

DEVELOPMENT BANK OF NIGERIA PLC

Annual Report -- 31 December 2017

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Corporate Information

Board of directors:

Shehu Yahaya ¹	-	Chairman
Anthony Okpanachi ²	-	Managing Director
Uche Orji	-	Director
Bello Maccido ³	-	Independent Director
Dr. Oladimeji Alo ³	-	Independent Director
Phillips Oduoza ³	-	Independent Director
Andrew Alli ³	-	Independent Director
Clare Omatseye ³	-	Independent Director
Mohamed Khalif ³	-	Director

¹ Retired as Interim Managing Director and appointed as chairman effective 4 January 2017 and 31 May 2017 respectively.

² Appointed as Managing Director effective 28 February, 2017

³ Appointed as Director effective 28 February, 2017

Company Secretary and Chief Legal Counsel

Bashir Yusuf¹
Shofolahan Osho²

¹ Exited the Bank on the expiration of his contract on 6 February 2018

² Appointed as Company Secretary effective 12 February 2018

Registered office:

Plot 1386A Tigris Crescent,
Maitama, F.C.T
Abuja, Nigeria

Independent auditor:

KPMG Professional Services
KPMG Tower
Bishop Aboyade Cole Street
Victoria Island
Lagos

Bankers:

Central Bank of Nigeria
Ecobank Nigeria Limited
First Bank of Nigeria Limited
Guaranty Trust Bank Plc
United Bank for Africa Plc

RC No.:

1215724

Directors' Report

for the year ended 31 December 2017

The directors present their annual report on the affairs of Development Bank of Nigeria Plc ("DBN or the Bank"), together with the financial statements and the independent auditor's report for the year ended 31 December 2017.

Legal form

Development Bank of Nigeria Plc was incorporated in Nigeria under the Companies and Allied Matters Act as a Public Liability Company on 19 September 2014. It was granted its operating license to carry on operations as a Wholesale Development Finance Institution (WDFI) from the Central Bank of Nigeria on 29 March 2017. The Bank commenced operations on 1 November, 2017.

Principal activity

Development Bank of Nigeria Plc ("DBN") is a financial institution set up to bridge the gap created by the inability of other development banks, micro-finance banks and commercial banks being unable to satisfy the funding needs of the Micro, Small & Medium Enterprises (MSMEs) in Nigeria. The principal mission of the DBN is to improve the access of micro, small and medium enterprises to longer tenured finance. The Bank will play a focal and catalytic role in providing funding and risk-sharing facilities to MSMEs and small corporates through financial intermediaries. The operation of the Bank will also play an important role in developing the Nigerian financial sector by incentivizing financial institutions, predominantly deposit-money and microfinance banks, to lend to the productive sector, using technical assistance to augment their capacity where necessary and by providing them with funding facilities designed to meet the needs of these smaller customers.

Operating results

The highlights of the Bank's operating results for the year are as follows:

<i>In thousands of Naira</i>	31 Dec 17	31 Dec 16
Gross Earnings	6,050,245	53,217
Profit/(Loss) for the year before taxation	4,103,186	(395,136)
Taxation	(41,032)	-
Profit/(Deficit) for the year	4,062,154	(395,136)

Board of Directors

The directors who served up to the date of the report are as follows:

Shehu Yahaya ¹	Chairman
Anthony Okpanachi ²	Managing Director/ Chief Executive Officer
Bello Maccido ³	Independent Director
Dr. Oladimeji Alo ³	Independent Director
Phillips Oduoza ³	Independent Director
Andrew Alli ³	Independent Director
Clare Omatseye ³	Independent Director
Uche Orji	Director
Mohamed Khalif ³	Director

¹ Retired as Interim Managing Director and appointed as chairman effective 4 January, 2017 and 31 May, 2017 respectively.

² Appointed as Managing Director effective 28 February, 2017

³ Appointed as Director effective 28 February, 2017

Directors and their interests

The directors do not have any interest required to be disclosed under Section 275 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004

Directors' interests in contracts

In accordance with Section 277 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004, none of the directors have notified the Bank of any declarable interests in contracts with the Bank

Ownership

The issued and fully paid-up share capital of the Bank was 40,000,000 (2016: 20,000,000) ordinary shares of ₦1 each as at 31 December 2017. The 40,000,000 ordinary shares are owned by the Federal Government of Nigeria, through the Ministry of Finance Incorporated (MOFI) and the Nigeria Sovereign Investment Authority (NSIA).

The shareholding structure as at the balance sheet date were as shown below:

<i>Shareholders</i>	<i>31 Dec 17</i>		<i>31 Dec 16</i>	
	<i>Number of Shares</i>	<i>Shareholding Percentage</i>	<i>Number of Shares</i>	<i>Shareholding Percentage</i>
<i>In thousands</i>				
Ministry of Finance Incorporated (MOFI)	32,000,000	80%	16,000,000	80%
Nigeria Sovereign Investment Authority	8,000,000	20%	4,000,000	20%
Total	40,000,000	100%	20,000,000	100%

Events after the end of the reporting period

There were no events after the end of the reporting period which could have a material effect on the financial statements of the Bank which have not been recognised and/or disclosed in the financial statements.

Property and equipment

Information relating to changes in property and equipment is given in Note 18 to the Financial Statements. In the Directors' opinion, the market value of the Bank's property and equipment is not less than the carrying value shown in the Financial Statements.

Donations and charitable contributions

The Bank made a contribution of N2,500,000 to the sponsorship of National Association of Small and Medium Scale Enterprises summit and exhibition during the year. (2016: Nil) (see note 13)

Human resources

(i) Employment of disabled persons

The Bank maintains a policy of giving fair consideration to applications for employment made by disabled persons with due regard to their abilities and aptitudes. The Bank's policies prohibit discrimination against disabled persons in the recruitment, training and career development of employees. In the event of members of staff becoming disabled, efforts will be made to ensure that their employment with the Bank continues and appropriate training is arranged to ensure that they fit into the Bank's working environment.

(ii) Health, safety and welfare at work

The Bank maintains business premises designed with a view to guaranteeing the safety and healthy living conditions of its employees and customers alike. The Bank operates both a Group Personal Accident and Group Life Insurance cover for the benefit of its employees. It also operates a contributory pension plan in line with the Pension Reform Act 2015 (as amended).

(iii) Employee involvement and training

The Bank ensures that employees are informed on matters concerning them. Formal channels are also employed in communication with employees with an appropriate two-way feedback mechanism. In accordance with the Bank's policy of continuous development, the Bank draws up annual training programmes. The programmes include on the job training, classroom sessions and web-based training programmes which are available to all staff.

(iv) Gender analysis of staff

The average number of employees of the Bank during the year by gender and level is as follows;

31 December 2017

(a) Analysis of total employees

	Gender			Gender	
	Number			Percentage	
	Male	Female	Total	Male	Female
Employees	8	3	11	73%	27%
	8	3	11	73%	27%

(b) Analysis of Board and senior management staff

	Gender			Gender	
	Number			Percentage	
	Male	Female	Total	Male	Female
Board Members (Executive and Non-executive directors)	8	1	9	89%	11%
Senior Management	4	2	6	67%	33%
	12	3	15	80%	20%

31 December 2016

(a) Analysis of total employees

	Gender			Gender	
	Number			Percentage	
	Male	Female	Total	Male	Female
Employees	3	-	3	100%	0%
	3	0	3	100%	0%

(b) Analysis of Board and senior management staff

	Gender			Gender	
	Number			Percentage	
	Male	Female	Total	Male	Female
Board Members (Executive and Non-executive directors)	3	-	3	100%	0%
Senior Management	2	-	2	100%	0%
	5	-	5	100%	0%

Auditors

Messrs. KPMG Professional Services was reappointed by the Bank as auditors for the 31 December 2017 reporting period, following the expiration of the service contract with the Federal Ministry of Finance for the audit of 2014 - 2016 financial years. Having satisfied the relevant corporate governance rules on their tenure in office, they have indicated their willingness to continue in office as auditors to the Company. In accordance with Section 357 (2) of the Companies and Allied Matters Act of Nigeria therefore, the auditors will be re-appointed at the next annual general meeting of the Company without any resolution being passed.

BY ORDER OF THE BOARD

Shofolahan Osho

FRC/2016/NBA/00000014944

Company Secretary

12 March 2018

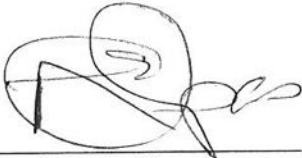
Statement of Directors' Responsibilities in Relation to the Financial Statements for the Year Ended 31 December 2017

The directors accept responsibility for the preparation of the annual financial statements that give a true and fair view in accordance with the International Financial Reporting Standards (IFRS) and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011, the Banks and other Financial Institutions Act, Cap B.3, LFN, 2004 and relevant Central Bank of Nigeria (CBN) Guidelines and Circulars.

The directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied Matters Act, Cap C.20, LFN, 2004 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The directors have made assessment of the Bank's ability to continue as a going concern and have no reason to believe that the Bank will not remain a going concern in the year ahead.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:



Anthony Okpanachi
FRC/2016/CISN/00000015033
Chief Executive Officer
12 March 2018



Uche Orji
FRC/2014/IODN/00000007036
Director
12 March 2018



KPMG Professional Services
KPMG Tower
Bishop Aboyade Cole Street
Victoria Island
PMB 40014, Falomo
Lagos

Telephone 234 (1) 271 8955
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Development Bank of Nigeria Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Development Bank of Nigeria Plc (the Bank), which comprise the statement of financial position as at 31 December, 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 42.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004, the Financial Reporting Council of Nigeria Act, 2011, the Banks and other Financial Institutions Act, Cap B3, Laws of the Federation of Nigeria, 2004 and relevant Central Bank of Nigeria (CBN) Guidelines and Circulars.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Nigeria and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there are no key audit matters to communicate in our report.

Other Information

The Directors are responsible for the other information which comprises the Directors' report, Statement of Directors responsibilities, corporate information and other national disclosures, but does not include the financial statements and our audit report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004, the Financial Reporting Council of Nigeria Act, 2011, the Banks and other Financial Institutions Act, Cap B3, Laws of the Federation of Nigeria, 2004 and relevant Central Bank of Nigeria (CBN) Guidelines and Circulars, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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Registered in Nigeria No BN 986925

Partners:

Abiola F. Bada
Adewale K. Ajayi
Ayodele A. Sovinka
Ibitomi M. Adepolu
Lawrence C. Amadi
Oladapo R. Okubadejo
Tolulope A. Odunade

Adebisi O. Lamikanra
Ajibola O. Olomola
Chibuzor N. Anyanechi
Ijeoma T. Emezie-Ezigo
Mohammed M. Adama
Oladimeji I. Salaudeen
Waleed A. Olayinka

Adekunle A. Elebute
Ayobami L. Salami
Ehile A. Aibangbee
Joseph O. Tegbe
Nneke C. Eluma
Olanike I. James

Adetola P. Adeyemi
Ayodele H. Othihiwa
Goodluck C. Obi
Kabir O. Okunola
Ogunlayo I. Ogunbenro
Oluwade O. Olayinka

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Compliance with the requirements of Schedule 6 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004

In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books and the Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.



