GCR GLOBAL CREDIT RATING CO.
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Wema Funding SPV Plc N50bn Debt Issuance Programme (Series 1 Bonds)

Nigeria Bond Analysis **June 2018**

Security class	Amount	Rating Scale	Rating	Rating outlook	Expiry date
Senior Fixed Rate Bond	N6.295bn	National	BBB-(NG)	Stable	June 2019

Key Counterparties:

Issuer:
Wema Funding SPV Plc

Sponsor:
Wema Bank Plc

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

Joint Trustees:
FBN Trustees Limited
STL Trustees Limited
United Capital Trustees Limited

Debt Service Payment Account Bank:
Wema Bank Plc

Custodian:
Standard Chartered Bank Nigeria Limited

Summary of Transaction:

Programme limit	N50bn
Series 1 amount	N6.295bn
Tenor	7 years
Ranking	Senior Unsecured
Coupon	18.5%

Rating History:

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

Last rating (August 2017)
Long term: BBB-(NG)
Rating outlook: Stable

^Final rating.

Related Methodologies/Research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
Global Structurally Enhanced Corporate Bonds Rating Criteria, updated November 2017

Wema Bank Plc's rating reports, up to 2018

Glossary of Terms/Ratios, February 2016

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Transaction summary

The Series 1 Bonds were issued on 12 October 2016 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. Accordingly, the Series 1 Bonds were for an aggregate sum of N6.295bn.

The *final, public* rating accorded to the Series 1 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 with a geographic presence. The bank has been accorded a long-term national scale credit rating of BBB-(NG).
- The transaction mechanics entails the use of the proceeds of the issuance of Wema Funding SPV Plc Series 1 Bonds, which constitute senior obligations of the Issuer, to purchase (with up to 55% of the net proceeds) unsecured subordinated bonds ("Wema Bank Bonds" or "Subordinated Bonds") issued by the Sponsor. The remaining portion of the net proceeds of the Issue (45%) are to be held in the Debt Service Payment Account ("DSPA"), to be invested in 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 Series 1 Bonds, upon maturity of the principal and if available, to purchase further PIs.
- The rating of the Series 1 Bonds is supported by the estimated "Good Recovery Prospects" of the PIs in an enforcement scenario. This also takes cognisance that the investment income from the Federal Government of Nigeria ("FGN") Securities will be retained in the SPV (Issuer).
- A legal opinion from the solicitor to the Trustees of the Series 1 Bonds confirmed that the undertaking provided by Wema in respect of the Subordinated Bonds and the Series 1 Bonds is valid and enforceable against it under the provisions of Nigerian law. The rating accorded should not be viewed as a replacement of the legal advice that investors should seek on the validity and enforceability of the Transaction Documents/undertaking.
- According to the Joint Trustees' performance reports on the Series 1 Bonds (up to 26 June 2018), the Issuer has been meeting its obligations under the Bond Issue timeously so far.

Factors that could trigger a rating action may include

Positive change: Ultimate honouring of the Series 1 Bond 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 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 Issuer raised an aggregate sum of N6.295bn through the issuance of 6,295,000 units of Bonds at a par value of N1,000 each in October 2016. The basic features of the Series 1 Bonds are summarised in Table 1.

Table 1: Basic features	Series 1
Amount	N6.295bn
Maturity profile (legal)	7 years
Par value	N1,000
Coupon rate	18.5%
Method of offer	Book build
Ranking	Senior/unsecured

Source: Series 1 Pricing Supplement.

Status of the bonds

By the legal documentation, the Series 1 Bonds constitute unconditional and senior unsecured obligations of the Issuer, ranking *pari-passu*, without any preference among themselves. Above all, the Series 1 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

In line with the Series 1 offer documents, the Issuer deployed 55% of the net proceeds of the Issue (N6.1bn) towards the purchase of Subordinated Bonds (issued by the Sponsor). The remainder was used to fund the DSPA, which is to be used strictly to service the Series 1 Bonds' coupons and repay the Series 1 Bonds' principal on Maturity. The funds held in the DSPA are to be used for the acquisition of other PI, being FGN securities. The initial capital structure is shown in Table 2.

