Development Bank of Nigeria Plc

2023 Series 1 Final Bond Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Development Bank of Nigeria Plc

₦20 billion Series 1 Senior Unsecured Fixed Rate Series I Bond due 2028 under the ₦100 Billion Debt Issuance Programme

Rating: Aaa

Outlook: Stable
Issue Date: 19 April 2023
Expiry Date: 18 April 2024
The rating is valid throughout the life of the instrument but will be subject to periodic monitoring and review.

Bond tenor: 5 years
Industry: Development Finance Institution (DFI)

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RATING RATIONALE

Agusto & Co. hereby assigns **"Aaa"** rating to the proposed Development Bank of Nigeria Plc's ("DBN", 'the Bank' or "the Issuer") ₦20 billion Series I Senior Unsecured Fixed Rate Bond Due 2028 ("the Issue" or "the Bond"). The Issuer's rating is hinged on DBN's credit rating of '**Aaa**' that reflects the strength and support of its shareholders which includes the Ministry of Finance Incorporated (60%), two international development partners [African Development Bank (18%) and European Investment Bank (7%)] and Nigeria Sovereign Investment Authority (15%). In addition to equity, these shareholders provide governance and technical support to DBN. Agusto & Co. believes that these entities will provide additional support if required. The Issue rating also takes into cognisance the Bank's good asset quality, strong liquidity profile, strong capitalisation, acceptable profitability as well as an experienced and stable management team.

The Issuer's principal activity is to extend loans to participating financial institutions (PFIs) for on-lending to micro, small and medium-sized enterprises (MSMEs). As at 31 December 2022, DBN's loan portfolio amounted to ₦372.2 billion and comprised exposures to 27 PFIs disbursed to over 317,000 MSME beneficiaries. However, the Bank's loan book is concentrated as only seven commercial bank PFIs accounted for 86.4% (FYE 2021: 85.6%) of total loans as at FYE 2022. We note that the concentration is primarily due to DBN's rigorous PFI on-boarding process. Nevertheless, the Issuer has disclosed plans to increase its marketing to on-board more PFIs particularly the micro-finance banks in the near term. As at 31 December 2022, all credit exposures remained in the stage 1 category for loans with relatively low default risk. We expect asset quality to remain good in the near term upheld by DBN's wholesale model and the collateral system.

To maintain liquidity, DBN invests in placements with well rated banks as well as government securities to a lesser extent in the period under review. The Issuer's liquid assets

*Related Document: Agusto & Co Limited's 2023 DBN Credit Rating declined by 19.1% year-on-year to ₦131.1 billion as at FYE 2022 following increased loan disbursements. Nevertheless, the liquidity ratio measured by liquid assets to long-term borrowings stood at 45% (FYE 2021: 54%), higher than the 10% regulatory minimum for development finance institutions operating in Nigeria and the Bank's 20% internal benchmark. We view DBN's liquidity to be good, supported by the large amount of liquid assets held.

DBN's capitalisation is strong with a Basel II capital adequacy ratio (CAR) of 64% (FYE 2021: 64.2%) as at the FYE 2022, six times above the regulatory threshold of 10% for wholesale development finance institutions operating in Nigeria. The Issuer's tier 1 leverage ratio of 41% (computed as core capital to total assets ratio) was also above our 5% minimum threshold. Furthermore, our DBN's Basel III ratio computed as tier 1 capital to risk weighted assets was 48.7% as at the FYE 2022, above our 6% minimum threshold. In our opinion, the Issuer is well capitalised for the level of business risks undertaken, with significant capacity to take on additional risk assets in the near to medium term.

In the financial year ended 31 December 2022, DBN's pre-tax profits grew by 29.7% to ₦29.5 billion and translated to improved pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) of 5.8% (FY 2021: 4.6%) and 14.6% (FY 2021: 12.3%) respectively. While developmental impact and not profitability is the primary focus of the Issuer, we note positively the adequate profitability ratios. In the near term, we expect improved profitability indicators on the back of an enlarged loan book, higher yield on money market securities and the Bank's market sensitive pricing model.