Kabir O. Okunlola, FCA
FRC/2012/ICAN/00000000428
For: KPMG Professional Services
Chartered Accountants
16 March 2018
Lagos, Nigeria



Statement of Profit or Loss and Other Comprehensive Income

For the year ended

<i>In thousands of naira</i>	<i>Notes</i>	31-Dec-17	31-Dec-16
Interest income	7	6,050,245	-
Interest expense	8	(889,105)	-
Net Interest Income		5,161,140	-
Other income	9	-	53,217
Total operating income		5,161,140	53,217
Impairment charge on financial assets	10	(3,635)	-
Personnel expenses	11	(624,145)	(299,072)
Depreciation and amortisation expenses	12	(42,550)	-
General and administrative expenses	13	(387,624)	(149,281)
Total expenses		(1,057,954)	(448,353)
Profit/(Loss) before income tax		4,103,186	(395,136)
Tax expense	14(a)	(41,032)	-
Profit/(Loss) for the year		4,062,154	(395,136)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		4,062,154	(395,136)

The accompanying notes form an integral part of these financial statements.

Statement of Financial Position

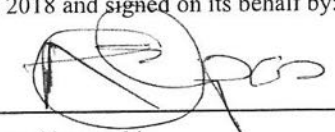
As at

<i>In thousands of Naira</i>	<i>Note</i>	31-Dec-17	31-Dec-16
Assets			
Cash and cash equivalents	15	43,159,800	19,600,122
Investment securities	16	108,761,980	-
Loans and advances	17	182,306	-
Property and equipment	18	313,116	-
Intangible assets	19	9,679	-
Other assets	20	59,457	23,100
Total assets		152,486,338	19,623,222
Liabilities			
Accruals and other payables	21	424,565	164,546
Current income tax payable	14(c)	41,032	-
Employee benefit obligation	22	230	22,561
Deposit for shares	23	20,639,965	-
Borrowings	24	87,899,719	-
Total liabilities		109,005,511	187,107
Equity			
Share capital	25(a)	40,000	20,000
Share premium	25(b)	39,940,842	19,978,284
Retained earnings/(deficit)	25(c)	2,281,255	(562,169)
Statutory reserves	25(d)	1,218,646	-
Regulatory risk reserve	25(e)	84	-
Total equity		43,480,827	19,436,115
Total liabilities and equity		152,486,338	19,623,222

The financial statements were approved by the Board of Directors on 12 March 2018 and signed on its behalf by:

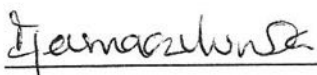


Uche Orji
Director
FRC/2014/IODN/00000007036



Anthony Okpanachi
Managing Director
FRC/2016/CISN/00000015033

Additionally certified by:



Ijeoma Ozulumba
Chief Financial Officer
FRC/2017/ICAN/00000016105

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2017

<i>In thousands of naira</i>	Share Capital	Share Premium	Statutory Reserve	Regulatory risk Reserve	Retained Earnings/(deficit)	Total equity
Balance as at 1 January 2017	20,000	19,978,284	-	-	(562,169)	19,436,115
Profit for the year	-	-	-	-	4,062,154	4,062,154
<i>Transfer between reserves:</i>						
Transfer to regulatory risk reserve (see note 4.1 (iii))	-	-	-	84	(84)	-
Transfer to statutory reserve	-	-	1,218,646	-	(1,218,646)	-
Total comprehensive income for the year	-	-	1,218,646	84	2,843,424	4,062,154
Transactions with equity holders, recorded directly in equity:						
Issued shares paid up during the year	20,000	19,962,558	-	-	-	19,982,558
Total contributions by equity holders	20,000	19,962,558	-	-	-	19,982,558
Balance as at 31 December 2017	40,000	39,940,842	1,218,646	84	2,281,255	43,480,827

Statement of changes in equity
For the year ended 31 December 2016

	Share Capital	Share Premium	Statutory Reserve	Regulatory risk Reserve	Accumulated deficit	Total equity
Balance as at 1 January 2016	10,000	-	-	-	(167,033)	(157,033)
Total comprehensive income for the year:						
Deficit for the year	-	-	-	-	(395,136)	(395,136)
Total comprehensive income for the year	-	-	-	-	(395,136)	(395,136)
Transactions with equity holders, recorded directly in equity:						
Transfer from deposit for shares (see note 24)	10,000	19,978,284	-	-	-	19,988,284
Total contributions by equity holders	10,000	19,978,284	-	-	-	19,988,284
Balance as at 31 December 2016	20,000	19,978,284	-	-	(562,169)	19,436,115

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

For the year ended

<i>In thousands of naira</i>	Notes	31-Dec-17	31-Dec-16
Cash flows from operating activities			
Profit/(Deficit) for the year		4,062,154	(395,136)
Adjustments for:			
Depreciation of plant and equipment	18	41,153	-
Amortization of Intangibles	19	1,397	-
Interest income on treasury bills	7	(5,850,385)	-
Impairment loss	10	3,635	-
Tax expenses	14(a)	41,032	-
<i>Changes in:</i>			
Net increase in Accruals and other payables	26(a)(i)	260,019	11,616
Net increase/(decrease) in Employee benefit obligation	26(a)(ii)	(22,331)	15,130
Net (decrease) in Other assets	26(a)(iii)	(36,357)	(21,692)
Net (decrease) in loans and advances	26(a)(iv)	(185,941)	-
Net cash flows from operating activities		(1,685,624)	(390,082)
Cash flows from investing activities			
Purchase of treasury bills	16(a)	(112,756,534)	-
Redemption of investment in treasury bills	16(a)	9,000,000	-
Investment income received on treasury bills	16(a)	844,939	-
Acquisition of property and equipment	18	(354,269)	-
Purchase of intangibles assets	19	(11,076)	-
Net cash flows used in investing activities		(103,276,940)	-
Cash flows from financing activities			
Proceeds from issue of share capital	25	20,000,000	-
Deposit for shares	23	20,639,965	-
Proceeds from long term borrowing	24	87,899,719	-
Share issue cost	25(b)	(17,442)	(1,716)
Net cash flows from financing activities		128,522,242	(1,716)
Net increase/ (decrease) in cash and cash equivalents		23,559,678	(391,798)
Cash and cash equivalents, beginning of year		19,600,122	19,991,920
Cash and cash equivalents, end of year	15	43,159,800	19,600,122

The accompanying notes form an integral part of these financial statements.

1. General information

Reporting Entity

Development Bank of Nigeria Plc (DBN) is a bank domiciled in Nigeria. The address of the Bank's registered office is Plot 1386A Tigris Crescent, Maitama, F.C.T Abuja, Nigeria. The Bank is a financial institution set up primarily to bridge the funding needs of the Micro, Small & Medium Enterprises (MSMEs) in Nigeria.

The principal mission of the DBN is to increase financial inclusion by improving access to credit finance. The Bank will play a focal and catalytic role in providing funding and risk-sharing facilities to MSMEs and small corporates through the Participating Financial Institutions (PFIs). The operation of the Bank will also play an important role in developing the Nigerian financial sector by incentivizing financial institutions, predominantly deposit-money and microfinance banks, to lend to the productive sector, using technical assistance to augment their capacity where necessary and by providing them with funding facilities designed to meet the needs of these smaller clients. It obtained its operating license for wholesale development finance institution from the Central Bank of Nigeria on 29 March 2017. The Bank commenced lending operations on 1 November, 2017

2. Basis of preparation

The financial statement comprise of the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes.

(a) Statement of compliance with International Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and interpretations issued by IFRS Interpretations Committee (IFRIC) applicable to entities reporting under IFRS. Additional information required by national regulations is included where appropriate. The statement of financial position has been prepared in their order of liquidity. The financial statements have been prepared in the manner required by Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004, the Financial Reporting Council of Nigeria Act, 2011, the Banks and Other Financial Institutions Act, Cap B.3, LFN, 2004 and relevant Central Bank of Nigeria (CBN) Guidelines and Circulars.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for the following material items, which are measured on an alternative basis at each reporting date:

- loans and receivables and held to maturity financial assets are measured at amortized cost using effective interest rate method.
- other financial liabilities that are not classified as at fair value through profit or loss are measured at amortized cost using the effective interest rate method.

(c) Functional and presentation currency

The financial statements are presented in Naira, which is the Bank's presentation currency; except where indicated, financial information presented in Naira has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. Information about significant areas of estimation uncertainties and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the note 4.

(e) Changes in accounting policies

Except for the change below, the Company has consistently applied the accounting policies set out in note 3 to all periods presented in these financial statements. The effective interpretations and standards that need to be considered for financial year ended 31 December 2017 are:

- (i) Disclosure Initiative (Amendments to IAS 7)
- (ii) Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

The above mentioned amendments to the IFRS standards, adopted on 1 January 2017, did not have any effect on the Bank's previously reported financial results or disclosures and had no material impact on the Bank's accounting policies.

(f) New and amended standards and interpretations not yet effective

A number of new Standards, Amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2018 and early application is permitted; however, the Bank has not applied the new or amended standards in preparing these financial statements.

Those Standards, Amendments to Standards and Interpretations that are applicable to the business of the entity and may have an impact on future financial statements are set out below:

(i) IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will have a significant impact on the Bank, which will include changes in the measurement basis of the Bank's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the Bank.

The Bank's financial assets are currently classified as loans and receivables and held-to-maturity; these are measured at amortized cost. Detailed reviews of the financial assets reveal that they will meet the conditions for classification at amortized cost under IFRS 9.

Accordingly, the Bank does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets. There will be no impact on the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The key areas of IFRS 9 in relation to impairment are as follows:

- The Standard replaces the 'Incurred Loss' (IL) model in IAS 39 with an 'Expected Loss' (EL) model. It applies to financial assets that are not measured at Fair Value through Profit and Loss (FVTPL).
- The Standard uses a dual measurement approach, which generally depends on whether there has been a significant increase in credit risk since initial recognition. The loss allowance is measured as either 12-month EL or Lifetime EL.
- A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of limited expected credit losses at all times.
- Lifetime EL allowance is measured for assets that are credit-impaired at initial recognition.

The impact assessment computation performed revealed that the potential increase in impairment under IFRS 9 could range between 13% - 30%. This range is indicative and useful for strategic purpose pending the full development of the requisite IFRS 9 models and processes. As a result, the actual impairment estimate under IFRS 9 may vary depending on the circumstances at the reporting date. Below is a summary of the results of the stress tests carried out in order to estimate the potential effect of negative forward looking macroeconomic information:

Impairment under various scenarios as at 31st December 2017				
<i>In thousands of Naira</i>				
Stress Test	IAS 39 Impairment	IFRS 9 impairment	Difference	Difference (%)
Stress test 1	3,635	4,103	468	13%
Stress test 2	3,635	4,103	468	13%
Stress test 3	3,635	4,718	1,083	30%

An increase in impairment under IFRS 9 compared to IAS 39 would first impact the Bank's regulatory risk reserve (if any) before impacting the Bank's regulatory capital and CAR. The calculation performed revealed that the potential increase in impairment eroded the Bank's regulatory risk reserve and reduced the Bank's regulatory capital. Therefore, there could be a potential decrease in the Bank's CAR depending on the prevailing circumstances at the time of the first audited financial statement.

Summary of financial impact of IFRS 9 on the Bank as at 31 December 2017				
<i>In thousands of Naira</i>				
Impact Type	IAS 39	IFRS 9	Difference	Difference (%)
Total Impairment	3,635	4,718	1,083	30% increase
Regulatory Risk Reserve	84	-	(84)	100% decrease
Regulatory Capital	43,471,064	43,470,065	(999)	0.002% decrease

The new standard also introduces expanded disclosure requirements and changes in presentation of financial instruments. These are expected to change the nature and extent of the bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application.

