CREDIT RATING ANNOUNCEMENT

GCR affirms Development Bank of Nigeria Plc's national scale long and short-term issuer ratings of AAA(NG)/A1+(NG); Outlook Stable.

Rating Action

Lagos, 14 April 2023 - GCR Ratings (GCR) affirms Development Bank of Nigeria Plc's national scale long and short-term issuer ratings of AAA(NG)/A1+(NG), with a stable outlook. At the same time, GCR withdrew the international scale long-term Issuer credit rating.

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
Development Bank of Nigeria Plc	Long Term Issuer	National	AAA(NG)	Stable
	Short Term Issuer	National	A1+(NG)	

Rating Rationale

Development Bank of Nigeria Plc (the Bank) is considered a core operating entity within a wider group (DBN or the Group) comprising the Bank and its wholly owned subsidiary, Impact Credit Guarantee Limited (ICGL). As such, the national scale issuer credit ratings on the Bank reflect the strengths and weaknesses of the Group. The ratings affirmation of the Bank reflects the Group's strong capitalisation metrics, stable funding structure and strong liquidity, good risk profile and a competitive position that shows considerable progress in the delivery of its mandate to targeted Micro, Small and Medium Enterprises (MSMEs).

DBN has a mandate to bridge the gap created by the inability of existing lending institutions to meet the funding needs of MSMEs in Nigeria by providing access to longer tenured financing using participating financial institutions (PFI) as conduits. Furthermore, the Group incentivises PFIs, predominantly deposit-money and microfinance banks, to lend to MSMEs, offering technical assistance to augment their capacity where necessary. DBN through its subsidiary, ICGL which was incorporated on 8 March 2019, issues partial credit guarantees (up to 60%) to PFIs in respect of loans granted to eligible MSMEs. GCR's assessment of DBN's competitive position thus reflects a good delivery of its mandate, evidenced by a loan book size of NGN372 billion (USD829.3 million @ N448.6/USD) as of 31 December 2022, accounting for about a third of total loans to MSMEs by deposit money banks and an increasing number of registered PFIs, which registered at 60 in 2022 (with disbursements to 27) from 51 in the previous year. In addition, ICGL has guaranteed 27,208 loans since inception totalling NGN69.4 billion. However, these positives are counterbalanced by the weak operating environment and a restriction on the number of PFIs that can access its funding facilities because of its strict minimum eligible criteria.

GCR's assessment of the Group's capital and leverage is in the highest category based on the GCR core capital ratio and a leverage ratio of 50.6% (2021: 51.3%) and 37.9% (2021: 35.7%) respectively in 2022, supported by strong earnings generation and retention. As of 31 December 2022, shareholders' equity of NGN214 billion (USD477.1 million @ N448.6/USD) was more than double the regulatory minimum of NGN100 billion for development finance institutions in Nigeria. Over the next 12-18 months, we expect the Group to maintain its GCR core capital ratio within the highest assessment of 35% even with the projected 15% growth in the loan book and dividends upstreaming (which commenced in 2022, the first after five years of operations). While the leverage ratio is also expected to remain in the highest category, GCR recognises the growth in ICGL's contingent liabilities (2022: NGN29.2 billion; 2021: NGN26.9 billion) which reflects its guaranteed coverage on all active loans with PFIs and represented 13.6% of total shareholders' equity in 2022. A considerable increase in the guaranteed portfolio as a percentage of capital could reflect negatively on the capital and leverage assessment.

DBN's risk assessment is positive to the rating. DBN is exposed to credit risk through its lending activities to PFIs although the credit risk of the underlying loans is borne by the PFIs. GCR notes obligor concentration as the Bank's top five PFIs accounted for 86% of the loan book as of 31 December 2022. Some credit risks also exist within the subsidiary- ICGL which partially guarantees loans given to MSMEs by PFIs up to 60%. Notwithstanding, the Bank has maintained nil NPLs since inception and the ratio of called guarantees to cumulative guarantee issued from ICGL remains negligible at 0.49% in 2022 (2021: 0.02%). Furthermore, the Group's credit loss ratio of 0.4% in 2022 (compared to a writeback in the previous year), largely reflects the challenging macroeconomic conditions which adversely impacted the ratings of a few PFIs. Supporting the Group's good risk position is its strict minimum eligibility criteria for PFIs and the collaterisation of all its exposures to PFIs at a minimum of 100%, using treasury bills and bonds, direct debit mandates on the PFI's account with CBN and correspondent banks as well as moveable assets registered with the National Credit Registry. Market and operational risks remain minimal. The Group's risk profile is expected to remain good over the outlook horizon.