Figure 1: Issuer's Strengths and Challenges

Strengths

- Strong support of the Federal Government of Nigeria through the MoFI.
- Strong support from well rated multilateral agencies that are also shareholders.
- Good asset quality
- Strong capitalisation
- Good liquidity
- Stable and experienced management team

Challenges

- Rising operating expenses due to inflationary pressures
- Deterioration of the Nigerian macro-economic climate

Table 1: Issuer's Financial Information

	31 December 2021	31 December 2022
Total Assets	₦499.2 billion	₦517.2 billion
Operating Income	₦26.8 billion	₦35.1 billion
Pre-tax Return on Average Assets (ROA)	4.6%	5.8%
Pre-tax Return on Average Equity (ROE)	12.3%	14.6%

ISSUER'S PROFILE

Development Bank of Nigeria Plc ('DBN, the Bank or the Issuer') was incorporated on 19 September 2014 and granted an operating license by the Central Bank of Nigeria (CBN) as a Wholesale Development Finance Institution (WDFI) on 29 March 2017. Subsequently, the Bank commenced operations on 1 November 2017.

DBN was established by the Federal Government of Nigeria (FGN) in collaboration with international development partners to address challenges faced by micro, small and medium-scale enterprises (MSMEs) in Nigeria. The international development partners include the World Bank Group, African Development Bank (AfDB), KfW Development Bank, French Development Agency (AFD) and the European Investment Bank (EIB). These international development partners provide the Bank with funding (equity and long-term borrowings), technical competence and governance support.

DBN adopts a multi-pronged approach to supporting MSMEs namely; technical assistance and funding through Participating Financial Institutions (PFIs) and partial credit guarantees (which the Issuer undertakes through a dedicated subsidiary - Impact Credit Guarantee Limited which was established on 8 March 2019). Eligible PFIs include commercial banks, merchant banks, mortgage banks and microfinance banks.

Development Bank of Nigeria Plc operates from two locations, the head office located at The Clan Place, Plot 1386A Tigris Crescent, Maitama, Abuja and a liaison office located at Plot 952/953 Idejo Street, Victoria Island, Lagos.

BOARD, MANAGEMENT & STAFF

Development Bank of Nigeria Plc is owned by the Ministry of Finance Incorporated (60%), two international development partners [African Development Bank (18%) and European Investment Bank (7%)], and Nigeria Sovereign Investment Authority (15%). The Bank's charter outlines strong governance standards and a clear mandate. DBN's shareholders strengthen the governance through representation on the Board of Directors and participation in the various Board committees. In mitigating political risk associated with development financial institutions with significant shareholding by government-related entities, the Directors are selected based on the Bank's stringent criteria and are subject to approvals by all shareholders.

Development Bank of Nigeria Plc is governed by an eleven-member Board of Directors comprising one alternate director (representing African Development Bank), eight Non-Executive Directors (six of whom are Independent Non-Executive Directors) and two Executive Directors. The Board of Directors, which is chaired by Dr Shehu Yahaya, maintains five standing committees for effective oversight namely; the Board Audit and Compliance Committee, the Board Credit and Risk Committee, the Board Finance Committee, the Board Nomination and Governance Committee, and the Board Ethics Committee.

Dr Anthony Okpanachi is the pioneer and current Managing Director and Chief Executive Officer of the Bank. He is supported by a seven-member executive management team and five management committees namely: the Management Committee, the Information Technology Steering Committee, the Asset and Liability Committee, the Management Credit Committee and Management Risk Committee.

CURRENT DIRECTORS		INSTITUTION REPRESENTED
Dr Shehu Yahaya	Chairman	*Nil*
Dr Anthony Okpanachi	Managing Director/Chief Executive Officer	*Nil*
Mrs Ijeoma Ozulumba	Executive Director	*Nil*
Mrs Clare Omatseye	Independent Non-Executive Director	*Nil*
Mallam Bello Maccido	Independent Non-Executive Director	*Nil*
Mr Andrew Alli	Independent Non-Executive Director	*Nil*
Mr Phillips Oduoza	Independent Non-Executive Director	*Nil*
Dr Oladimeji Alo	Independent Non-Executive Director	*Nil*
Mr Kyari Abba Bukar	Independent Non-Executive Director	*Nil*
Mr Omar Sefiani	Alternate Director (Non-Executive Director)	*African Development Bank (AfDB)*
Mr Henry Baldeh	Non-Executive Director	*African Development Bank (AfDB)*

During FY 2022, DBN employed an average of 41 persons, lower than the 55 persons recorded in the prior year attributable to resignations associated with the high rate of emigration in Nigeria. However, personnel costs increased by 24.5% to ₦2.4 billion due to promotions and performance bonus-related accruals. Nonetheless, with improved earnings, the operating income per staff to average staff cost ratio increased to 14.9 times (FY 2021: 14.1 times), comparing favourably to the average staff productivity ratio of 5 times of 'Aaa' rated DFIs in our purview in FY 2022.

