RATING ANNOUNCEMENT

GCR upgrades Wema Bank Plc's national scale long and short-term issuer rating to BBB+$_{(NG)}$/A2$_{(NG)}$ from BBB$_{(NG)}$/A3$_{(NG)}$; Outlook Stable.

Rating action

Lagos, 10 June 2025 - GCR Ratings (GCR) has upgraded Wema Bank Plc's national scale long and short-term issuer ratings to BBB+$_{(NG)}$ and A2$_{(NG)}$ from BBB$_{(NG)}$ and A3$_{(NG)}$ respectively. Concurrently, GCR has upgraded the national scale long-term issue rating on Wema Funding SPV Plc's NGN17.675 billion Series 2 Fixed Rate Unsubordinated Bonds to BBB$_{(NG)}$ from BBB-$_{(NG)}$. Outlooks on the ratings remain Stable.

Rated entity/Issue	Rating class	Rating scale	Ratings	Outlook
Wema Bank Plc	Long Term Issuer	National	BBB+$_{(NG)}$	Stable
	Short Term Issuer	National	A2$_{(NG)}$	
Wema Funding SPV Plc's NGN17.675 billion Series 2 Fixed Rate Unsubordinated Bonds	Long Term Issue	National	BBB$_{(NG)}$	Stable

Rating rationale

The ratings upgrade is supported by Wema Bank Plc's (Wema Bank or the bank) strengthened capitalisation driven by equity injection, and improved earnings generation and retention. The ratings also balance the bank's stable funding structure, sound liquidity, modest competitive position, and weakening asset quality metrics, exacerbated by the macroeconomic challenges.

Wema Bank's competitive position is largely enhanced by its strong digital presence, which continues to support a growing customer base of over 5 million and increased transaction volumes. With a balance sheet size of NGN3.6 trillion (USD2.5 billion) as of 31 December 2024, the bank accounted for c.2.0% of the Nigerian banking industry's total assets, customer deposits, and gross loans. Operating revenue grew by 48% to NGN255.8 billion (USD161.4 million) in 2024, with the relatively stable net-interest income contributing a sizeable 69.2% of the total operating revenue. Looking ahead, Wema Bank's expansion drive, increased deployment of technology, and strategic partnerships could support its operational scale and earnings generation capacity over the next 12-18 months.

Wema Bank's capitalisation assessment improved over the review period, following the successful NGN40 billion (USD 27.6 million) capital injection in 2024 and the strong earnings generation and retention. As a result, the GCR core capital ratio improved to 19.2% as of 31 December 2024 (December 2023: 15.5%). Looking ahead, the bank's ongoing capital raise of c. NGN150 billion through a rights issue and the planned private placement is expected to further strengthen the GCR core capital ratio above 20% over the next 12-18 months, barring any major naira devaluation. However, we view negatively the loan loss reserve coverage of stage 3 loans at 55.1% as of 31 December 2024, considered to be low.

The bank's risk position remains pressured by the macroeconomic challenges, potentially increasing credit and market risks. While the non-performing loans (NPLs) ratio registered a slight increase to 5.3% as of 31 December 2024 (December 2023: 5.1%), the loan loss reserve ratio has been stable at 3.5% of 2024 customer loans (2023: 3.6%). However, the growth in the loan book during the year accentuated by the current economic environment is subject to systemic risks, potentially deteriorating the asset quality. Positively, we note that the bank has implemented loan recovery efforts, remedial actions, and a cautious lending strategy. Counterparty concentration risk is considered moderate, with the top twenty obligors accounting for 33.8% of gross loans as of 31 December 2024 (December 2023: 29.1%). Foreign currency loans constituted 17.1% of gross loans as of 31 December 2024, down from 22.8% in the prior year, with the associated FX risk mitigated through natural hedging mechanisms.

We assessed funding and liquidity as a positive ratings factor, due to the stable funding structure and sound liquidity profile. Wema is largely funded by customer deposits, which constituted 87.3% of the funding base as of 31 December 2024 (31 December 2023: 94.8%). Customer deposits grew by 35.6% to NGN2.5 billion (USD1.7 million) as of 31 December 2024, supported by a growing retail franchise and low-cost deposit mobilisation strategy. As a result, the relatively inexpensive current and savings account (CASA) deposits accounted for a higher 78.9% of customer deposits in December 2024 (December 2023: 77.2%). Nonetheless, the cost of funds remained high at 6.1% as of 31 December 2024 (31 December 2023: 6.2%), due to the high-interest rates.

The bank's balance sheet is sufficiently liquid, with the GCR liquid assets coverage of customer deposits at 42.4% as of 31 December 2024 (31 December 2023: 45.1%). Looking ahead, the bank's funding and liquidity profile is expected to remain sound, predicated on effective liquidity management and customer deposits mobilisation.