(ii) IFRS 15 Revenue from Contract with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

The standard does not apply to revenue associated with financial instruments and therefore, will not impact the Bank's revenue, which includes interest income on loans and interest income on treasury bills, which are covered under IFRS 9 Financial Instruments. Hence, management has concluded that the new standard will not have a material effect on the amounts reported and disclosures made in the Bank's financial statements with respect to revenue.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

(iii) IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases and related Interpretations. IFRS 16 includes a single model for lessees which will result in almost all leases being included in the Statement of Financial Position. No significant changes have been included for lessors. IFRS 16 also includes extensive new disclosure requirements for both lessees and lessors.

The Bank has begun assessing the potential impact of IFRS 16 on the financial statements. The standard will affect primarily the accounting for the Bank's operating leases. As at the reporting date, the Bank does not have a non-cancellable operating lease commitments.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15 Revenue from Contracts with Customers

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. Significant Accounting Policies

Significant accounting policies are defined as those that reflect significant judgments and uncertainties and potentially give rise to different results under different assumptions and conditions.

Except for the changes explained in Note 2(e) above, the Bank consistently applied the following accounting policies to the periods presented in the financial statements.

3.1 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities (which include derivative financial instruments) have to be recognised in the statement of financial position and measured in accordance with their assigned category.

The table below reconciles classification of financial instruments to the respective IAS 39 category.

	Category (as defined by IAS 39)	Class (as determined by the Bank)	Sub classes
Financial assets	Loans and receivables	Cash and balances with banks	Balances with banks
			Placements with banks
		Loans and advances	
		Other assets	
Financial liabilities	Held to maturity	Investment securities - debt securities	Investment in treasury bills
	Financial liabilities at amortized cost	Borrowings	
		Other liabilities	

(a) Financial assets

The Bank currently allocate financial assets to the following IAS 39 categories: loans and receivables; and held-to-maturity investments. Management determines the classification of its financial instruments at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortized cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as loans and advances to PFIs. Interest on loans is included in the income statement and is reported as 'Interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement under "net impairment loss on financial assets"

Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss, loans and receivables or available-for-sale.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassification that are so close to maturity that changes on the market rate of interest would not have a significant effect on the financial asset's fair value.
- Sales or reclassification after the Bank has collected substantially all the asset's original principal.
- Sales or reclassification attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

Interest on held-to-maturity investments is included in the income statement and reported as 'Interest income'. In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the income statement as 'net impairment loss on financial assets'. Held-to-maturity investments include treasury bills.

(b) Financial liabilities

The Bank classifies its financial liabilities as other financial liabilities measured at amortised cost using the effective interest method. The financial liabilities include borrowings, accruals and other payables.

Financial liabilities at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss are measured at amortized cost using the effective interest method. Interest expense is included in 'Interest expense' in the Statement of profit or loss and other comprehensive income. Borrowings is the Bank's source of debt funding. The Bank classifies debt as financial liabilities or equity in accordance with the contractual terms of the instrument.

Debts are initially measured at fair value minus incremental direct transaction costs and subsequently measured at their amortized cost using the effective interest method, except where the Bank designates liabilities at fair value through profit or loss.

On this statement of financial position, financial liabilities carried at amortized cost include interest bearing borrowings and other liabilities.

Accruals and other payables

Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid or invoiced, including amounts due to employees. The Bank recognizes accruals at the earlier of when the goods or services are received and when the supplier issues invoices. Other payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest rate method. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date is less than one year, discounting is not applied.

(c) De-recognition

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(d) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when and only when, the Bank has a legal enforceable right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the transaction activity.

(e) Measurement

[i] Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

[ii] Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow analysis. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in the income statement on initial recognition of the instrument. In other cases the difference is not recognised in the income statement immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

(f) Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

IAS 39 requires an entity to test for impairment on financial instrument at every balance sheet date. However, in line with Prudential requirements, the bank checks for evidence of impairment on all financial assets on a quarterly basis, leading to Loss Identification Period (LIP) of 3 months or 90days. The bank is therefore able to promptly identify delinquent loans within a period of 3 months, considering the fact that accounts are also being monitored at least weekly by credit operations team and at least monthly by risk management.

Objective evidence that financial assets are impaired can include significant financial difficulty of the obligor, default or delinquency by a borrower resulting in a breach of contract, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Assets measured at amortized cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the profit or loss account.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investments at both a specific and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investments found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities (held at amortized cost) with similar characteristics.

On a quarterly basis, loans are to be reviewed for evidence of impairment based on checks for impairment triggers and reports from Credit Bureau and CBN CRMS system.

There are 2 types of impairment assessments namely:

- ☐ Individual assessment for individually significant exposures; and
- ☐ Collective assessment for exposures that are not individually significant or exposures with similar characteristics

Individual assessment will be conducted on all individually significant loans; and all non-significant loans past due (91 days and above if any) in the portfolio.

The bank will first assess whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. Where DBN has a number of individually significant exposures to one PFI, each loan would be individually assessed while also considering the overall position of the PFI.

The estimated recoverable amount and thus the amount of the provision required should be calculated using three different methods:

- ☐ The estimated recoverable amount is equal to the present value of the estimated future cash flows discounted at the exposure's original effective interest rate;
- ☐ The estimated recoverable amount may be measured on the basis of an exposure's fair value using an observable market price (e.g. on secondary markets); and
- ☐ The estimation of the recoverable amount of a collateralised exposure reflects the cash flows that may result from foreclosure where foreclosure is considered the likely course of action. The time, costs and difficulties involved in obtaining repayment through collateral or guarantees should be taken into account when determining the recoverable amount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in the profit or loss

The future cash flows of a group of exposures that are collectively evaluated for impairment are calculated on the basis of the estimated contractual cash flows the exposures in the group and historical loss experience for exposures with credit risk characteristics similar to those in the group. In assessing collective impairment the Bank uses statistical modelling of historical trends of Probability of Default, Loss Given Default, Loss Identification Period and Exposure at Default.

(g) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances held with central banks and local banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments.

(h) Deposit for shares

Deposit for shares are recognised as financial liabilities as the Bank has an obligation to deliver equity or the cash amounts deposited by the counterparties. Deposit for shares are classified as capital if it is certain that the investors have relinquished their rights to withdraw their application and the Bank has allotted shares to such investors for an amount equivalent to the value. Also, any regulatory requirements in respect of allotment should have been fulfilled before any deposit for shares can be classified as capital. Deposit for shares is measured at carrying amount.

3.2 Property and equipment

(a) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other income in the statement of profit or loss.

(b) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day repairs and maintenance of property and equipment are recognised in statement of profit or loss during the financial period.

(c) Depreciation

Depreciation is recognised in the statement of profit or loss on a straight-line basis to write down the cost of items of property and equipment, to their residual values over the estimated useful lives. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives.

Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognized or classified as held for sale in accordance with IFRS 5. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

The estimated useful lives for the current and comparative periods of significant items of property and equipment are as follows:

Leasehold Land and Building	Over the shorter of the useful life of the item or lease term
Leasehold improvements	Over the shorter of the useful life of the item or lease term
Buildings	50 years
Computer & IT equipment	5 years
Furniture and fittings	5 years
Plant & Equipment	5 years
Motor vehicles	4 years

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each date of the statement of financial position. During the year ended 31 December 2017, the Bank changed its accounting policy in respect of the useful life of Motor Vehicles; from 5 to 4 years during the year.

Assets are reviewed for impairment whenever events or changed in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Capital work in progress is not depreciated. Upon completion it is transferred to the relevant asset category. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

(d) De-recognition

An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

3.3 Intangible assets

Software

(a) Recognition and measurement

Software acquired by the Bank is stated at cost less accumulated amortization and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software and are amortized over its useful life. Internally developed software is stated at capitalized cost less accumulated amortization and impairment.

(b) Subsequent costs

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(c) Amortization

Amortization is recognised in the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. Software has a finite useful life, the estimated useful life of software is five years. Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(d) De-recognition

An intangible item is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the intangible asset (calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset) is included in the statement of profit or loss in the year the intangible asset is derecognized.

3.4 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to passage of time is recognised as interest expense.

3.5 Employee benefits

(a) Defined contribution plans

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due in respect of service rendered before the end of the reporting period. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the reporting period in which the employees render the service are discounted to their present value at the reporting date.

The Bank operates a funded, defined contribution pension scheme for employees. Employees and the Bank contribute 8% and 10% respectively of the qualifying staff salary in line with the provisions of the Pension Reforms Act.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of the following dates: (a) when the Bank can no longer withdraw the offer of those benefits; and (b) when the Bank recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.6 Share capital and reserves

(a) Share issue costs

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(b) Dividend on the Bank's ordinary shares

Dividends on ordinary shares are recognised in equity in the period when approved by the Bank's shareholders. Dividends for the year that are declared after the end of the reporting period are dealt with in the subsequent events note.

(c) Share premium

Premiums from the issue of shares are reported in the share premium

(d) Regulatory risk reserve

This reserve warehouses difference between loan provision under prudential guideline and IFRS impairment allowance.

(e) Statutory reserve

In line with the Regulatory and Supervisory Guidelines for DFIs in Nigeria, the Bank maintains a reserve fund and shall out of its net profit after taxation and before any dividend is declared, transfer to the statutory reserves as follows:

- a. Where the reserve fund is less than the paid-up share capital, a minimum of 30.0 per cent of the net profits; or
- b. Where the reserve fund is equal to or in excess of the paid-up share capital, a minimum of 15.0 per cent of net profit;
- c. No transfer to the reserve fund shall be made until all identifiable losses have been made good.
- d. A WDFI shall plough back all its profit after tax to reserve unless it has met the regulatory minimum capital of N100 billion or such other amount as the CBN may specify from time to time.

(f) Retained earnings

Retained earnings comprise the undistributed profits and (losses) from previous periods which have not been reclassified to any specified reserves

3.7 Interest income and expense

Interest income and expense for all financial assets and financial liabilities carried at amortized cost are recognized in profit or loss using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premium or discounts. Where the estimated cash flows on financial assets are subsequently revised, other than impairment losses, the carrying amount of the financial assets is adjusted to reflect actual and revised estimated cash flows.

Where financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.8 Operating expense

Expenses are decreases in economic benefits during the accounting period in the form of outflows, depletion of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

Expenses are recognized on an accrual basis regardless of the times of spending cash. Expenses are recognized in the income statement when a decrease in future economic benefit related to a decrease in an assets or an increase of liability has arisen that can be measured reliably. Expenses are measured at historical cost. Only the portion of cost of a previous period that is related to the income earned during the reporting period is recognized as an expense. Expenses that are not related to the income earned during the reporting period, but expected to generate future economic benefits, are recorded in the financial statement as assets. The portion of assets which is intended for earning income in the future periods shall be recognized as an expense when the associated income is earned. Expenses are recognized in the same reporting period when they are incurred in cases when it is not probable to directly relate them to particular income earned during the current reporting period and when they are not expected to generate any income during the coming years.

3.9 Current and deferred income tax

(a) Current tax

The current income tax charge is calculated on the basis of the tax rate enacted or substantively enacted at the reporting date in the country where the Bank operates and generate taxable income. Current tax also includes any tax arising from dividend.

Current income tax is recognized as an expense for the period and adjustments to past periods, except to the extent that current tax related to items that are charged or credited in OCI or directly to equity. The Bank is exempted from minimum tax in line with section 33 of the amended Companies Income Tax Act as it is in the first four calendar years of its commencement of business. The Bank's tax for the year consists of only National Information Technology Development Agency (NITDA) Levy; which is 1% of the Bank's Profit Before Tax.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability methods, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rate enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognized on unused tax losses, unused tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

The amount of deferred tax assets and liabilities provided are based on the expected manner of realization or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

These disclosures supplement the commentary on financial risk management. Estimates where management has applied judgments are:

- (i) Impairment losses on loans and advances to PFIs
- (ii) Valuation of financial instrument
- (iii) Determination of impairment on property and equipment and intangible assets

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4.1 Key sources of estimation uncertainty

(i) Impairment losses on loans and advances to Participating Financial Institutions (PFIs)

Loans and advances to PFIs are accounted for at amortized cost and are evaluated for impairment on a basis described in accounting policy.