We consider DBN's staff productivity to be good for a wholesale development finance institution, supported by an experienced and stable management team.

THE ISSUE

The Issue is a ₦20 billion Senior Unsecured Fixed-Rate Bond due 2028 ("the Bond" or "the Issue"), the first tranche under a ₦100 billion Debt Issuance Programme. The Bond will have a tenor of 5 years, with interest paid semi-annually and the principal repaid at maturity. The Bond shall be direct, unsecured, senior and unconditional obligation of the Issuer and shall rank pari-passu with other existing unsecured obligations of the Issuer. The Bond will be tradable on the FMDQ platform.

Purpose of the Issue

The net proceeds of the Bonds (after payment of all transaction costs) will be applied towards financing the Issuer's growth plans. Specifically, net proceeds shall be used to grant loans and advances to PFIs for on-lending to micro, small and medium-sized enterprises in line with the Bank's strategic plans.

Source of Repayment

Repayments comprising coupon (in arrears) relating to the Issue will be redeemed from the Issuer's operating cash flows. The Bank will establish a Debt Service Payment Account (DSPA) under the control of the Bond Trustees, for purposes of servicing the Issue's obligations. Accordingly, the Issuer shall remit to the DSPA the coupon, at least 10 days prior to the due date in line with the provisions of the Trust Deed. The Bond principal amount will be repaid in a bullet tranche on the maturity date.

The Series 1 Bonds may also be partially redeemed by instalments on such dates and at such amounts as may be specified in the Pricing Supplement and the payments made in instalments shall reduce the Principal amount outstanding on the Issue until fully redeemed at the maturity date. Upon redemption, the Bondholders shall forward the Series 1 Bond Certificate (where applicable) to the Issuer and DBN's obligations in respect of the Series 1 Bond shall be discharged.

DBN Plc has been assigned **"Aaa"** rating by Agusto & Co. Limited which expires in June 2024, subject to annual reviews. The rating assigned to the Issuer is reflective of an institution with a good financial condition and a strong capacity to meet its obligations as and when they fall due.

Negative Pledge

For as long as any of the Series 1 Bonds are outstanding, the Issuer shall not without the prior written consent of the Bond Trustees directly or indirectly secure any other Financial Indebtedness represented by Bonds (excluding Bonds issued under the Programme) or any other debt securities which are, or are capable of being, traded, noted, or listed on any stock exchange or over-the-counter or similar securities market.

Trustees to the Issue

DLM Trust Company Limited and ARM Trustees Limited are joint trustees to the Issue.

DLM Trust Company Limited, a subsidiary of DLM Capital Group Limited was incorporated in February 2017 and licensed by the Securities and Exchange Commission (SEC) to offer Trust services to individuals, corporations, sub-sovereign, and Federal Government Agencies. DLM Trust Company Limited is located at 66/68, Alexander Avenue, Ikoyi, Lagos.

ARM Trustees Limited is a wholly owned subsidiary of Asset & Resource Management Company. With over eighteen years' experience, the company specializes in corporate bond transactions and trust management. ARM Trustees Limited is located at 1, Mekunwen Road, Ikoyi, Lagos, Nigeria.

In line with the Trustee Investment Act of 1962, trust assets held are duly separated from the accounts of the Trustees such that trust continues to exist if the Trustee goes into liquidation. The Securities and Exchange Commission is also empowered to periodically monitor the activities of the Trustees hence providing an independent check on the entities.

ANALYSTS' COMMENTS

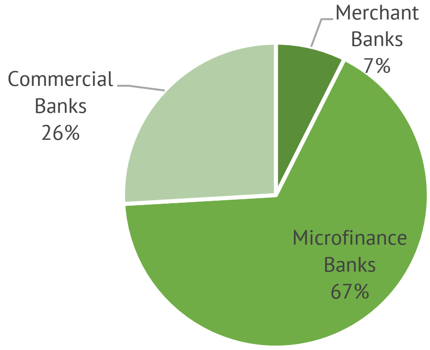
ISSUER'S FINANCIAL CONDITION

Wholesale lending model supports asset quality

Development Bank of Nigeria Plc's was set up to promote the development of micro, small and medium enterprises in Nigeria. As at 31 December 2022, the Issuer's total assets stood at ₦517.2 billion, a marginal 4% year-on-year growth funded by the expanded shareholders' equity. Asset growth was most prominent in the loan book which expanded by 15.1% to ₦372.2 billion and accounted for a larger 72% (FYE 2021: 64.7%) of total assets.