Table 2: Initial capital structure*	%	NGN (Amount)
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**

*Based on net proceeds of the Issue.

Table 3 shows the capital structure at FY17. The slight change in mix was due to accrued interest on the subordinated bond pool during the period.

Table 3: Capital structure at FY17	%	NGN (Amount)
Subordinated Bonds – Wema ($BB_{(NG)}$)	55.3	3,494,454,000
FGN Securities – ($AAA_{(NG)}$)	44.7	2,820,583,000
Total	**100**	**6,317,037,000**

Source: Wema Funding SPV Plc's 2017 audited financial statements.

Coupon payment

Interest on the Series 1 Bonds accrues from 12 October 2016 and is paid on a semi-annual basis. According to the Joint Trustees' performance reports on the Series 1 Bonds (up to 26 June 2018), the Issuer has been meeting its obligations under the Bond Issue (including payment of coupon due) timeously so far.

Transaction structure and dynamics

The Series 1 Bond issuance is backed by a Master Bonds Purchase Agreement ("MBPA") between the Sponsor, the Issuer, and the Trustees (with the Sponsor undertaking to issue subordinated bonds (all potential Series' referred to as "Wema Bank Bonds") from time to time).

Rating enhancement

As a rating enhancement, the Series 1 Bonds' legal documentation requires the Issuer to, not later than the allotment date, establish the DSPA in the name of the Trustees, which has been funded initially by 45% of the net proceeds of the Series 1 Bonds. The purpose of the DSPA is to accumulate monies towards payment of obligations (coupon and principal) due under the Series 1 Bonds and investment in PIs.

Subsequent DSPA funding will take 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 DSPA after settling coupon payments on the Series 1 Bonds are to be re-invested in PIs. Table 4 shows the activities in the DSPA, up to 13 June 2018.

Table 4: DSPA - Cash flow (up to 13 June 2018)	Amount in Naira
Inflows	
Coupon on FGN Securities	593,348,054.0
Interest on call placements	2,492,962.0
Coupon on Wema Bonds	1,148,730,054.0
Total inflows	**1,744,571,070.0**
Outflows	
1st coupon payment	(579,986,071.0)
2nd coupon payment	(583,882,808.0)
3rd coupon payment	(580,692,191.0)
Total outflows	(1,744,561,070.0)
Balance as at 13/6/2018	**10,000.0**

Source: Wema Bank Plc.

Rating Methodology of the Series 1 Bonds

In determining the appropriate number of rating notches to be applied, Global Credit Rating Company Limited ("GCR") compares the estimated overall recovery rate after a potential default of the Series 1 Bonds with an assumed average corporate senior unsecured debt obligation recovery rate. If overall estimated recoveries are higher than the assumed average recovery rate, a notching uplift may be applicable.

Table 5: Recovery rate calculations	Amount in Naira
Principal amount outstanding upon default	6,295,000,000
Assumed missed interest upon default	582,287,500
Assumed missed interest to give time to realise recoveries	582,287,500
Aggregate exposure Senior Noteholders	**7,459,575,000**
Assumed recoveries on sale of Securities	(3,859,258,000)
Assumed sales and legal costs	385,925,800
Unsecured claim on Issuer	**3,986,242,800**
Assumed recovery on unsecured claim	NA
Remaining claim	**3,986,242,800**
Overall estimated recovery rate	46.56%

[1] Treasury bills and bonds.

Based on GCR's Global Structurally Enhanced Corporate Bonds Rating Criteria, the calculated overall recovery rate of 46.56% carries the qualification "*Good Recovery Prospects*". Accordingly, the Series 1 Bonds have been accorded a *public, 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% 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 Series 1 Bonds is seven years, commencing from 12 October 2016.

Conversion
The Series 1 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 Series 1 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 Series 1 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 endeavors to maintain the quotation or listing of the Series 1 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;
- 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

[2] Where the Trustees are reasonably satisfied that such event impedes the Issuer's ability to discharge its obligations under the Series 1 Bonds.

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 Series 1 Bond Issue include the following:

- *Non-payment* – if any payment due under the Series 1 Bonds 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 Trust Deed.
- *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 Series 1 Bond Issue.
- *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 Series 1 Bonds.