Funding and liquidity is positive to the rating, supported by access to long term concessionary funding from international development financial institutions through the Federal Government of Nigeria (FGN). Nonetheless, we note refinancing risks that exist as maturity dates approach, except the funds are refinanced well in advance. Over the next 12-18 months, the Group intends to diversify its funding structure by raising debt capital from the Nigerian debt capital market following the registration of a NGN100 billion programme in April 2022. The proposed Series 1 senior unsecured bond shall offer up to NGN20 billion to support its growing mandate. DBN continues to maintain a good liquidity profile with c.28% of total assets in liquid FGN bonds and interbank deposits as of 31 December 2022. We expect the Group's funding and liquidity assessment to remain stable going forward.

Outlook Statement

The stable outlook reflects our expectations of a sustained trajectory of the Group's business profile and financial performance over the next 12-18 months. Capitalisation metrics are expected to remain strong (with GCR core capital ratio and leverage ratio over 35% and 10% respectively) on account of its good earnings from a growing and conservative on-lending portfolio supported by strict underwriting criteria. The risks in the Group's guaranteed portfolio are also expected to remain well contained over the next 12-18 months. In addition, we expect the proposed bond issue and funding from other international development finance institutions to translate to a more diversified and stable funding base with the good liquidity profile maintained.

Rating Triggers

The ratings may be downgraded if there is a significant decline in GCR core capital ratio and leverage ratio to less than 35% and 10% respectively or a significant increase in the percentage of the guaranteed portfolio to total equity, which adversely affects risk and capitalisation metrics. Additionally, a material deterioration in the Group's asset quality or a weaker delivery of the Group's mandate could place downward pressure on the ratings.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Financial Institutions, May 2019
GCR Ratings Scale, Symbols & Definitions, May 2022
GCR Country Risk Scores, March 2023
GCR Financial Institutions Sector Risk Score, February 2023

Ratings History

Development Bank of Nigeria Plc

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term Issuer	Initial	National	AAA(NG)	Stable	May 2021
Short Term Issuer		National	A1+(NG)		
Long Term Issuer	Initial/Last	International	B	Stable	
Long Term Issuer	Last	National	AAA(NG)	Stable	May 2022
Short Term Issuer		National	A1+(NG)		

Risk Score Summary

Rating Components & Factors	Score
Operating environment	**6.75**
Country risk score	3.50
Sector risk score	3.25
Business profile	**(0.75)**
Competitive position	(0.75)
Management and governance	0.00
Financial profile	**5.00**
Capital & Leverage	4.00
Risk	0.00
Funding & Liquidity	1.00
Comparative profile	**0.00**
Group support	0.00
Peer comparison	0.00
Total Risk Score	**11.00**

Glossary

Affirmation	See GCR Rating Scales, Symbols and Definitions.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Bond	A long-term debt instrument issued by either a company, institution or the government to raise funds.
Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Capital	The sum of money that is invested to generate proceeds.
Collateral	Asset provided to a creditor as security for a loan or performance.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
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.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Downgrade	The rating has been lowered on its specific scale.
Eligibility Criteria	Limitations imposed on the type and quality of assets that can be sold by the Originator / Servicer into the Securitisation vehicle which ensure the transaction will track the performance of historical data analysed as closely as possible.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
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.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
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.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Market	An assessment of the property value, with the value being compared to similar properties in the area.

Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk but excludes strategic risk and reputational risk.
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.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Treasury Bill	Short-term obligation backed by the government that bears no interest and is sold at a discount.

SALIENT POINTS OF ACCORDED RATING

GCR affirms that a.) no part of the ratings 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 rating has been disclosed to Development Bank of Nigeria Plc. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Development Bank of Nigeria Plc participated in the rating process via telephonic management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Development Bank of Nigeria Plc and other reliable third parties to accord the credit ratings included:

- Audited financial results as of 31 December 2021
- Audited financial results as of 31 December 2022
- Other relevant information

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