As at 31 December 2022, the loan book which comprised credit exposures to eligible participating financial institutions for on-lending to MSMEs was dominated by commercial banks. As at the same date, the Bank had a total of 27 PFIs (FYE 2021: 20 PFIs) with the on-boarding of one commercial bank and six microfinance banks during the review year. As at 31 March 2023, the Bank had on boarded two additional PFIs and plans to further expand the pool by up to thirteen participating financial institutions by FYE 2023. The expanded PFI pool will include more microfinance banks, finance houses and FinTechs in order to diversify the obligor base as well as provide wider reach to MSMEs. To support its core mandate of MSME financing, DBN encourages the PFIs to diversify their credits across various business segments, including sectors with relatively low financial inclusion as well as financially disadvantaged regions and businesses managed by female and young entrepreneurs.

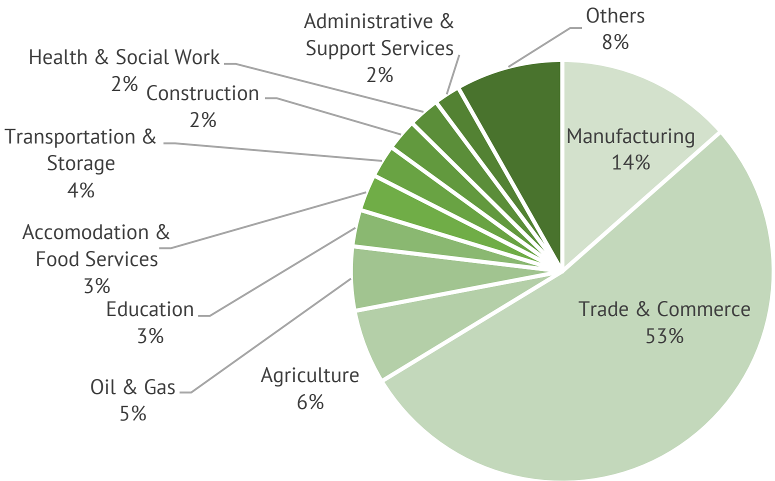
Figure 2: Breakdown of DBN's Participating Financial Institutions as at 31 December 2022



As at FYE 2022, none of the exposures to the PFIs which are all naira denominated exceeded 20% of the Bank's shareholders' funds, similar to the previous year. In addition, the Issuer's credit exposures were adequately collateralised, with a set collateral coverage of at least 100%. DBN has a collateral system whereby only collateral such as government securities, movable assets, and corporate guarantees are accepted in addition to direct debit mandates on the PFIs' accounts with the CBN and correspondent banks. The Issuer also has a dynamic internal loan pricing system with average interest rates of up to 12.5% per annum offered to commercial bank PFIs and up to 16.5% per annum for microfinance banks and other finance institutions. We note that the commercial banks are more sensitive to changes in interest rates compared to the microfinance banks. Thus, we expect that the proposed Bond's proceeds will be disbursed to more microfinance banks particularly given our projection of a higher coupon rate on the Issue and subsequently higher interest rates offered to PFIs.

As at 31 December 2022, our analysis of the ultimate beneficiaries (MSMEs) of DBN's loan book shows that operators in the trade and commerce sector were the most dominant. The manufacturing, agriculture and oil and gas sectors were also significant beneficiaries as at FYE 2022. Whilst we note that the trade and commerce sector create jobs and drives economic growth in Nigeria, we anticipate better diversification in loan disbursements to final MSME beneficiaries in the near term.

Figure 3: Breakdown of MSMEs Beneficiaries of DBN's Loan as at FYE 2022



As at FYE 2022, the Bank had no impaired loans and the entire portfolio was classified under stage 1, the category for loans with relatively low default risk. DBN has maintained this profile since its commencement of lending activities in 2017. Notwithstanding, the Bank makes annual loss provisions in line with IFRS 9 accounting standard. As at FYE 2022, DBN's cumulative loan loss provision stood at ₦2.8 billion, representing 0.5% (FYE 2021: 0.3%) of gross loans. We believe that DBN's asset quality metrics has been upheld by the wholesale lending model and the quality of the Bank's PFIs. However, the resilience of the Bank's risk management framework will be tested by Nigeria's weak environment fraught with rising interest rates as well as the expansion of the PFI base following a successful issuance of this proposed bond.