Key transaction parties

Joint Issuing Houses

The Issuing House's functions are being jointly rendered by Union Capital Markets Limited, Greenwich Trust Limited, Cowry Asset Management Limited, FBN Capital Limited, First Ally Capital Limited, FSDH Merchant Bank Limited, Independent Securities Limited, Pan African Capital Plc, and United Capital (Investment Banking) Plc, with Union Capital Markets Limited as the Lead Issuing House.

Trustees

The appointed Trustees are FBN Trustees Limited, STL Trustees Limited, and United Capital Trustees Limited.

Debt Service Payment Account Bank

The DSPA Bank is Wema Bank Plc.

Custodian

The appointed custodian for the FGN Securities held by the Trustees on behalf of the Series 1 Bondholders is Standard Chartered Bank Nigeria 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.

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

Ownership structure

Wema's shareholding structure is considered well diversified, comprising over 240,000 shareholders at 31 December 2017. Table 6, outlines the major shareholders with holdings exceeding 5%.

[3] Refer to GCR's 2017 Issuer rating report on Wema Bank Plc for more detail.

Table 6: Ownership structure	% Holding	
	FY16	FY17
Neemtree Limited	27.5	27.7
Odu'a Investment Company	10.0	10.0
Petrotrab Limited	8.5	8.5
Sw8 Investment Company Limited	8.0	8.0
Others (<5%)	46.0	45.8
Total	**100.0**	**100.0**

Source: Wema AFS.

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 the SEC for listed companies. A major change to the board during FY17 was the resignation of the Chairman, Mr Adeyinka Asekun, to take up a national assignment and was subsequently replaced by Mr Babatunde Kasali.

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 and Touche, issued an unqualified report on the FY17 financial statements.

Performance update

A five year financial synopsis is presented on page 9 of this report, and supplemented by the commentary below.

Although Wema's interest income increased by 19.1% to N53.1bn in FY17, this was partly offset by an increase in interest expenses. As such, net interest income grew by a moderate 6.0% to N19.8bn in FY17. Supporting the total operating income level of N32.0bn, was non-interest income which increased by 24.4% as a result of improvement in fixed-income earnings (from investment securities) and foreign exchange gains. Operating expenses rose by 8.0%, driven by increase in information technology related expenses and advertisement and marketing cost. However, cost-to-income ratio declined to 83.8% in FY17 (FY16: 87.1%) underpinned by an outpaced increase in total operating income *vis-a-vis* operating expenses.

However, profitability was eroded by a sharp rise in impairment charge (mainly collective) which rose by over four folds to N2.2bn in FY17, moderating pre-tax profit to N3.0bn (FY16: N3.2bn). After a tax expense of N754m, NPAT ended at N2.3bn (FY16: N2.6bn). Accordingly, ROaE declined to 4.6% (FY16: 5.4%), while ROaA remained flat at 0.6%.

Future prospects

Wema projects a pre-tax profit of N4.9bn in FY18, representing 63.3% above FY17's position. Growth is expected to be driven by increase in transaction related income via the digital banking platforms and other alternate channels. As such, the bank intends to slightly shift earning focus from the interest income, given the challenging high interest environment. The result at 1Q FY18, shows non-interest income was in line with budget, while pre-tax profit lags full budget on annualised basis.

Table 7: Budget vs. interim results	Actual FY17 N'bn	Budget FY18 N'bn	Actual 1Q FY18 N'bn	% of budget* FY18
Income statement				
Net interest income	19.8	21.5	4.3	80.6
Other income	12.2	14.1	3.4	97.2
Total income	**32.0**	**35.6**	**7.8**	**87.2**
Impairment charge	(2.2)	(2.2)	(0.2)	-
OPEX	(26.8)	(28.5)	(6.7)	93.6
NPBT	**3.0**	**4.9**	**0.9**	**72.2**
Balance sheet				
Customers deposits	254.5	349.6	306.1	87.6
Net advances	215.8	254.4	215.5	84.7
Total assets	382.7	477.8	422.0	88.3
Tier 1 capital	49.6	54.6	50.2	91.9

*Annualised Source: Wema.