DBN reviews its credit portfolio continuously (at least once in a quarter) with a view to recognising any deterioration in credit quality. Such reviews systematically classify the Bank's credit exposures based on the perceived risks of default. Some of the criteria adopted to assess the default risk include, but are not limited to, repayment performance, borrower's repayment capacity on the basis of current financial condition and net realizable value of collateral. The classifications and provisioning for its MSME loans take into consideration the cash flows and gestation period.

(ii) Determination of regulatory risk reserves

Provisions under prudential guidelines are determined using the time based provisioning regime prescribed by the revised Central Bank of Nigeria (CBN) Prudential Guidelines. This is at variance with the incurred loss model required by IFRS under IAS 39. As a result of the differences in the methodology/provision regime, there will be variances in the impairment allowances required under the two methodologies.

Paragraph 12.4 of the revised Prudential Guidelines for Deposit Money Banks in Nigeria, which is also applicable to DBN stipulates that banks would be required to make provisions for loans as prescribed in the relevant IFRS Standards when IFRS is adopted. However, banks would be required to comply with the following:

(a) Provisions for loans recognized in the profit and loss account should be determined based on the requirements of IFRS. However, the IFRS provisions should be compared with provisions determined under prudential guidelines and the expected impact/changes in general reserve should be treated as follows:

- Prudential Provisions is greater than IFRS provisions; transfer the difference from the general reserve to a non-distributable regulatory reserve.
- Prudential Provisions is less than IFRS provisions; the excess charges resulting should be transferred from the regulatory reserve account to the general reserve to the extent of the non-distributable reserve previously recognized.
- (b) The non distributable reserve should be classified under Tier 1 as part of core capital.

The Bank has complied with the requirements of the guidelines as follows:

As at 31 December 2017, the difference between the Prudential provision and IFRS impairment was N0.084 million (December 2016: Nil) requiring additional transfer of N0.084 million (December 2016: Nil) to the regulatory risk reserve as disclosed in the statement of changes in equity. This amount represents the difference between the provisions for credit and other known losses as determined under the prudential guidelines issued by the Central Bank of Nigeria (CBN) and the impairment reserve as determined in line with IAS 39 as at year end.

(iii) Statement of prudential adjustments

<i>In thousands of Naira</i>	31-Dec-17	31-Dec-16
Impairment on loans and advances per IFRS	3,635	-
Provision on loans and advances per Prudential Guidelines	3,719	-
Regulatory Risk Reserve	84	-

(iv) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

4.2 Critical accounting judgments in applying the Bank's accounting policies

Critical accounting judgments made in applying the Bank's accounting policies include:

(i) Financial asset and financial liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories.

(ii) Depreciation and carrying value of property and equipment

The estimation of the useful lives of assets is based on management's judgment. Any material adjustment to the estimated useful lives of items of property and equipment will have an impact on the carrying value of these items.

(iii) Determination of impairment of property and equipment and intangible assets

Management is required to make judgments concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. This requires management to make significant judgments and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgment is also required when assessing whether a previously recognised impairment loss should be reversed.

(iv) Recognition of deferred assets

Deferred tax assets were recognised on the basis described in note 3.9 (b). Information about assumptions made in the recognition of deferred tax assets and availability of future taxable profit against which tax losses carried forward can be used is included in Note 14 (b).

(v) Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in note 3.1(eii)

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at 31 December 2017, there were no financial instruments measured at fair value (2016: Nil)

4.3 Financial assets and liabilities

Accounting classification, measurement basis and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values.

31 December 2017

<i>In thousands of Naira</i>	<i>Note</i>	Held-to-maturity	Loans and receivables at amortized cost	Other Financial Liabilities	Total carrying amount	Fair value*
Cash and cash equivalents	15	-	43,159,800	-	43,159,800	43,159,800
Investment Securities	16	108,761,980	-	-	108,761,980	110,358,286
Loans and advances	17	-	182,306	-	182,306	185,820
Other assets [^]	20	-	2,372	-	2,372	2,372
		108,761,980	43,344,478	-	152,106,458	153,706,278
Accruals and other payables ^{^^}	21	-	-	402,521	402,542	402,542
Deposits for shares	23	-	-	20,639,965	20,639,988	20,639,988
Borrowings	24	-	-	87,899,719	87,899,743	90,986,728
		-	-	108,942,206	108,942,274	112,029,258

31 December 2016

<i>In thousands of Naira</i>	<i>Note</i>	Held-to-maturity	Loans and receivables at amortized cost	Other Financial Liabilities	Total carrying amount	Fair value
Cash and cash equivalents	15	-	19,600,122	-	19,600,122	19,600,122
		-	19,600,122	-	19,600,122	19,600,122
Accruals and other payables ^{^^}	21	-	-	153,568	153,568	153,568
		-	-	153,568	153,568	153,568

[^] The Bank's other assets exclude prepayment of N37.6 million (Dec. 16: N23.1 million) which is not a financial asset and other statutory deductions such as WHT receivables

^{^^} Accruals and other payables exclude statutory deductions such as WHT payables etc.

*Fair value determination

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to financial liabilities without a specific maturity. The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

5. FINANCIAL RISK MANAGEMENT

Development Bank of Nigeria Plc ("the Bank") have exposures to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk and the Bank's management of capital. Further quantitative disclosures are included throughout these financial statements.

5.1 Credit risk management

Credit risk is the risk that a borrower or counterparty may not be able to honour its repayment obligations as and when due and in accordance with agreed loan terms and conditions; thereby exposing the Bank to the risk of loss of earnings, capital impairment. Credit risks arise anytime the Bank's funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements.

The Bank's Risk Management philosophy is that moderate and guarded risk attitude will ensure sustainable growth in shareholder value and reputation. Extension of credit in Development Bank of Nigeria Plc is guided by its Credit Policy Manual and Portfolio Management Plan, which sets out specific rules for risk origination and management of the loan portfolio. The Policy and Plan also sets out the risk governance structure and the roles and responsibilities of different individuals and committees involved in the credit process.

We recognize the fact that our main asset is our loan portfolio. Therefore, we actively safeguard and strive to continually improve the health of the portfolio. We scrutinize all PFI applications and ensure they meet our eligibility criteria, execute the Master Lending Agreement and have no exceptions during our due diligence and conduct rigorous analysis before loan disbursement. The Bank weeds out potential problem PFI loans during the loan application phase, as well as constantly monitor existing loan portfolio.

The Bank's Credit risk capital computation shall be in line with the CBN Guidance Notes on the Calculation of Capital Requirement for Credit Risk using the Standardized Approach. However, the goal of DBN is to apply sophisticated but realistic credit models and systems to monitor and manage credit risk. Ultimately these credit models and systems would form the foundation when applying the internal rating-based approach to the calculation of capital requirements. The development, implementation and application of these models would be guided by the Bank's Basel II framework and strategy.

The pricing of each credit granted is market referenced and reflects the level of risks inherent in the credit. Subject to competitive forces, Development Bank of Nigeria Plc implements a consistent pricing model for loans to PFIs. Each PFI's interest is guarded at all times and collateral quality is never the sole reason for a positive credit decision.

Provisions for credit losses meet prudential guidelines set forth by the Central Bank of Nigeria, both for loans for which specific provisions exist as well as for the portfolio of performing loans. Development Bank of Nigeria Plc's credit process requires rigorous proactive and periodic review of the quality of the loan portfolio. This helps us to identify and remediate credit issues proactively.

The Management Credit and Risk Committee and Board Credit and Risk Committee perform reviews of the quality of our loan portfolio on a monthly and quarterly basis respectively. These are in addition to daily reviews performed by our Risk Management Department.

Principal Credit Policies

The following are the principal credit policies of the Bank:

- **Credit Policy Manual:** The core objective is to define in detail, the credit process of DBN and outline its objectives, scope and responsibilities. This helps reduce bias and subjectivity in the credit decisions made at various levels of authorities within the Bank. The guidelines and requirements set forth in this policy are structured to maintain quality assets through a systematic approval process and a comprehensive system of requirements for credit monitoring and management. Embedded within the Credit Policy Manual are the different Internal Rating Models e.g. CAMEL used in determining the credit rating of PFIs and an independent servicer quality rating is also adopted for the purpose of assessing the PFIs' credit and loan administration and collection strength.
- **Collateral Management Policy and Procedure:** The objective of this policy is to ensure there are appropriate collaterals for all funds on-lent to end-borrowers through PFIs to minimize the risk of credit loss to the Bank in the event of a default by PFI. The Policy proffers the collateral acceptable as security from PFIs based on their category.
- **Enterprise-wide Risk Management Policy:** The core objective is to provide reasonable degree of assurance to the Board of Directors that the risks threatening the Bank's achievement of its vision are identified, measured, monitored and controlled through an effective integrated risk management system covering credit, market, operational, interest rate, liquidity and other material risks.

Credit process

The Bank's credit process starts with portfolio planning and PFI assessment. Credits are initiated by the Credit Operations team and the proposed credits are subjected to review and approvals by applicable credit approval authorities. Further to appropriate approvals, loans are disbursed to beneficiaries that meet pre-disbursement requirements.

On-going management of loans is undertaken by both the Credit Operations teams and our Risk Management team.

If a preliminary analysis of a loan request by the Credit Operations Department indicates that it merits further scrutiny, it is then analyzed in greater detail by the department, with further detailed review by Risk Management. The concurrence of Risk Management must be obtained for any credit extension. If the loan application passes the detailed analysis it is then submitted to the appropriate approval authority for the size of the facilities.

a) Credit risk measurement

Risk Rating Methodology

The credit rating of the PFI plays a fundamental role in final credit decisions as well as in the terms offered for successful loan applications. Development Bank of Nigeria Plc employs a robust credit rating system in the determination of the PFI risks and thus allows the Bank to maintain its asset quality at a desired level.

In Development Bank of Nigeria Plc, the objective of the guideline on Risk Rating contained in the Credit Risk Manual is to ensure reliable and consistent PFI Risk Ratings and Facility Risk Ratings throughout the Bank. The Risk rating methodology incorporates credit risk rating models which estimate risk of PFI default risk.

All Development Bank of Nigeria's businesses that extend credit are subject to the Credit Policy Manual.

Credit Risk Rating Models in Development Bank of Nigeria Plc

The Bank's risk rating model for measuring the risk of PFIs is based on the CAMELS Rating system.

Risk Rating Process

In Development Bank of Nigeria Plc, all businesses must have a documented and approved Risk Rating Process for deriving risk ratings for all PFIs and facilities. The Risk Rating Process is an end-to-end process and includes models, guidelines, support adjustments, collateral adjustments, process controls, as well as any other defined processes that a business undertakes in order to arrive at the risk ratings.

Responsibilities of Business Units and Independent Risk Management

In Development Bank of Nigeria Plc, Business units and independent risk management have a joint responsibility for the overall accuracy of risk ratings assigned to obligors and facilities.

Risk Rating Scale and external rating equivalent

Development Bank of Nigeria Plc plans to operate a 10-point risk rating scale in line with those of international rating agencies, which will provide sufficient granularity to ensure better diversification of the risk profile of the Bank's portfolio while avoiding excessive rating concentrations. The grade is composed by numbers from 1 to 10 (or AAA to D).