We consider DBN's asset quality to be good. The Bank intends to grow the loan portfolio by 7.6% to ₦416 billion by FYE 2023, a much slower growth pace from the preceding year as Nigeria's weak macro economy may moderate the level of disbursements. DBN also plans to widen the list of accredited PFIs to include other non-bank financial institutions in the near to medium-term to sustain its increasing penetration of MSME financing. Whilst we view this plan positively, we believe that lending to a wider PFI base will test the efficacy of the Bank's risk management framework.

Good liquidity and funding profile

DBN's activities are funded by shareholders' funds and borrowings sourced from international development partners including the World Bank (IBRD), the French Development Agency (AFD), KfW, the German Development Bank and Africa Development Bank (AfDB). The borrowings are direct commitments of the Issuer, although channelled through the Federal Government of Nigeria who provides a sovereign guarantee and bears the foreign currency risks. As at 31 December 2022, DBN's total borrowings stood at ₦291.1 billion, 2.3% slightly lower than the prior period, funding 56.3% (FYE 2021: 59.7%) of total assets. To diversify its funding base, DBN is accessing the capital market with its debut issue of ₦20 billion. In addition to the Issue, the Bank plans to access more borrowings from international development partners in the near term which it expects will be at a lower rate and hence will moderate its funding costs.

Table 2: Schedule of the Bank's Borrowings as at FYE 2022

Development Partner	Interest Rate	Tenor	Outstanding Balance as at FYE 2022
International Bank for Reconstruction and Development (IBRD) US$480 million commitment	4%	21 years	₦147.9 billion
French Development Agency (AFD) US$130 million commitment	3.55%	10 years	₦33.6 billion
KfW German Development Bank US$200 million commitment	3.99%	10 years	₦40.7 billion
African Development Bank (AfDB) US$400 million commitment	4%	15 years	₦56.3 billion
African Development Bank (AfDB)	1%	15 years	₦12.7 billion

The Issuer's weighted average cost of funds amounted to 3.8% in FY 2022, at par with the previous year. In the near term, we anticipate an increase in the funding cost given the expected high coupon rate on the Issue, relative to other borrowings of the Bank. However, the relatively low-interest rate on additional borrowings expected from the international development partners will moderate the increase in the weighted average cost of funds.

DBN holds liquid assets as mainly treasury securities and placements with investment-grade banks. The Bank's liquid assets declined by 19.1% to ₦131.1 billion as at FYE 2022 on the back of increased loan disbursements. Thus, the liquidity ratio measured by liquid assets to total borrowings decreased to 45% (FYE 2021: 54%) but remained comfortably higher than the 10% regulatory minimum for development finance institutions operating in Nigeria and the Bank's 20% internal benchmark. As at the same date, the Bank's liquid assets to near term obligations (loans yet to be disbursed), planned capital injection into the subsidiary and borrowing repayment over the next one year stood at 73.1%, which we consider good.

As at FYE 2022, DBN's debt-to-equity ratio stood at 1.4 times, better than 1.6 times recorded in the prior year owing to the 10.1% growth in shareholders' funds and remained within our threshold. While we expect the Bond to raise the debt-to-equity ratio, we believe that it will remain within our threshold of 2 times in the near term. We note that DBN's debt to equity ratio of 1.4 times as at the FYE 2022 compares well with other '**Aaa**' rated DFIs in our purview who have an average of 2.4 times debt to equity ratio. Nevertheless, going forward, we believe that there is a need for the Bank to have internal leverage ratios metrics especially as the business expands.

We view DBN's liquidity profile and refinancing ability as good. We also note positively that the Bank's relationship with international multilateral financial institutions has supported funding from inception. Thus, we do not expect the Issuer to be unable to raise funds from the domestic debt market particularly given the support of the Federal Government through DBN's key shareholder - the Ministry of Finance Incorporated (MoFI).