Other considerations (Sponsor)

Liquidity positioning

The prevailing liquidity challenges in the Nigerian banking sector triggered by high yields on government securities, exerted liquidity pressure on Wema's operations. As such, the regulatory liquidity ratio fell below the regulatory minimum requirement at some points during FY17 (recording lowest ratio of 17.8% in September 2017 and later improved to 26.3% at end-FY17). The bank's liquidity position has since normalised with the liquidity ratio maintained above 30% throughout 1Q FY18. Furthermore, matching of assets and liabilities reflects a cumulative liquidity gap across the short-term maturity buckets (less than 12 months). The liquidity gap in the 'less than three months' maturity bands stood at N163.1bn, equivalent to 3.3x of shareholders' funds at FY17. Although, (behaviorally) substantial portion of deposits are usually rolled over at maturity, the bank mitigates its liquidity risk through interbank borrowings, short term marketable securities and credit lines from other financial institutions (albeit money market funding is not a stable funding option).

Table 8: Liquidityprofile (N'bn)	<3 months	3-6 months	6-12 months	>1 year
Assets	101.7	37.0	36.1	133.4
Liabilities	(264.8)	(18.5)	(13.3)	(23.9)
Net liquidity gap	**(163.1)**	**18.5**	**22.8**	**109.5**
Cumulative liquidity	**(163.1)**	**(144.6)**	**(121.8)**	**(12.3)**

Source: Wema AFS.

Capital adequacy

Wema's shareholders' funds increased slightly by 2.4% to N49.6bn at FY17, driven by internal capital generation. During FY17, the bank paid the balance on the outstanding subordinated convertible loan from CBN (qualifying Tier 2 capital), which resulted to a decline in total capital to N55.9bn at FY17

(FY16:N61.2bn). Notwithstanding this, CAR improved to 14.3% (FY16:11.1%) well above the regulatory minimum of 10%, underpinned by a reduction in risk weighted assets (particularly contraction in loans and advances book). Cognisance is taken of the capital reorganisation scheme carried out by the bank during the year, which involved the writing off of negative retained earnings as well as a portion of impaired assets against the share premium account. Consequently, the bank expects a more efficient balance sheet. Furthermore, the bank plans to raise additional Tier 2 capital through bond issuance (Tranche 2) before the end of 2Q FY18, having successfully raised the first tranche in 2016. This is expected to further strengthen capitalisation and enhance operation.

Borrowings
Wema's outstanding borrowings (excluding qualifying Tier 2 capital) grew significantly by 71.1% to N33.1bn at FY17, largely driven by issuance of commercial paper to cushion the liquidity challenges in the bank. This debt programme was issued in October 2017 in two series with tenor of 182 days and 270 days respectively. While series one of the debt programme was paid up in March 2018, the series two is expected to be settled by June 2018.

Table 9: Borrowings	FY16 N'm	FY17 N'm
Qualifying Tier 2 capital	**12,731.3**	**6,328.2**
Subordinated convertible loans	6,422.8	-
Wema SPV	6,308.5	6,328.2
Other borrowings*	**19,362.1**	**33,131.3**
Commercial Paper	-	15,557.9
National Housing Fund	113.8	104.0
CBN MSMEDF	140.0	108.0
Due to BOI	5,177.7	3,672.6
CBN Agricultural loan	1,048.0	992.9
Osun Bailout Fund	9,735.1	9,549.6
Shelter Afrique	3,147.5	3,146.3
Total	**32,093.4**	**39,459.5**

*Excluding Qualifying Tier 2 capital. Source: Wema.

Borrowings from Shelter Afrique (which constituted the only foreign sourced facility) remained relatively stable during the year, with a sizable portion of other borrowings settled in FY17. The borrowings book reflect limited foreign currency exposures, as the book was overly denominated (92%) in local currency.