Wema Funding SPV Plc's NGN17.675 billion Series 2 Fixed Rate Unsubordinated Bonds (the Series 2 Bonds) was issued in October 2018 under Wema Funding SPV Plc's (the Issuer) NGN50 billion Debt Issuance Programme with a coupon rate of 16.5% per annum and a seven-year maturity, redeemable on 13 October 2025. The Series 2 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 Series 2 Bonds are backed by an irrevocable and unconditional undertaking between Wema Bank Plc (the Sponsor) and the Issuer under the Deed of Undertaking. Although the Issuer is Wema Funding SPV Plc, repayment of the obligations for the Series 2 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 Series 2 Bonds. The latest performance report received from the Bond Trustees, dated 9 May 2025, indicated that there has been no breach of covenants by the Issuer on the Series 2 Bonds since inception up to the report date.

Outlook statement

The Stable Outlook reflects our expectations that the GCR core capital ratio should range above 20% over the next 12-18 months, underpinned by the successful capital injection. We expect the bank's asset quality metrics to be contained within the regulatory minimum and industry average. The bank's funding structure and liquidity profile is expected to remain strong.

Rating triggers

An upgrade of the ratings could stem from an improvement in GCR core capital to 22.0% on a sustainable basis, while also maintaining the NPL ratio below 5% and the industry's average. Conversely, a deterioration in asset quality metrics, such that the NPL and credit loss ratios register above 6.0% and 3.0% respectively, could lead to a negative rating action. Additionally, a decline in the GCR core capital ratio below 18% could result in a rating downgrade.

Given that the ability of the Issuer to meet its obligations on the Bonds is dependent on the credit profile of the Sponsor, the accorded rating on the Series 2 Bonds is 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 action.

Analytical contacts

Primary analyst	Deborah Giwa-Amu	Analyst, Financial Institutions
Lagos, NG	DeborahG@GCRratings.com	+2341 904 9462
Committee chair	Vinal Ramdenee	Senior Analyst
Ebene, MU	VinalR@GCRratings.com	+230 428 2690

Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
Criteria for Rating Financial Institutions, May 2024
GCR Ratings Scales, Symbols & Definitions, May 2023
GCR Country Risk Scores, May 2025
GCR Financial Institutions Sector Risk Score, August 2024

Ratings history

Wema Bank Plc					
Rating class	Review	Rating	Rating	Outlook	Date
Long Term Issuer	Initial	National	BBB-(NG)	Stable	April 2016
Short Term Issuer	Initial	National	A3(NG)		April 2016
Long Term Issuer	Last	National	BBB(NG)	Stable	June 2024
Short Term Issuer	Last	National	A3(NG)		June 2024
Wema Funding SPV Plc's NGN17.675 billion Series 2 Fixed rate unsubordinated Bonds	Initial	National	A3(NG)	Stable	December 2018
Wema Funding SPV Plc's NGN17.675 billion Series 2 Fixed Rate Unsubordinated Bonds	Last	national	BBB-(NG)	Stable	June 2024

Risk score summary

Rating Components & Factors	Risk Scores
Operating environment	**7.00**
Country risk score	3.50
Sector risk score	3.50
Business profile	**0.00**
Competitive position	0.00
Sustainability	0.00
Financial profile	**0.25**
Capital & Leverage	(0.50)
Risk	0.25
Funding & Liquidity	0.50
Comparative profile	**0.00**
Group support	0.00
Government Support	0.00
Peer comparison	0.00
Total Risk Score	**7.25**

Glossary

Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Bond	A long-term debt instrument issued by either a company, institution or the government to raise funds.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Coupon	The interest paid on a bond expressed as a percentage of the face value. If a bond carries a fixed coupon, the interest is usually paid on an annual or semi-annual basis. The term also refers to the detachable certificate entitling the bearer to the interest payment.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Coverage	The scope of the protection provided under a contract of insurance.
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
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.
Deed	A legal document that is signed and delivered, especially one regarding the ownership of property or legal rights.

Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
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.
Irrevocable	Not able to be changed, reversed, recovered and final.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
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.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
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.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Obligor	The party indebted or the person making repayments for its borrowings.
Pari Passu	Side by side; at the same rate or on an equal footing. Securities issued with a pari passu clause have rights and privileges that are equivalent to those of existing securities of the same class.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Performing	An obligation that performs according to its contractual obligations.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Proceeds	Funds from issuance of debt securities or sale of assets.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Retention	The net amount of risk the ceding company keeps for its own account.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Senior	A security that has a higher repayment priority than junior securities.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.

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 the rated entity.

The ratings above were solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited Financial Statement as of 31 December 2024
- Other related documents
- Exchange rate source: Central Bank of Nigeria USD1.00 = NGN1,447(31 December 2024)