Acceptable profitability

As a development bank, DBN does not seek to maximize profits instead it seeks to balance its developmental role while maintaining its financial strength. As a wholesale development bank, the Issuer earns its core income by extending loans to eligible PFIs for on-lending to MSMEs in Nigeria. In addition to the interest income generated from the PFIs, DBN earns income from its pool of fixed income securities and bank placements. During the financial year 31 December 2022, the Issuer's interest income grew by 24.6% year-on-year to ₦47 billion buoyed by income from core lending activities. Specifically, the 15.1% loan book growth resulted in a 37.2% year-on-year increase in interest earned on loans to ₦31.6 billion. Conversely, the Bank's divestment from treasury bills to fund disbursements resulted to a 51.4% decline in interest income from investments to ₦917.3 million while, earnings from placements grew by a considerable 13% to ₦14.5 billion year-on-year. We expect interest income from loans to dominate in the near term particularly with the successful issuance of the proposed bond which will be used to bolster the loan portfolio in the near term.

In FY 2022, interest expense declined slightly by 4.1% to ₦11.2 billion largely due to repayments. However, we note that DBN's interest drawback program for its PFIs through which it grants rebates on loans to MSMEs playing within sustainability sectors (such as renewable energy and waste management) grew by 97.4% to ₦83.7 million. The anticipated high coupon rate on the proposed Bond in addition to other new borrowings from international development partners should drive interest expense upwards in FY 2023.

In FY 2022, DBN's impairment charge was ₦1.2 billion relative to a write back of ₦351.3 million recorded in the prior year. The downgrade of Nigeria's sovereign rating elicited the uptick in impairment charge which represented 2.6% of the interest income in the year under review. We expect higher impairment charge in the near term given the projected loan growth and prevailing macroeconomic headwinds.

In the review period, the Issuer's operating expenses grew by 37.5% to ₦5.6 billion due to business expansion and inflationary pressures. The growth was most prominent in recruitment and training (216.7%), professional services (87%) and personnel expenses (24.5%). However, the 30.9% growth in operating income moderated the increase in the Bank's cost-to-income ratio (CIR) to 15.9% (FY 2021: 15.1%). In the near term, we anticipate higher operating expenses due to the prevailing inflationary pressures, planned business growth and staff recruitment. Notwithstanding, we believe that the CIR will remain below 20%, reinforced by the low-cost profile associated with the Bank's lean structure.

Overall, the Bank's pre-tax profits rose by 29.7% to ₦29.5 billion in FY 2022. Thus, pre-tax return average assets (ROA) improved 5.8% (FY 2021: 4.6%) and the pre-tax return on equity (ROE) increased to 14.6% (FY 2021: 12.3%). We consider the Bank's profitability metrics to be acceptable given the prevailing macroeconomic headwinds and its developmental mandate. We note that profitability is not DBN's core mandate, rather, financial sustainability and developmental impact are the Issuer's crucial strategic thrusts. In the short term, we expect higher profitability indicators as the prevailing interest rates on money market securities rise and the loan portfolio expands.

Strong capitalisation for current business risk

As at 31 December 2022, DBN's shareholders' funds stood at ₦212.2 billion, a 10.1% year-on-year increase, supported by reserve accretions from improved profitability. At this level, the Bank's shareholders' funds stood above the ₦100 billion regulatory minimum for wholesale development finance institutions. As at FYE 2022, DBN's core or tier I capital funded a higher 41% (FYE 2021: 38.6%) of the total assets, significantly higher than the regulatory minimum of 5%. In addition, our DBN's Basel III ratio computed as tier 1 capital to risk weighted assets was 48.7% as at the FYE 2022, above our 6% minimum threshold.

The Bank's tier 2 capital comprising long-term borrowings from international development partners declined slightly by a negligible 2.3% to ₦291.1 billion as at FYE 2022. However, in line with the CBN's regulatory guidelines, tier 2 capital used in estimating capital adequacy is capped at 33.3% of tier I capital.

DBN's Capital Adequacy Ratio (CAR) computed based on Basel II tenets (using the IFRS 9 transitional arrangement prescribed by the CBN) declined slightly to 64% (FY 2021: 64.2%), in line with the moderate 15.1% growth in the loan book as at FYE 2022. Notwithstanding, the Bank's CAR remained above the minimum regulatory threshold of 10%. Overall, the Issuer's capital is strong for the current level of business risks and is expected to remain adequate to support further growth in business volumes subsequent to the Bond's issuance. In the short term, we anticipate the transition to Basel III tenets for the Bank's reporting of capitalisation.

