitalisation.

The collapse in oil prices will have a significant impact on Nigeria's oil and gas sector, which represents a high 30% of banking sector loans. Our stress tests indicate that asset quality risks arising from deterioration of the banks' oil and gas exposure are the biggest threat to their ratings. Asset quality will also be pressured by the impact of the current crisis other economic sectors.

A sharp devaluation of the naira would put pressure on capital ratios due to banks' highly-dollarised balance sheets. The majority of banks have net long foreign currency positions and our stress tests indicate that, in most cases, the impact of a significant devaluation on capital ratios is tolerable.

Summary Financials and Key Ratios

	31 Mar 20		31 Dec 19	31 Dec 18	31 Dec 17
	3 months - 1st quarter (USDm)	3 months - 1st quarter (NGNbn)	Year end (NGNbn)	Year end (NGNbn)	Year end (NGNbn)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	19	6.7	26.1	27.0	19.9
Net fees and commissions	4	1.6	8.1	6.6	5.6
Other operating income	6	2.3	15.9	7.3	6.3
Total operating income	29	10.6	50.0	40.9	31.9
Operating costs	25	8.9	37.3	32.6	26.8
Pre-impairment operating profit	5	1.7	12.7	8.3	5.1
Loan and other impairment charges	2	0.6	6.1	3.5	2.2
Operating profit	3	1.1	6.6	4.8	3.0
Other non-operating items (net)	0	0.0	0.2	0.0	0.1
Tax	0	0.2	1.6	1.5	0.8
Net income	3	1.0	5.2	3.3	2.3
Other comprehensive income	0	0.0	0.5	0.0	0.1
Fitch comprehensive income	3	1.0	5.7	3.3	2.4
Summary balance sheet					
Assets					
Gross loans	905	326.2	301.4	261.6	220.1
- Of which impaired	25	9.0	9.1	13.1	2.5
Loan loss allowances	34	12.4	12.1	9.4	4.2
Net loans	870	313.8	289.2	252.2	215.8
Interbank	71	25.7	30.6	18.1	1.2
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	487	175.7	177.1	92.2	69.9
Total earning assets	1,429	515.2	496.9	362.6	287.0
Cash and due from banks	643	231.7	173.4	82.7	58.4
Other assets	132	47.7	45.5	43.5	42.2
Total assets	2,204	794.5	715.9	488.8	387.5
Liabilities					
Customer deposits	1,654	596.4	577.3	369.2	254.5
Interbank and other short-term funding	144	51.8	3.6	0.0	42.1
Other long-term funding	130	47.0	48.8	45.4	23.9
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding	1,929	695.3	629.7	414.6	320.5
Other liabilities	120	43.1	31.0	23.3	17.4
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	0.0
Total equity	156	56.1	55.2	50.9	49.6
Total liabilities and equity	2,204	794.5	715.9	488.8	387.5
Exchange rate		USD1 = NGN360.5	USD1 = NGN307	USD1 = NGN306.31	USD1 = NGN305.5

Source: Fitch Ratings

Summary Financials and Key Ratios

	31 Mar 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.6	2.7	2.5	1.7
Net interest income/average earning assets	5.3	5.9	8.3	6.8
Non-interest expense/gross revenue	84.0	74.6	79.7	83.9
Net income/average equity	7.1	9.9	6.6	4.6
Asset quality				
Impaired loans ratio	2.8	3.0	5.0	1.2
Growth in gross loans	8.3	15.2	18.9	-4.3
Loan loss allowances/impaired loans	137.8	133.4	71.6	167.2
Loan impairment charges/average gross loans	0.7	1.4	1.3	0.9
Capitalisation				
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	12.9	14.1	15.7	15.8
Tangible common equity/tangible assets	4.7	5.0	6.4	7.6
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	-9.5	-8.7	12.5	-6.2
Funding and liquidity				
Loans/customer deposits	54.7	52.2	70.9	86.5
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	85.8	91.7	89.0	79.4
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings

Environmental, Social and Governance Considerations

FitchRatings Wema Bank PLC

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

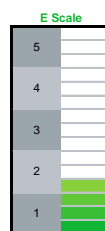
Wema Bank PLC has 5 ESG potential rating drivers

- 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.

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

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
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



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.

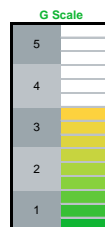
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
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
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
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



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.

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