The proposed risk rating scale and the external rating equivalent is detailed below

Grade	Scale	Explanatory Note
1+	AAA	PFIs are judged to be of the highest quality, subject to the lowest level of credit risk.
1	AA+	
1-	AA	
2+	AA-	
2	A+	PFIs are judged to be of high quality and are subject to very low credit risk.
2-	A	
3+	A-	
3	BBB+	
3-	BBB	PFIs are judged to be upper-medium grade and are subject to low credit risk.
4+	BBB-	
4	BB+	
4-	BB	
5+	BB-	PFIs are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
5	B+	
5-	B	
6+	B-	
		PFIs are judged to be speculative and are subject to substantial credit risk.
		PFIs are considered speculative and are subject to high credit risk.

Grade	Scale	Explanatory Note
6	CCC+	PFIs are judged to be speculative of poor standing and are subject to very high credit risk.
6-	CCC	
7	CCC-	
8	CC	PFIs are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal
9	C	PFIs are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.
10	D	Lost.

b) Credit Risk Control & Mitigation policy

Authority Limits on Credit

The highest credit approval authority is the Board of Directors, supported by the Board Credit and Risk Committee and further by the Management Credit and Risk Committee. The principle of central management of risk and decision authority is maintained by the Bank.

Collateral Policy

It is the Bank's policy that all credit exposures are adequately collateralised. Credit risk mitigation is an activity of reducing credit risk in an exposure or transferring it to counterparty, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance.

In Development Bank of Nigeria Plc, strategies for risk reduction at the transaction level differ from that at the portfolio level. At transaction level, the most common technique used by the Bank is the collateralization of the exposures, by first priority claims or obtaining a third party guarantee. Other techniques include buying a credit derivative to offset credit risk at transaction level. At portfolio level, asset securitisation, credit derivatives etc. are used to mitigate risks in the portfolio.

Collateral acceptable as security from PFIs for funds on-lend to end-borrowers shall include:

- Treasury Bills, FGN or State Government Bonds;
- Corporate Bonds (Investment grade & above);
- Marketable securities (Stocks & Shares) of Investment grade companies;
- Legal Mortgage on quality residential or business premises;
- Legal Mortgage or debenture on PFI assets;
- Equitable Mortgages on quality real estates and legal mortgage on other locations;
- Equitable Mortgages on other locations;
- Guarantees: Personal, Corporate and Bank Guarantee; and
- Notification of DBN interest on movable securities pledged by end-borrowers to PFIs, registered in the National Collateral Registry.

Credit related commitments

It is the Bank's policy that all credit exposures are adequately collateralised. Credit risk mitigation is an activity of reducing credit risk in an exposure.

c) Credit Quality

The table below summarizes the credit quality of the Bank's loans:

<i>In thousands of Naira</i>	31 Dec 2017	31 Dec 2016
Loans and advances to customers		
Neither past due nor impaired	185,941	-
Past due but not impaired	-	-
Individually impaired	-	-
Collectively impaired	-	-
Gross loans	185,941	-
Impairment allowance		
Specific impairment	-	-
Collective impairment	(3,635)	-
Net loans	182,306	-

5.1.1 Exposure to credit risk

Credit risk exposures relating to financial assets are as follows:

In thousands of Naira	Note	Cash and cash equivalents		Loans and advances to PFIs		Investment securities		Other assets	
		31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Carrying amount	15,16,17,20	43,159,800	19,600,122	182,306	-	108,761,980	-	2,372	-
Individually impaired:									
Specifically impaired loans		-	-	-	-	-	-	-	-
Gross amount		-	-	-	-	-	-	-	-
Allowance for impairment		-	-	-	-	-	-	-	-
Carrying amount		-	-	-	-	-	-	-	-
Collectively impaired:									
Cash and cash equivalents		43,159,800	19,600,122	-	-	-	-	-	-
Performing loans and advances		-	-	185,941	-	-	-	-	-
Investment securities		-	-	-	-	108,761,980	-	-	-
Other assets		-	-	-	-	-	-	2,372	-
Gross amount		43,159,800	19,600,122	185,941	-	108,761,980	-	2,372	-
Allowance for impairment		-	-	(3,635)	-	-	-	-	-
Carrying amount		43,159,800	19,600,122	182,306	-	108,761,980	-	2,372	-
Total carrying amount - amortised cost		43,159,800	19,600,122	182,306	-	108,761,980	-	2,372	-

Balances included in Other Assets above are those subject to credit risks. The table above shows a worst-case scenario of credit risk exposure to the Bank as at 31 December 2017 and 31 December 2016, without taking account of any collateral held or other credit enhancements attached.

The exposures set out above are based on net amounts reported in the statements of financial position. The Directors are confident in their ability to continue to control exposure to credit risk which can result from both its Loans and advances portfolio and Investment securities.

The movement in the allowance for impairment in respect of loans and advances during the year was as follows:

In thousands of Naira	Specific Impairments	Collective Impairments
Balance at 1 January 2017	-	-
Impairment loss recognised	-	(3,635)
Amounts written off	-	-
	-	(3,635)

(i) Cash and cash equivalents

The Bank held cash and cash equivalents with maturity profile of less than 3 months with local banks and the Central Bank of Nigeria (CBN), assessed to have good credit ratings

(ii) Investment securities

The Bank limits its exposure to credit risk by investing in highly liquid money market instruments issued by the Central Bank of Nigeria. The Bank did not have any held to maturity investments that were impaired as at 31 December 2017 (2016:Nil)

(iii) Other assets

The Bank's other asset is made up of month-end cash advances to staff and professional fees for the valuation of PFI property. The professional fee is to be recovered from the PFI upon disbursement of loan. The credit risk on this is considered low.

5.1.2 Credit concentration

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

In thousands of Naira	Note	Cash and cash equivalents		Loans and advances to PFIs		Investment securities		Other assets	
		31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Carrying amount	15,16,17,20	43,159,800	19,600,122	182,306	-	108,761,980	-	2,372	-
Concentration by sector:									
Finance		43,012,591	-	182,306	-	-	-	-	-
Government		147,209	19,600,122	-	-	108,761,980	-	-	-
Others		-	-	-	-	-	-	2,372	-
		43,159,800	19,600,122	182,306	-	108,761,980	-	2,372	-
Concentration by location:									
In thousands of Naira		31 Dec 2017	31 Dec 2017	31 Dec 2017	31 Dec 2017	31 Dec 2017	31 Dec 2017	31 Dec 2017	31 Dec 2017
Abuja		147,209	19,600,122	-	-	108,761,980	-	2,372	-
North East		-	-	-	-	-	-	-	-
North West		-	-	-	-	-	-	-	-
South South		-	-	87,950	-	-	-	-	-
South West		43,012,591	-	96,132	-	-	-	-	-
		43,159,800	19,600,122	184,082	-	108,761,980	-	2,372	-

Concentration by location for loans and receivables are measured based on the location of the borrower. Concentration by location for Investment securities are measured based on the location of the issuer

5.1.3 Estimate of the fair value of collateral and other security enhancements

There are no collaterals held against other financial assets. There were also no repossessed collateral during the year

Collateral held and other credit enhancements and their financial effect

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees. The bank does not sell or repledge the collateral in the absence of default by the owner of the collateral. In addition to the Bank's focus on credit worthiness, the Bank aligns with its credit policy guide to periodically update the validation of collaterals held against all loans to customers. For impaired loans, the Bank obtains appraisals of collateral because the fair value of the collateral is an input to the impairment measurement.

5.2 Market risk management

Definition

Development Bank of Nigeria Plc's ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. Market risk mainly arises from trading activities and equity investments. Development Bank of Nigeria Plc is mainly exposed to market risk through non-traded interest rate risk in its banking book:

Market risk management and control

The Bank's ability to effectively identify, assess, monitor and manage market risks involved in its activities is critical to its soundness and profitability. The Bank is exposed to market risk through adverse movements in interest rates.

Development Bank of Nigeria Plc manages market risk in line with its principal Risk Management Policy and Manual approved by the Board Credit and Risk Committee. The Board approves the risk appetite for market risk related activities and risk limits are set within the context of the approved risk appetite. Risk Management monitors exposures against these limits.

The market risk exposure limits, or any changes to them, are proposed by the Bank's head of treasury and then reviewed by the Bank's Chief Risk Officer, who then present the proposed review for the consideration of the Board Credit and Risk Committee, the committee thereafter recommend the amendment(s) for Board approval. The size of each limit is based on, among other factors, underlying liquidity, the Bank's risk appetite, as well as legal limitations on individual positions imposed by authorities in Nigeria.

All market risks are reported to the Risk Committee monthly and quarterly with recommendations made concerning the risk profile including risk appetite, limits and utilization. The head of each business, assisted by the risk management team, is accountable for all market risks associated with its activities, which are reported to risk committees. Oversight and support is provided to the business by the central risk management team.

Development Bank of Nigeria Plc has a dedicated risk team with the sole responsibility of implementing the market risk section of the Risk Management framework.

Identifying the growing importance of market risks in the Bank's operations, management has continued to ensure adequate internal controls and capital resources to address these risks.

Stress testing

Stress testing provides an indication of the potential size of losses that could arise in extreme conditions. It helps to identify risk concentrations across business lines and assist management in capital planning decisions.

A consistent stress testing methodology is applied to the Balance sheet. The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs. The Bank performs two main type of stress/scenario testing. Firstly, risk factor stress testing, where extended historical stress moves are applied to each of the main risk categories, which include interest rate, liquidity and credit spread risk. Secondly, multi-factor scenarios that simulate past periods of significant market disturbance and hypothetical extreme yet plausible events.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. Regular stress test scenarios are applied to interest rates, credit spreads and liquidity risk. Ad hoc scenarios are also prepared reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

Risk limits

Risk limits are set and reviewed at least annually to control Development Bank of Nigeria Plc's treasury activities in line with the defined risk appetite of the Bank. Criteria for setting risk limits include relevant market analysis, market liquidity and business strategy. Appropriate performance triggers are also used as part of the risk management process.

Interest rate risk

Interest rate risk arises when there is a mismatch between positions which are subject to interest rate adjustments within a specified period. The most important source of interest rate risk is the Bank's lending, funding and investment activities, where fluctuations in interest rates are reflected in carrying values of these instruments as well as interest margins and earnings.

Interest rate risk is the exposure of the Bank's financial condition to adverse movements in interest rates, yield curves and credit spreads. The Bank is exposed to interest rate risk through the interest bearing assets and liabilities in its trading and banking books.

Development Bank of Nigeria Plc's objective for management of interest rate risk in the banking book is to ensure a higher degree of interest rate mismatch margin stability and lower interest rate risk over an interest rate cycle. This is achieved by hedging material exposures with the external market.

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rated assets and liabilities, the Bank is also exposed to basis risk, which is the difference in re-pricing characteristics of the various floating rate indices, such as the 90-day Treasury Bills, 10year Bond and different types of interest. These risks impact both the earnings and the economic value of the Bank. Overall non-trading interest rate risk positions are managed by Treasury, which uses investment securities and advances to banks to manage the overall position arising from the Bank's non-trading activities.

Interest-rate risk is monitored with a Gap report. A limit framework is in place to ensure that retained risk remains within approved appetite.