OUTLOOK

Development Bank of Nigeria Plc plans to expand the PFI list to accommodate other lower ranked commercial banks, private equity firms, Fintechs and venture capital companies to support loan growth. Women, youth and start-up businesses will also be prioritised in loan disbursements going forward. In addition, DBN will commence green financing having received accreditation from the Green Climate Fund. The debut ₦20 billion Issue and additional borrowings from international development partners will support the implementation of the aforementioned plans.

The Bank has projected a moderate 7.6% loan growth which we believe is achievable, to be funded by the Bond and other borrowings. The loan growth is expected to drive a 48.8% increase in the profit before taxation despite the anticipated rise in interest expense and operating expenses. We do not view this projected growth in pre-tax profits as attainable but we expect profitability to remain adequate. In addition, Agusto & Co, expects DBN's wholesale lending model and resilient risk management framework to uphold asset quality. Furthermore, capitalisation should remain strong in the near term underpinned by the Issuer's strong shareholders' support. While, the Bank's strong relationship with international development partners together with support from the Ministry of Finance Incorporated, that provides a sovereign guarantee for DBN's foreign currency borrowings and hedges the associated currency risk, should uphold the Issuer's funding base.

Based on the foregoing, Agusto & Co. hereby attaches a "**stable**" outlook to the ₦20 billion, Series I Senior Unsecured Fixed Rate Bond Due 2028 under the ₦100 billion debt issuance programme. Our outlook is upheld by the support of the shareholders and the strong capitalization of the development bank.

For more comprehensive information, kindly refer to the 2023 credit rating report of Development Bank of Nigeria Plc.

FINANCIAL SUMMARY

Development Bank of Nigeria Plc

STATEMENT OF FINANCIAL POSITION	**31-Dec-20**		**31-Dec-21**		**31-Dec-22**	
	N'000		**N'000**		**N'000**	
ASSETS						
Cash & Equivalents	258,130	0%	222,118	0%	319,853	0%
Government Securities	14,162,048	5%	26,618,294	3%	-	48%
Quoted Equity Investments (Net)	-		-		-	
CASH & MARKETABLE SECURITIES	**14,420,178**	**5%**	**26,840,412**	**3%**	**319,853**	**48%**
Due from Financial Institutions	249,017,146	27%	135,098,925	51%	130,738,904	27%
Loans to Customers	215,129,830	65%	323,254,445	44%	372,185,667	22%
Others	-		-		-	
Gross Loans	**464,146,976**	**92%**	**458,353,370**	**94%**	**502,924,571**	**49%**
Less: Cumulative loan loss provision	(1,106,658)	0%	(1,559,570)	0%	(2,783,099)	0%
TOTAL LOANS & ADVANCES - NET	**463,040,318**	**91%**	**456,793,800**	**94%**	**500,141,472**	**49%**
Unquoted Equity Investments(Net)	-		-		-	
Trading Securities	-		-		-	
OTHER EARNING ASSETS	**-**		**-**		**-**	
TOTAL OTHER ASSETS	1,386,334	0%	1,791,061	0%	2,764,409	0%
TOTAL OTHER LONG-TERM ASSETS	11,375,000	2%	11,375,000	2%	11,375,000	2%
TOTAL FIXED ASSETS & INTANGIBLES	2,090,403	0%	2,441,940	0%	2,635,668	0%
TOTAL ASSETS	**492,312,233**	**100%**	**499,242,213**	**100%**	**517,236,402**	**100%**
TOTAL COMMITMENTS	-		-		-	
TOTAL ASSETS & COMMITEMENTS	**492,312,233**	100%	**499,242,213**	100%	**517,236,402**	100%
CAPITAL & LIABILITIES						
TIER 1 CAPITAL (CORE CAPITAL)	**176,926,983**	**39%**	**192,645,291**	**36%**	**212,179,206**	**34%**
SHORT TERM BORROWINGS					**-**	
LONG TERM BORROWINGS	**313,724,945**	60%	**298,134,621**	64%	**291,139,709**	65%
TOTAL INTEREST BEARING LIABILITIES	**313,724,945**	**60%**	**298,134,621**	**64%**	**291,139,709**	**65%**
TIER 2 CAPITAL	**313,724,945**	**60%**	**298,134,621**	**64%**	**291,139,709**	**65%**
TOTAL OTHER LIABILITIES	1,660,305	2%	8,462,301	0%	13,917,487	1%
TOTAL CAPITAL & LIABILITIES	**492,312,233**	100%	**499,242,213**	100%	**517,236,402**	100%
TOTAL COMMITMENTS						
TOTAL CAPITAL, LIABILITIES & COMMITMENTS	**492,312,233**	100%	**499,242,213**	100%	**517,236,402**	100%