Rating considerations

Legal Opinion
GCR received and reviewed a signed executed copy of the legal opinion prepared by Nigerian transaction legal counsel (Royal Heritage). GCR understands, amongst others, from the legal opinion that:

- All Transaction parties are duly established companies and exist in accordance with Federal Republic of Nigeria law;
- The Transaction parties have the legal capacity, corporate power and necessary authority to enter into the relevant Transaction Documents;
- The Agreements constitute legal, valid, binding and enforceable obligations of the Sponsor; and
- There is no securities transfer tax, stamp duty, registration, documentary or similar taxes or duties payable under Federal Republic of Nigeria law by reason of the execution of the relevant Agreements.

Meaning of the Rating of the Series 1 Bonds
The rating accorded to the Series 1 Bonds is a *final*, *public* national scale rating. GCR has reviewed the final transaction documentation.

The *final*, *public* rating accorded to the Series 1 Bonds relates 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 rating of the Series 1 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 final rating of the Series 1 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 "Global Master Criteria for Rating Banks and Other Financial Institutions", updated March 2017 and the "Global Structurally Enhanced Corporate Bonds Rating Criteria, updated November 2017"; these documents (and any amendments made from time to time) are available on GCR's website at *globalratings.com.ng.*

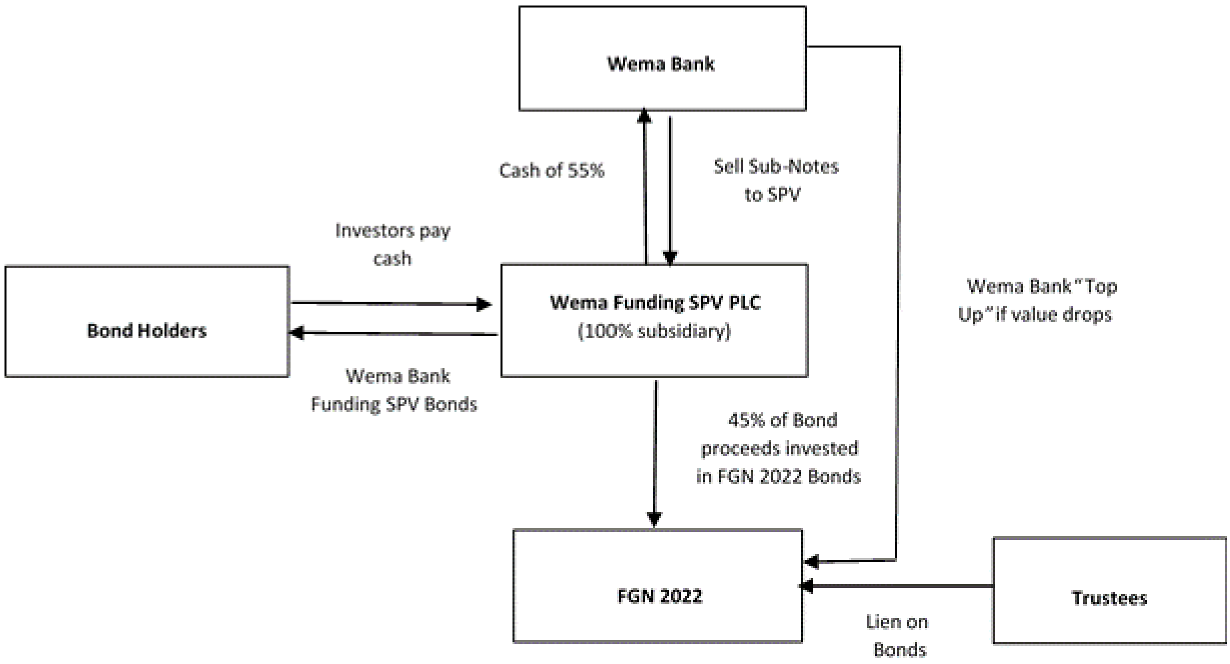
Information provided
Table 10 lists all relevant information required/ provided.