5.2.1 A summary of the Bank's interest rate gap position on financial instruments is as follows:

Re-pricing period								
31 December 2017	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total amount sensitive to rate	Non rate sensitive	Carrying amount
<i>In thousands of Naira</i>								
Cash and balances with banks	363,669	-	-	-	-	363,669	-	363,669
Placements with Banks	42,796,131	-	-	-	-	42,796,131	-	42,796,131
Investment securities	1,135,286	17,993,782	47,786,010	41,846,902	-	108,761,980	-	108,761,980
Loans and advances	16,419	32,071	41,189	49,096	47,166	185,941	-	182,306
Other assets	-	-	-	-	-	-	2,372	2,372
	44,311,505	18,025,853	47,827,199	41,895,998	47,166	152,107,721	2,372	152,106,458
Accruals and other payables	-	-	-	-	-	-	(402,521)	(402,521)
Deposits for shares	-	-	-	-	-	-	(20,639,965)	(20,639,965)
Borrowings	-	(654,399)	(95)	(185)	(87,242,370)	(87,897,049)	-	(87,899,719)
	-	(654,399)	(95)	(185)	(87,242,370)	(87,897,049)	(21,042,486)	(108,942,205)
Total interest re-pricing gap	44,311,505	17,371,454	47,827,104	41,895,813	(87,195,204)	64,210,671	(21,040,114)	43,164,254

Re-pricing period								
31 December 2016	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	Total amount sensitive to rate	Non rate sensitive	Carrying amount
<i>In thousands of Naira</i>								
Cash and balances with banks	19,600,122	-	-	-	-	19,600,122	-	19,600,122
	19,600,122	-	-	-	-	19,600,122	-	19,600,122
Accruals and other payables	-	-	-	-	-	-	(153,568)	(153,568)
	-	-	-	-	-	-	(153,568)	(153,568)
Total interest re-pricing gap	19,600,122	-	-	-	-	19,600,122	153,568	19,446,554

5.2.2 Interest sensitivity analysis - 31 December 2017

Impact on net interest income of +/-100 basis points changes in rates over a one year period (N'000)

Time Band	Cashflow interest rate risk	
	100 basis points decline in rates	100 basis points increase in rates
Less than 3 months	(616,830)	616,830
6 months	(478,271)	478,271
12 months	(418,958)	418,958
	(1,514,059)	1,514,059

Interest sensitivity analysis - 31 December 2016

Impact on net interest income of +/-100 basis points changes in rates over a one year period (N'000)

Time Band	Cashflow interest rate risk	
	100 basis points decline in rates	100 basis points increase in rates
Less than 3 months	(196,001)	196,001
6 months	-	-
12 months	-	-
	(196,001)	196,001

The table above sets out the impact on net interest income of a 100 basis points parallel fall or rise in all yields. A parallel increase in yields by 100 basis points would lead to an increase in net interest income while a parallel fall in yields by 100 basis points would lead to a decline in net interest income. The interest rate sensitivities are based on simplified scenarios and assumptions, including that all positions will be retained and rolled over upon maturity. The figures represent the effect of movements in net interest income based on the 100 basis point shift in interest rate and subject to the current interest rate exposures. However, the effect has not taken into account the possible risk management measures undertaken by the Bank to mitigate interest rate risk. In practice, the Assets and Liability Committee, ALCO seeks proactively to change the interest rate risk profile to minimize losses and optimise net revenues. The projections also assume that interest rates on various maturities will move within similar ranges and therefore do not reflect any potential effect on net interest income in the event that some interest rates may change and others remain unchanged.

5.2.3 Foreign exchange risk

Foreign Exchange risk is the exposure of the Bank's financial condition to adverse movements in exchange rates.

The Bank is minimally exposed to the financial risk related to the fluctuation of foreign exchange rates. This is because its revenues, capital expenditures are principally based in Naira. A significant change in the exchange rates between the Naira(N) (functional and presentation currency) relative to the US dollar would have an insignificant effect on the Bank's operations, financial position and cash flows. The Bank did not enter into any forward exchange contracts to manage currency risk fluctuations.

The table below summarises the Bank's financial instruments at carrying amount, categorised by currency:

Financial instruments by currency

<i>In thousands of Naira</i>	Total	Naira ₦	US \$
31 December 2017			
Cash and cash equivalents	43,159,800	43,158,951	849
Investment securities	108,761,980	108,761,980	-
Loans and advances	182,306	182,306	-
Other assets	2,372	2,372	-
	152,106,458	152,105,609	849
Borrowings	87,899,719	87,899,719	-
Accruals and other payables	402,521	402,521	-
Deposit for shares	20,639,965	20,639,965	-
	108,942,206	108,942,206	-
Net FCY Exposure			849
31 December 2016			
Cash and cash equivalents	19,600,122	19,600,122	-
	19,600,122	19,600,122	-
Accruals and other payables	153,568	153,568	-
	19,753,690	19,753,690	31,605,904,000
Net FCY Exposure			-

5.3 Liquidity risk management

Liquidity Risk is the current or prospective risk to earnings and capital arising from the Bank's inability to meet its liabilities when they fall due without incurring unacceptable losses. Liquidity risk is considered a major risk for the Bank. It arises when the cushion provided by the liquid assets are not sufficient enough to meet its obligation.

The Bank is managed to preserve a high degree of liquidity so that it can meet its obligations at all times including periods of financial stress.

The Bank has a liquidity management framework embedded in the Asset and Liability Manual (ALM) based on a statistical model underpinned by conservative assumptions with regard to cash inflows and the liquidity of liabilities. In addition, liquidity stress tests assuming extreme withdrawal scenarios are performed. These stress tests specify additional liquidity requirements to be met by holdings of liquid assets.

The Bank's liquidity has consistently been above the minimum liquidity ratio and the requirements of its stress tests. Funding and liquidity risk management activities are centralized within Treasury. We believe that a centralized approach to funding and liquidity risk management enhances our ability to monitor liquidity requirements, maximizes access to funding sources, minimizes borrowing costs and facilitates timely responses to liquidity events. We analyze and monitor our liquidity risk, maintain excess liquidity and access our stable funding sources

The Board approved the ALM Manual, including establishing liquidity risk tolerance levels. The Bank's ALCO, in conjunction with the Board and its committees, monitors our liquidity position and reviews the impact of strategic decisions on our liquidity. Liquidity positions are measured by calculating the Bank's net liquidity gap and by comparing selected ratios with targets as specified in the ALM manual.

The Bank's expected cash flows on some financial assets and financial liabilities vary significantly from the contractual cash flows. For example, borrowings due to foreign development finance institutions are expected to remain stable or increase and unrecognised loan commitments are not all expected to be drawn down immediately. As part of the management of liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising Cash and balances with banks and debt securities issued by federal government, which can be readily sold to meet liquidity requirements.

Quantifications

Development Bank of Nigeria Plc has adopted both qualitative and quantitative approaches to measuring liquidity risk. Specifically, the Bank adopted the following approaches;

- a) Funding and Liquidity planning;
- b) Liquidity Gap Analysis; and
- c) Ratio Analysis.

5.3.1 Residual contractual maturities of financial assets and liabilities

31 December 2017	Carrying amount	Gross nominal inflow/(outflow)	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year
<i>In thousands of Naira</i>							
<i>Non-derivative asset:</i>							
Cash and balances with banks	363,669	363,669	363,669	-	-	-	-
Placements with Banks	42,796,131	42,897,660	42,897,660	-	-	-	-
Investment securities	108,761,980	117,700,886	1,142,767	18,685,445	51,010,376	46,862,298	-
Loans and advances	182,306	205,339	18,929	36,428	46,160	54,633	49,189
Other assets	2,372	2,372	2,372	-	-	-	-
	152,106,458	161,169,926	44,425,397	18,721,873	51,056,536	46,916,931	49,189

<i>Non-derivative liabilities:</i>							
Accruals and other payables	402,521	402,521	-	402,521	-	-	-
Borrowings	87,899,719	122,182,841	-	1,251,631	964,849	1,735,627	118,230,734
	88,302,240	122,585,362	-	1,654,152	964,849	1,735,627	118,230,734
Gap (asset - liabilities)	63,804,218	38,584,564	44,425,397	17,067,721	50,091,687	45,181,304	(118,181,545)
Cumulative liquidity gap			44,425,397	61,493,118	111,584,805	156,766,109	38,584,564

31 December 2016	Carrying amount	Gross nominal inflow/(outflow)	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Over 1 year
<i>In thousands of Naira</i>							
Cash and balances with banks	19,600,122	19,600,122	19,600,122	-	-	-	-
	19,600,122	19,600,122	19,600,122	-	-	-	-
Accruals and other payables	153,568	153,568	153,568	-	-	-	-
	153,568	153,568	153,568	-	-	-	-
Gap (asset - liabilities)	19,446,554	19,446,554	19,446,554	-	-	-	-

6. Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- i) To comply with the capital requirements set by the Central Bank;
- ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- iii) To maintain a strong capital base to support the development of its business.

The capital adequacy ratio is the quotient of the capital base of the Bank and the Bank's risk weighted asset base. In accordance with Central Bank of Nigeria regulations, a minimum capital adequacy ratio of 10% is to be maintained by Development Financial Institutions. Following the CBN guideline on regulatory capital computation, the Regulatory Risk Reserve is excluded from the capital computation. Standardized approach has been adopted in computing the risk weighted assets for Credit, Operational and Market Risk.

The regulatory capital requirements are strictly observed when managing capital. The Bank's regulatory capital is managed by its Risk Management department and comprises two tiers: Tier 1 capital (only permanent shareholder's equity and disclosed reserves) and Tier 2 capital. Tier 1 capital comprises share capital, share premium, retained earnings and reserves created by appropriations of retained earnings; the carrying amount of intangible assets is deducted in arriving at Tier 1 capital. The Bank is expected to maintain a minimum ratio of Tier 1 capital to total assets of 5%. Tier 2 capital includes the Bank's qualifying loan capital and shall not exceed 100% of Tier 1 capital. The Bank has no Tier 2 capital as at 31 December 2017.

The following table provides an overview of the capital levels and risk-weighted assets (RWA):

<i>In thousands of Naira</i>	Note	December 2017	December 2016
Tier 1 capital			
Ordinary share capital	25a(ii)	40,000	20,000
Share premium	25(b)	39,940,842	19,978,284
Retained earnings	25(c)	2,281,255	(562,169)
Statutory reserve	25(d)	1,218,646	-
Tier 1 Capital Before Regulatory Deduction		43,480,743	19,436,115
Less:			
Intangible assets		(9,679)	-
Eligible Tier 1 Capital		43,471,064	19,436,115
Total Eligible Capital		43,471,064	19,436,115
Risk-weighted assets			
Risk-weighted Amount for Credit Risk		8,697,317	4,681,980
Risk-weighted Amount for Operational Risk		4,888,459	-
Risk-weighted Amount for Market Risk		-	-
Total weighted risk assets		13,585,776	4,681,980
Capital ratios			
Risk weighted Capital Adequacy Ratio (CAR)		319.97%	415.13%

As shown above, the Bank currently has a capital adequacy ratio of 319.97% (2016: 415.13%), which is significantly above the set benchmark of 10% for Development Finance Institutions, due to the fact that the Bank just commenced operations

Regulatory Minimum Capital Requirement

As a Wholesale Development Finance Institution, the Central Bank of Nigeria (CBN) requires the Bank to maintain a minimum capital (i.e. minimum shareholders' fund) of N100,000,000,000 (One Hundred Billion Naira) payable over a maximum period of four (4) years.

Timeline	Cumulative minimum capital requirement
Before the grant of Approval in Principle (AIP)	20,000,000
March 2018	40,000,000
March 2019	70,000,000
March 2020	100,000,000

As at 31 December 2017, the Bank has met the minimum capital requirement of N40,000,000,000 (Forty Billion Naira), ahead of the March 2018 deadline as specifically advised to Development Bank of Nigeria Plc, by the CBN. In addition to this, the Bank has commenced capital raising exercise in order to increase its shareholders' funds to the required N100,000,000,000.