Development Bank of Nigeria Plc

INCOME STATEMENT FOR THE YEAR ENDED	31-Dec-20		31-Dec-21		31-Dec-22	
	N'000		N'000		N'000	
Interest income	33,429,735	99%	37,726,675	100%	46,999,580	100%
Interest expense	(11,270,015)	-31%	(11,688,620)	-34%	(11,215,724)	-18%
NET INTEREST REVENUE	**22,159,720**	**68%**	**26,038,055**	**66%**	**35,783,856**	**82%**
INCOME FROM EQUITY INVESTMENTS						
FEES & OTHER INCOME	59,461	1%	433,864	0%	543,295	0%
Loan loss expense	(829,726)	1%	351,334	-2%	(1,217,699)	-2%
Equity impairment Charges	-					
OPERATING INCOME	**21,389,455**	**70%**	**26,823,253**	**64%**	**35,109,452**	**80%**
STAFF COSTS	(1,240,514)	-5%	(1,906,848)	-4%	(2,373,758)	-3%
DEPRECIATION EXPENSE	(438,275)	-1%	(410,903)	-1%	(391,933)	-1%
OTHER OPERATING EXPENSES	(1,419,793)	-5%	(1,745,689)	-4%	(2,821,175)	-4%
OPERATING EXPENSES	**(3,098,582)**	**-11%**	**(4,063,440)**	**-9%**	**(5,586,866)**	**-8%**
NET INCOME	**18,290,873**	**60%**	**22,759,813**	**55%**	**29,522,586**	**72%**

Development Bank of Nigeria Plc

KEY RATIOS	31-Dec-20	31-Dec-21	31-Dec-22
PROFITABILITY RATIOS			
Return on earning assets (average)	5%	6%	7%
Return on average assets	4%	5%	6%
Return on average equity	11%	12%	15%
Loan loss expense/Interest income	2%		3%
Operating expenses/Net earnings	14%	15%	16%
Gross earnings/Total assets & contingents (average)	7%	8%	9%
Income from Equity Investments/Equity Investments			
LIQUIDITY RATIOS			
Total Debt/Liquid assets	119%	184%	222%
Liquid assets/Long term debts	84%	54%	45%
Liquid assets/Short term debts	100%	100%	100%
Liquid assets/Total assets	54%	32%	25%
ASSET QUALITY RATIOS			
PERFORMING LOANS	215,129,830	323,254,445	372,185,667
NON-PERFORMING LOANS			
Non-performing loans/Total loans - Gross			
Loan loss provision/Total loans - Gross	4%	-1%	3%
Loan loss provision/Non-performing loans			
Equity loss provision/Equity investments			
CAPITAL ADEQUACY			
Tier 1	175,928,266	191,772,534	210,805,086
Tier 2	175,928,266	191,772,534	210,805,086
Equity Cushion	36%	39%	41%
Risk Weighted Assets	352,384,765	403,979,582	450,172,977
Adjusted Capital	351,856,532	383,545,068	421,610,172
Basel 1			
Tier 1/ Total Capital	50%	50%	50%
Net Loans to adjusted capital	1.32	1.19	1.19
Tier 1/Risk Weighted Assets	50%	47%	47%

RATING DEFINITIONS

Aaa	This is the highest rating category. The Bond is adjudged to offer highest safety of timely payment of interest and principal.
Aa	The Bond is adjudged to offer high safety of timely payment of interest and principal.
A	The Bond is adjudged to offer adequate safety of timely payment of interest and principal; however, changes in circumstances can adversely affect such issues more than those in the higher rated categories.
Bbb	The Bond is adjudged to offer sufficient safety of timely payment of interest and principal for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than for bonds in higher rated categories.
Bb	The Bonds is adjudged to carry inadequate safety of timely payment of interest and principal; while they are less susceptible to default than other speculative grade bonds in the immediate future, the uncertainties that the issuer faces could lead to inadequate capacity to make timely interest and principal payments.
B	The Bond is adjudged to have greater susceptibility to default; while currently interest and principal payments are met, adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.
C	The Bond is adjudged to have factors present that make them vulnerable to default; timely payment of interest and principal is possible only if favourable circumstances continue.
D	The Bond is in default and in arrears of interest or principal payments or are expected to default on maturity.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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