Table 10: Wema Funding SPV PLC's DIP (Series 1) general transaction documents	
Description of documents	**Data provided**
2017 audited financial statements of the Sponsor	Yes
2017 audited financial statements of the Issuer	Yes
Sponsor's 1Q FY18 unaudited results	Yes
Programme Trust Deed for the DIP	Yes
Programme Shelf Prospectus for the DIP	Yes
Master Bonds Purchase Agreement	Yes
Pricing Supplement for Series 1 Bonds	Yes
Series 1 Trust Deed	Yes
Issuer's Certificate of Incorporation	Yes
Vending Agreement (Issuer & Sponsor)	Yes
Vending Agreement (Issuer & Purchaser)	Yes
Trustees' performance report (June 2017)	Yes
Deed of Undertaking	Yes
Legal opinions on the transaction documents	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	2013	2014	2015	2016	2017	1Q 2018
Interest income	28,542	35,453	37,128	44,560	53,073	12,644
Interest expense	(16,018)	(16,901)	(19,408)	(25,910)	(33,306)	(8,307)
Net interest income	**12,524**	**18,552**	**17,720**	**18,650**	**19,767**	**4,337**
Other income	7,103	6,734	8,664	9,801	12,196	3,428
Total operating income	**19,628**	**25,286**	**26,383**	**28,451**	**31,963**	**7,765**
Impairment charge	1,330	(88)	78	(412)	(2,180)	(203)
Operating expenditure	(19,941)	(22,103)	(23,470)	(24,793)	(26,774)	(6,678)
Share of profit in associate	930	-	-	-	-	-
Net profit before tax	**1,947**	**3,094**	**2,991**	**3,245**	**3,009**	**884**
Tax	(351)	(721)	(718)	(685)	(754)	(119)
Net profit after tax	**1,597**	**2,372**	**2,273**	**2,561**	**2,255**	**765**
Other comprehensive income	104	1	22	(154)	140	27
Total comprehensive income	**1,700**	**2,373**	**2,295**	**2,407**	**2,396**	**792**

Statement of Financial Position Analysis						
Subscribed capital	68,157	68,157	68,157	68,157	27,985	27,985
Reserves (incl. net income for the year)	(26,762)	(24,389)	(22,093)	(19,687)	21,630	22,175
Hybrid capital (incl. eligible portion of subordinated term debt)	50,062	50,062	25,000	12,732	6,328	6,159
Total capital and reserves	**91,457**	**93,830**	**71,064**	**61,202**	**55,943**	**56,319**
Bank borrowings (incl. deposits, placements & REPOs)	3,397	3,243	-	37,434	26,575	10,342
Deposits	177,308	217,606	265,494	198,091	180,428	224,046
Other borrowings	-	-	-	-	-	34,382
Short-term funding (< 1 year)	**180,705**	**220,850**	**265,494**	**235,525**	**207,003**	**268,771**
Bank borrowings (incl. deposits, placements & REPOs)	-	-	-	-	-	-
Deposits	40,427	41,350	19,484	85,212	74,033	82,040
Other borrowings	7,526	8,320	27,290	19,362	33,131	-
Long-term funding (> 1 year)	**47,953**	**49,670**	**46,774**	**104,574**	**107,164**	**82,040**
Payables/Deferred liabilities	10,038	15,742	12,766	14,501	12,558	14,844
Other liabilities	**10,038**	**15,742**	**12,766**	**14,501**	**12,558**	**14,844**
Total capital and liabilities	**330,153**	**380,092**	**396,098**	**415,802**	**382,669**	**421,975**
Balances with central bank	25,673	70,056	53,386	48,162	26,496	35,879
Property, Plant and Equipment	12,468	14,043	15,968	16,614	17,079	17,065
Receivables/Deferred assets (incl. zero rate loans)	49,659	52,436	43,709	42,197	61,799	54,325
Non-earnings assets	**87,800**	**136,535**	**113,062**	**106,973**	**105,373**	**107,268**
Short-term deposits & cash	11,863	12,577	9,535	12,951	13,268	15,900
Loans & advances (net of provisions)	98,632	149,294	185,597	227,009	215,840	215,477
Bank placements	18,732	37,106	46,404	6,431	3,675	10,923
Marketable/Trading securities	7,180	3,723	12,319	3,396	19,569	42,268
Other investment securities	102,380	37,490	28,789	58,680	24,898	30,094
Investment in properties	602	402	394	362	46	44
Investment in subsidiaries/associates	2,965	2,965	-	-	-	-
Total earning assets	**242,354**	**243,556**	**283,036**	**308,828**	**277,296**	**314,707**
Total assets†	**330,153**	**380,092**	**396,098**	**415,802**	**382,669**	**421,975**
Contingencies	**14,740**	**21,112**	**19,057**	**37,526**	**48,301**	**55,338**