7 Interest Income

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Loans and Advances to Participating Financial Institutions (PFIs)	5,177	-
Placements with banks	194,683	-
Investment in Treasury Bills	5,850,385	-
	6,050,245	-

8 Interest Expense

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Borrowings	889,105	-
	889,105	-

9 Other income

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Grant income	-	53,217
	-	53,217

10 Impairment Charge

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Loans and Advances to PFIs		
-Collective impairment (See note 17(a))	3,635	-
	3,635	-

11 Personnel expenses

Personnel expenses comprise:

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Wages and salaries	393,658	290,348
Pension contribution	18,508	8,724
Performance bonus accrual	211,979	-
	624,145	299,072

(i) The number of employees, excluding the non-executive directors employed by the Bank during the year was as follows:

<i>Number</i>	31-Dec-17	31-Dec-16
Executive Management	1	1
Senior Management	6	2
Middle Management	3	-
Officer	1	-
	11	3

(ii) Employees, other than directors, whose duties were wholly or mainly discharged in Nigeria, received remuneration (excluding pension contributions and certain benefits) in the following ranges:

<i>Number</i>	31-Dec-17	31-Dec-16
Below N1,000,000	-	-
N1,000,001 - N 3,000,000	5	-
N3,000,001 - N 6,000,000	1	-
N6,000,001 - N 9,000,000	1	-
N9,000,001 - N 15,000,000	-	-
N15,000,001 and above	4	3
	11	3

(b) Director's remuneration

The remuneration paid to directors are as follows:

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Fees as director	41,744	-
Other Allowances	16,650	-
Other Directors' emolument	96,912	137,000
	155,306	137,000

Fees and other emoluments disclosed above include amounts paid to:

Chairman	6,014	-
Highest paid director	96,912	137,000

12 Depreciation and Amortization

In thousands of naira

	31-Dec-17	31-Dec-16
Amortization of intangibles (see note (19))	1,397	-
Depreciation of property and equipment (see note (18))	41,153	-
	42,550	-

13 General and Administrative Expenses

In thousands of naira

	31-Dec-17	31-Dec-16
Office rent	28,721	4,620
Advert expenses	22,872	-
Donations	2,500	-
Legal and secretarial fees	4,616	1,800
Electricity expenses	4,640	989
Audit fees	10,000	20,000
Professional services	118,466	119,928
Other expenses	14,182	1,944
Insurance Expenses	7,674	-
Maintenance	1,472	-
Stationery, IT and Communication expenses	6,627	-
Travels and Hotels	26,618	-
Recruitment & Training, Subscription and Contract cost	64,252	-
Director Emolument and expenses	74,549	-
Bank Charges	435	-
	387,624	149,281

**The operating expenses disclosed in the comparative for year ended 31 December 2016 relate to pre-operational expenses during the year

14 Taxation

(a) Income tax expense

In thousands of naira

	31-Dec-17	31-Dec-16
Current tax expense		
Company Income Tax	-	-
Tertiary Education Tax	-	-
NITDA Levy (see note 14c)	41,032	-
	41,032	-
Deferred tax expense/ (reversal)	-	-
Total income tax expense	41,032	-

The Bank is exempted from minimum tax in line with section 33 of the amended Companies Income Tax Act as it is in the first four calendar years of its commencement of business.

Reconciliation of effective tax rate

In thousands of Naira

		31-Dec-17		31-Dec-16
Profit/(loss) before tax		4,103,186		(395,136)
Income tax using the domestic corporation tax rate @ 30%	30%	1,230,956	30%	(118,540.80)
Tax effect of:				
Non-deductible expenses	0%	14,299	0%	-
Tax exempt income	-43%	(1,755,115)	0%	-
Information technology tax levy	1%	41,032	0%	-
Tertiary education tax	0%	-	0%	-
Current year unutilized loss	12%	509,861	-30%	118,540.80
	1%	41,032	0%	-

(b) Unrecognized deferred tax asset

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The deferred tax assets of the Bank which relates primarily to timing difference in the recognition of unrelieved tax losses were not recognized in these financial statements. The Bank's deferred tax asset balance is as a result of unutilized capital allowances and tax losses for the year, resulting from significant tax exempt income on government securities. Despite the Bank making an accounting profit of N4.1 billion; it made a taxable loss of N2.26 billion; this was a result of the tax exemption granted to treasury bills (as the Bank's major source of income was its investment income on treasury bills). Based on our assessment, it is not probable that the Bank will have future taxable profit to utilize the deferred tax asset in the foreseeable future, especially since the tax exempt income from treasury bills will continue to result in unrelieved losses for the foreseeable future.

The unrecognized deferred tax asset during the year is attributable to the following:

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Unutilized capital allowances	14,178	-
Allowance for impairment	1,090	-
Unrelieved tax losses	678,511	168,651
	693,779	168,651

The movement in the unrecognized deferred tax asset during the year was as follows:

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Balance, beginning of the year	168,651	50,110
Unrecognized credit for the year	525,128	118,541
Balance, end of the year	693,779	168,651

(c) Current income tax payable

The movement in current income tax payable balance is as follows:

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Balance, beginning of the year	-	-
Current income tax charge (See note 14a)	41,032	-
Tax paid	-	-
Balance, end of the year	41,032	-

15 Cash and cash equivalents

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Treasury Single Account with Central Bank of Nigeria (i)	26,984	19,600,122
Other current account balances with Central Bank of Nigeria (ii)	120,225	-
Current account balances with local banks	216,460	-
Placements with local banks (iii)	42,796,131	-
	43,159,800	19,600,122

(i) This represents balances held in the Treasury Single Account with the Central Bank of Nigeria and available for the bank's use.

(ii) This represents balances in development partners collection accounts with the Central Bank of Nigeria

(iii) Placements with local banks comprise deposits with maturity of less than 90 days from the value date of the instruments. All deposits were subject to an average variable interest rate of 10.88% (2016: Nil).

16 Investment securities

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Investments in treasury bills (measured at amortized cost)	108,761,980	-
	108,761,980	-

(a) Movement in Investment Securities

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Opening balance as at January, 2017	-	-
Acquisition of treasury bills	112,756,534	-
Interest income on treasury bills (see note 7)	5,850,385	-
Interest received	(844,939)	-
Maturity of treasury bills	(9,000,000)	-
Closing balance as at December 31, 2017	108,761,980	-

17 Loans and advances

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Loans and advances to PFIs at amortised cost	185,941	-
Less: Allowance for impairment (see note a)	(3,635)	-
	182,306	-

(a) Movement and allowances for impairment

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Collective allowances for impairment		
Balance at 1 January	-	-
Charge for the year (see note 10)	3,635	-
Closing Balance	3,635	-

18 Property and equipment

In thousands of naira

Property, plant and equipment

The movement on these accounts during the year was as follows:

<i>In thousands of naira</i>	Motor Vehicles	Office Equipment	Computer Equipment	Furniture & Fittings	Total
Cost					
Balance as at 1 January 2017	-	-	-	-	-
Additions during the period	279,603	27,253	33,808	13,605	354,269
Disposals during the period	-	-	-	-	-
Balance as at 31 December 2017	279,603	27,253	33,808	13,605	354,269
Accumulated Depreciation					
Balance as at 1 January 2017	-	-	-	-	-
Charge for the year	31,457	3,691	4,500	1,505	41,153
Balance as at 31 December 2017	31,457	3,691	4,500	1,505	41,153
At 31 December 2017	248,146	23,562	29,308	12,100	313,116
At 31 December 2016	-	-	-	-	-

(i) There were no impairment losses on any class of property and equipment during the year (31 December 2016: Nil)

(ii) There were no capitalized borrowing cost related to acquisition of property and equipment during the year (31 December 2016: Nil)

(iii) There were no liens or encumbrances on the Bank's assets as at the year end (31 December 2016: Nil). None of the Bank's assets have been pledged as security for borrowing.

(iv) No leased assets are included in the above property and equipment account.

(v) The Bank had no capital commitments as at year end (31 December 2016: Nil)

19 Intangibles

In thousands of naira

	31-Dec-17	31-Dec-16
Cost		
Opening Balance	-	-
Additions	11,076	-
Disposal during the period	-	-
Closing Balance	11,076	-
Amortization		
Opening Balance	-	-
Charge during the period	1,397	-
Eliminated on disposal	-	-
Closing balance	1,397	-
Carrying Amounts	9,679	-

(i) There were no impairment losses on intangible assets during the year (31 December 2016: Nil)

(ii) There were no capitalized borrowing cost related to acquisition of intangible assets during the year (31 December 2016: Nil)

(iii) There were no liens or encumbrances on the Bank's intangible assets as at the year end (31 December 2016: Nil)

(iv) All intangible assets are non-current. All intangible assets of the Bank have finite useful life and are amortized over five years

(v) The Bank does not have internally generated intangible assets

(vi) No leased assets are included in the above intangible assets account.

(vii) The Bank had no capital commitments as at year end (31 December 2016: Nil)

20 Other assets

In thousands of naira

	31-Dec-17	31-Dec-16
Financial assets		
Cash Advances	950	-
Other Receivables	1,422	-
	2,372	-
Non financial assets		
Prepaid expenses	37,617	23,100
WHT receivables	19,468	-
	57,085	23,100
	59,457	23,100

21 Accruals and other payables

In thousands of naira

	31-Dec-17	31-Dec-16
<i>Financial Liabilities</i>		
Payable to Federal Ministry of Finance (see note (i))	100,000	100,000
Audit fees	46,450	36,450
Professional fees payable	-	16,063
Accrued directors emolument	26,000	-
Accrued performance bonus (see note (ii))	205,159	-
Payables to vendors	11,367	-
Other payables	13,545	1,055
	402,521	153,568
<i>Non Financial liabilities</i>		
PAYE payable	8,594	8,543
NHF Payable	16	435
WHT Payable	1,081	2,000
NSITF Payable	6,176	-
ITF Payable	6,176	-
	22,044	10,978
	424,565	164,546

- (i) The amount is due to the Federal Ministry of Finance for the funds made available during the pre-operational stage of the Bank and is a zero interest loan, which is repayable on demand
- (ii) Accrued performance bonus relates to accrual for 5% of the Bank's profit in respect of employee performance bonus approved by the Directors

22 Employee benefit obligation

In thousands of naira

	31-Dec-17	31-Dec-16
<i>Defined pension contribution</i>		
Opening balance	22,561	7,431
Additions during the year	30,802	25,412
Payments	(53,133)	(10,282)
	230	22,561

23 Deposit for shares

In thousands of naira

	31-Dec-17	31-Dec-16
Balance, beginning of the year	-	19,990,000.00
Additions (see note (i))	20,639,965	-
Transfer to share capital	25(a)(ii)	(10,000)
Transfer to deposit for shares	25(b)	(19,980,000)
Balance, end of year	20,639,965	-

- (i) The deposit for shares was made by the Federal Government of Nigeria (FGN) to form part of the N60 billion private placement which the Bank has embarked on in a bid to meet the minimum capital requirement of N100 billion for Wholesale Development Finance Institutions.

24 Borrowings

Borrowings comprise loans from the Federal Government of Nigeria for on-lending to Participating Financial Institutions, who on-lend these funds to eligible MSMEs in Nigeria. The Federal Government of Nigeria obtained the financing from the International Development Partners, as analyzed below:

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
International bank for reconstruction and development (IBRD)		
(see note (i))	37,058,779	-
Agence Francaise de developpement (AFD) (see note (ii))	14,027,136	-
KfW German Development Bank (see note (iii))	36,813,804	-
	87,899,719	-

The Bank has not had any defaults of principal, interest or other breaches with respect to their liabilities during the year.