Ratio Analysis (%)						
Capitalisation						
Internal capital generation	4.1	5.4	5.0	5.0	4.8	1.6
Total capital / Net advances + net equity invest. + guarantees	42.4	45.1	30.4	18.9	19.4	18.7
Total capital / Total assets	27.7	24.7	17.9	14.7	14.6	13.3
Liquidity ‡						
Net advances / Deposits + other short-term funding	44.6	56.9	65.1	70.8	76.8	61.4
Net advances / Total funding (excl. equity portion)	43.1	55.2	59.4	66.7	68.7	61.4
Liquid & trading assets / Total assets	11.4	14.1	17.2	5.5	9.5	16.4
Liquid & trading assets / Total short-term funding	20.9	24.2	25.7	9.7	17.6	25.7
Liquid & trading assets / Total funding (excl. equity portion)	16.5	19.7	21.9	6.7	11.6	19.7
Asset quality						
Impaired loans / Gross advances	6.0	2.2	2.7	5.1	4.9	4.0
Total loan loss reserves / Gross advances	4.0	2.0	1.3	1.3	1.4	1.1
Bad debt charge (income statement) / Gross advances (avg.)	(1.5)	0.1	(0.0)	0.2	1.0	0.1
Bad debt charge (income statement) / Total operating income	(6.8)	0.3	(0.3)	1.4	6.8	2.6
Profitability						
Net income / Total capital (avg.)	2.4	2.6	2.8	3.6	4.1	1.4
Net income / Total assets (avg.)	0.6	0.7	0.6	0.6	0.6	0.2
Net interest margin	10.8	11.5	8.1	7.7	8.2	6.7
Interest income + com. fees / Earning assets + guarantees (a/avg.)	8.3	8.1	5.8	5.7	6.0	1.2
Non-interest income / Total operating income	36.2	26.6	32.8	34.4	38.2	44.1
Non-interest income / Total operating expenses (or burden ratio)	35.6	30.5	36.9	39.5	45.6	51.3
Cost ratio	101.6	87.4	89.0	87.1	83.8	86.0
OEaA (or overhead ratio)	6.9	6.2	6.0	6.1	6.7	1.7
ROaE	7.5	5.6	5.1	5.4	4.6	6.1
ROaA	0.6	0.7	0.6	0.6	0.6	0.8
Nominal growth indicators						
Total assets	34.6	15.1	4.2	5.0	(8.0)	10.3
Net advances	33.7	51.4	24.3	22.3	(4.9)	(0.2)
Shareholders funds	3,138.3	5.7	5.2	5.2	2.4	1.1
Total capital and reserves	78.1	2.6	(24.3)	(13.9)	(8.6)	0.7
Deposits (wholesale)	24.9	18.9	10.0	(0.6)	(10.2)	20.3
Total funding (excl. equity portion)	25.7	18.3	15.4	8.9	(7.6)	11.7
Net income	134.1	39.6	(3.3)	4.8	(0.5)	32.3

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

Union Capital Markets Limited and 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 rating above was disclosed to Union Capital Markets Limited and Wema Bank Plc with no contestation of/changes to the rating.

The information received from Union Capital Markets Limited and Wema Bank Plc to accord the credit rating included the Issuer's 31 December 2017 audited annual financial statements, Sponsor's 31 December 2017 audited annual financial statements (plus four years of comparative numbers), Sponsor's 1Q FY18 unaudited results, the Programme Trust Deed for the Debt Issuance Programme, the Programme Shelf Prospectus, the Series 1 Trust Deed, the Master Bonds Purchase Agreement, Deed of Undertaking, Vending Agreement between the Issuer and the Sponsor, Vending Agreement between the Issuer and the Purchaser, Trustees' performance report (June 2018), as well as the Series 1 Pricing Supplement.