- (i) The amount due to International Bank for Reconstruction and Development (IBRD) of N37.058 billion represents the carrying amount of the first and second drawdown of the World Bank's US\$480 million commitment to the Federal Government of Nigeria ("FGN"). A subsidiary agreement exists between the FGN and DBN denominated in Naira, in respect of this borrowing. The purpose of the borrowing is to provide funds to Micro, Small and Medium Scale Enterprises (MSMEs) through eligible Participating Financial Institutions (PFIs). The first tranche of the borrowing was received on 29 August 2017 and the loan is repayable (in Naira) in 42 semi-annual instalments; with a moratorium of 5 years on principal repayment. The interest rate is 4 % per annum; and the last repayment date of the facility is 15 April 2038

(ii) The amount due to Agence Francaise de developpement ("AFD") of N14.027 billion represents the carrying amount of the first drawdown of the AFD's \$130 million commitment to the Federal Government of Nigeria ("FGN"). A subsidiary agreement exists between the FGN and DBN denominated in Naira, in respect of this borrowing. The purpose of the borrowing is to provide funds to Micro, Small and Medium Scale Enterprises (MSMEs) through eligible Participating Financial Institutions (PFIs). The first tranche of the borrowing was received on 7 September 2017 and the loan is repayable (in Naira) in 20 semi-annual instalments, with the first payment due on 31 October 2020 and last due on 30 April 2030. The interest rate is 3.55 % per annum.

(iii) The amount due to KfW German Development Bank ("KfW") of N36.812 billion represents the carrying amount of the first and second drawdown of the KfW's \$200 million commitment to the Federal Government of Nigeria ("FGN") and Development Bank of Nigeria ("DBN"). Although, the Development Bank of Nigeria and the Federal Government of Nigeria ("FGN") are both named borrowers in the borrowing agreement with the foreign development partner; the funds are received directly from KfW by the FGN; who undertakes to provide the funding to DBN. The purpose of the borrowing is to provide funds to Micro, Small and Medium Scale Enterprises (MSMEs) through eligible Participating Financial Institutions (PFIs). The first tranche of the borrowing was received on 12 October 2017 and the loan is repayable (in Naira) in semi-annual instalments, with the first payment due on 30 December 2019 and last due on 30 December 2029. The interest rate is 3.99 % per annum.

25 Capital and reserves

(a) Ordinary share capital

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
(i) <i>Authorised ordinary share capital</i>		
100,000,000 shares of ₦1 each (2016: 100,000,000 shares)	100,000	100,000
	100,000	100,000

(ii) *Issued and paid up* : 40,000,000 ordinary shares at ₦1 each (2016: 20,000,000)

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Opening balance	20,000	10,000
Addition (See note (iii))	20,000	10,000
	40,000	20,000

(b) Share premium

Movement in share premium is as follows:

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Balance, beginning of the year	19,978,284	-
Additions to share capital (see note (iii))	19,980,000	19,980,000
Share issue costs	(17,442)	(1,716)
Balance, end of year	39,940,842	19,978,284

(i) This represent premium of N999 on 20million ordinary shares paid up by the Bank's shareholders during the year ended 31 December 2017.

iii) Proceeds from issue of share capital

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Proceeds from issue of shares	20,000,000	19,990,000
Applied to:		
Share capital (see note ii)	(20,000)	(10,000)
Share premium (see note (b))	(19,980,000)	(19,980,000)
	-	-

(c) Retained Earnings/(deficit)

This account represents the retained earnings of the Bank up to the statement of financial position date. The movement in this account during the year was as follows:

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Balance, beginning of the year	(562,169)	(167,033)
Profit/(Deficit) for the year	4,062,154	(395,136)
Transfer to statutory reserves (see note 25(d))	(1,218,646)	-
Transfer to regulatory risk reserves (see note 25(c))	(84)	-
Balance, end of year	2,281,255	(562,169)

(d) Statutory reserves

Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by S.16(1) of the Banks and Other Financial Institution Act of Nigeria, an appropriation of 30% of profit after tax is made if the statutory reserve is less than paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid up share capital.

As at 31 December 2017, the Bank's statutory reserves is less than its paid up share capital of N20 billion; hence 30% of the profit after tax was appropriated to the Statutory Reserve

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Balance, beginning of the year	-	-
Transfer from appropriation (see note 25(c))	1,218,646	-
Balance, end of year	1,218,646	-

(e) **Regulatory risk reserves**

The regulatory risk reserve represents the difference between the impairment on loans and advances computed under Nigeria GAAP based on the Central Bank of Nigeria prudential guidelines and provisions specified by the central banks of foreign subsidiaries, compared with the incurred loss model used in calculating the impairment under IFRS.

As at 31 December 2017, the Bank's NGAAP provision was higher than the IFRS impairment; hence, a transfer of N0.084 million (2016: Nil) was made to the Regulatory risk reserve

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Balance, beginning of the year	-	-
Transfer from appropriation (see note 4.1(iii))	84	-
Balance, end of year	84	-

26 Cash flow workings

(a) **Changes in working capital**

(i) **Accruals and other payables**

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Opening balance	(164,546)	(152,930)
Closing balance	21 424,565	164,546
Movement	260,019	11,616

(ii) **Net increase/(decrease) in Employee benefit obligation**

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Opening balance	22,561	7,431
Closing balance	22 (230)	(22,561)
Movement	22,331	(15,130)

iii) **Net (decrease) in Other assets**

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Opening balance	(23,100)	(1,408)
Closing balance	20 59,457	23,100
Movement	36,357	21,692

iv) **Changes in loans and advances to PFIs**

<i>In thousands of naira</i>	31-Dec-17	31-Dec-16
Opening balance	-	-
Collective impairment charge during the year	17a 3,635	-
Closing balance	17 182,306	-
Movement	185,941	-

27 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise influence over the other party in making financial and operational decisions, or one other party controls both. The definition includes directors and key management personnel.

(a) **Transactions with key management personnel**

The Bank's key management personnel and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel includes close members of family of key personnel and any entity over which key management personnel exercises control. The key management personnel has been identified as the Managing director of the Bank. The key management personnel obtained the following compensation from the Bank:

<i>In thousands of naira</i>	Notes	31-Dec-17	31-Dec-16
Salaries and wages	11(b)	92,622	133,000
Pension contribution	11(b)	4,291	4,000
		96,912	137,000

b(i) Other related parties and balances are listed below:

Related entities	Relationship	Nature	Note	Balance
<i>In thousands of Naira</i>				
<i>31 December 2017</i>				
Federal Ministry of Finance	Shareholder	Payable*	21	100,000
		Deposit for Shares	23(i)	20,639,965
Federal Government of Nigeria (represented by the Minister of Finance)	Shareholder	Borrowing	24	87,899,719
<i>In thousands of Naira</i>				
<i>31 December 2016</i>				
Federal Ministry of Finance	Shareholder	Payable*	21	100,000

* Payable to FMOF: are funds made available during the pre-operational stage of the Bank.

- (ii) Off balance sheet transactions with the Federal Ministry of Finance (FMOF);
Pre-operational expenses incurred by FMOF on behalf of the Bank recorded off balance sheet include;

Nature of transaction	31-Dec-17	31-Dec-16
IT consulting expenses	-	2,354
HR project	-	19,706
Electricity expense	-	124
	-	22,184

28 Events after the reporting date

There were no events after the end of the reporting period which could have a material effect on the financial statements of the Bank which have not been recognised and/or disclosed in the financial statements.

29 Contingent liabilities and commitments

The Bank has the commitment of the Federal Government of Nigeria to provide loan funding for on-lending to MSMEs. Federal Government of Nigeria is to obtain the financing as analyzed below:

Foreign Development Partner	Amount (\$'000)
World Bank	480,000
KfW (German Development Bank)	200,000
Agence Francaise de developpement	130,000
African Development Bank	450,000
	1,260,000

The funds are long tenor loans to DBN and will be drawn down contingent upon meeting certain disbursement linked indicators. See note 24 for details of drawdown on borrowings as at 31 December 2017.

- 30 The following table shows the analysis of the Bank's assets and liabilities and on the basis of their current/ non-current classification.

<i>In thousands of Naira</i>	31 December 2017				31 December 2016		
	Note	Carrying Amount	Current	Non Current	Carrying Amount	Current	Non Current
ASSETS							
Cash and cash equivalents	15	43,159,800	43,159,800	-	19,600,122	19,600,122	-
Investment securities	16	108,761,980	108,761,980	-	-	-	-
Loans and advances	17	182,306	135,140	47,166	-	-	-
Property and equipment	18	313,116	-	313,116	-	-	-
Intangible assets	19	9,679	-	9,679	-	-	-
Other assets	20	59,457	32,465	26,992	23,100	-	23,100
Total Assets		152,486,338	152,089,385	396,953	19,623,222	19,600,122	23,100
Liabilities							
Accruals and other payables	21	424,565	309,939	114,626	164,546	164,546	-
Current income tax payable	14(c)	41,032	41,032	-	-	-	-
Employee benefit obligation	22	230	230	-	22,561	22,561	-
Deposit for shares	23	20,639,965	20,639,965	-	-	-	-
Borrowings	24	87,899,719	654,679	87,245,040	-	-	-
Total Liabilities		109,005,511	21,645,845	87,359,666	187,107	187,107	-

Other National Disclosures

Other National Disclosures

Value Added Statement

For the year ended 31 December 2017

<i>In thousands of naira</i>	31 DEC 2017	%	31 DEC 2016	%
Gross income	6,050,245		53,217	
Interest expense	(889,105)		-	
Impairment loss on loans	(3,635)		-	
Bought in materials and services	(387,624)		(149,281)	
Value added/ (eroded)	4,769,881	100	(96,064)	100
Applied to pay:				
Employees				
- Employees as personnel expenses	624,145	13	299,072	(311)
Government				
- Taxation	41,032	1	-	-
Retained in business				
Replacement of property and equipment/Intangibles	42,550	1	-	-
- Increase/(Decrease) in reserves	4,062,154	85	(395,136)	411
Value added/ (eroded)	4,769,881	100	(96,064)	100

Other Information
Financial Summary

<i>In thousands of Naira</i>	31 DEC 2017	31 DEC 2016	31 DEC 2015	31 DEC 2014
Assets				
Cash and cash equivalents	43,159,800	19,600,122	19,991,920	-
Loans and advances	182,306	-	-	-
Investment securities	108,761,980	-	-	-
Property and equipment	313,116	-	-	-
Intangible assets	9,679	-	-	-
Other assets	59,457	23,100	1,408	-
Total assets	152,486,338	19,623,222	19,993,328	-
Liabilities				
Borrowings	87,899,719	-	-	6,580
Accruals and other payables	424,565	164,546	152,930	-
Employee benefit obligation	230	22,561	7,431	-
Current income tax payable	41,032	-	-	-
Deposit for shares	20,639,965	-	19,990,000	-
Total liabilities	109,005,511	187,107	20,150,361	6,580
Equity				
Share capital	40,000	20,000	10,000	-
Share premium	39,940,842	19,978,284	-	-
Statutory reserves	1,218,646	-	-	-
Regulatory risk reserve	84	-	-	-
Retained earnings/(deficit)	2,281,255	(562,169)	(167,033)	(6,580)
Total equity	43,480,827	19,436,115	(157,033)	(6,580)
Total liabilities and equity	152,486,338	19,623,222	19,993,328	-
Gross income	6,050,245	53,217	-	-
Profit/(Loss) before income tax	4,103,186	(395,136)	(160,453)	(6,580)
Profit/(Loss) for the year	4,062,154	(395,136)	(160,453)	(6,580)

The Bank has not presented a five year financial summary as it was incorporated on 19 September 2014.