TERMS OF REFERENCE

MODIFICATION OF IFRS9 EXPECTED CREDIT LOSS MODEL

Reference No: NG-DBN- 351476-CS-CDS

Hiring of a consultant to assist the Development Bank of Nigeria to modify the existing International Financial Reporting Standards (IFRS), IFRS9 Excel Model used in computing Expected Credit Loss.

1 BACKGROUND

The Development Bank of Nigeria (DBN) is a wholesale Development Finance Institution (DFI) licensed and supervised by the Central Bank of Nigeria, with the objective of addressing the access to finance gaps of underserved Micro, Small and Medium Enterprises (MSMEs) in Nigeria. With business and governance models based on internationally recognized good practice and substantial commitment of capital, the DBN will perform a catalytic role with potentially transformational impact by facilitating financially sustainable and transparent access to finance for underserved MSMEs. This will be achieved by supporting the development of diverse lending products, including the provision of medium- and long-term loans in local currency (Naira) and partial credit guarantees (through its wholly owned subsidiary IMPACT Credit Guarantee Company), to be provided to eligible Participating Financial Institutions (PFIs) with a view to expanding their outreach to MSMEs and, to a limited extent, small corporates. The DBN has been registered as a public limited liability company and is regulated, licensed, and supervised by the Central Bank of Nigeria (CBN).

The operations of Development Bank of Nigeria (DBN) are being supported by funding provided by the World Bank and other development partners, namely: the African Development Bank (AfDB), the German Development Bank (KFW), the French Development Agency (AFD) and the European Investment Bank (EIB). Together, these partner institutions are providing contributions in the form of debt, equity and technical assistance for a combined value of over US$1.3 billion.

DBN is licensed, regulated and is required to provide periodic reports to the CBN. As part of the CBN's regulation regarding financial reporting, DBN is expected to comply with the International Reporting Standard (IFRS)9, or the section of this standard that has to do with treatment of Financial Instruments, which requires the computation of Expected Credit Loss (ECL) as an input for quantifying the value of the financial instruments on the statement of affairs.

DBN has an existing Microsoft Excel based IFRS9 ECL Computation model and intends to engage a Consulting firm to enhance this model, increasing its capacity to adopt more granular inputs. This will ensure an output that provides a better measure of financial instruments.

2 SCOPE OF WORK

The IFRS9 consultant is expected to support DBN in enhancing the ECL computation model, making it a better measure of Financial Instruments in line with the IFRS9 Standards and CBN's Guidelines. Specifically, the Consultant will be responsible with supporting the DBN to achieve the following:

- Review of the existing ECL computation model to ensure it is still compliant with the IFRS9 standards as defined in the CBN guidelines.
- Review and update the macro-economic inputs and variables and perform a correlation analysis of the independent variables for the ECL computation to determine the variables fit for use.
- Develop a Probability of Default (PD) methodology that is reflective of DBN's lending environment and compliant with the IFRS9 standards and the CBN guidelines.
- Review to ensure the model's capability to compute ECL for assets in Stage 1, Stage 2, and Stage 3, including cases of migration between stages.
- Provide any other necessary model update or enhancement that may be required in line with prevailing market and industry standards, compliant with CBN guidelines.
- Provide the necessary training as may be required, to relevant staff of DBN, on the changes made to the model and workings of the enhanced version.
- Review of actual output against the expected output, using IFRS9 standards/CBN guidelines and make any corrective action required.
- Ensuring all reports and disclosures are prepared in line with the IFRS9 requirements.
- Review of the existing IFRS9 Impairment Framework and Policy to reflect changes made to the excel model as well as impact of the enhancement on the output and model performance.
- Document changes made to the excel model, as well as impact of the enhancement on the output and model performance, for ease of reference to vendors that may be engaged by DBN to validate and /or automate the enhanced version of the model.
- Update the model with feedback as may be required, from vendors engaged by DBN to validate the enhanced version of the model.
- Prepare final project report, which will highlight changes made, all possible follow up actions, policy changes that may be required, the key risk areas and proffer solutions to ensure all requirements are fully met.

3 TIMEFRAME

The assignment is expected to be completed within six (6) weeks from the contract start date.

4 DELIVERABLES & TIMELINES

The consultant will work with the Risk Department for the entire period and ensure that all agreed deliverables are provided and approved by the DBN within the agreed timelines.

The following deliverables will be required at the timelines stated below:

i. Review and update the macro-economic inputs and variables and perform a correlation analysis of the independent variables to determine the variable fit for use **- within two (2) weeks of contract signing.**
ii. Develop a PD methodology that is reflective of DBN's lending experience and compliant with the IFRS9 standards and the CBN guidelines **- within two (2) weeks of contract signing.**
iii. Review to ensure the model's capability to compute ECL for assets in Stage 1, Stage 2, and Stage 3 including cases of migration between stages and update staging models to incorporate probationary period staging **- within two (2) weeks of contract signing.**
iv. Review of the existing IFRS9 Impairment Framework and Policy to reflect changes made to the excel model as well as impact of the enhancement on the output and model performance **- within two (2) weeks of contract signing.**
v. Train relevant DBN staff on the use of the enhanced model – **within two (2) weeks of contract signing.**
vi. Update the model with feedback, as may be required, from vendors engaged by DBN to validate the enhanced version of the model **- within five (5) weeks of contract signing.**
vii. Prepare a final project report, which will highlight changes made, all possible follow up actions, policy changes that may be required, key risk areas and proffer solutions to ensure all requirements are fully met **- within six (6) weeks of contract signing.**

5 PAYMENT SCHEDULE

The firm will be paid upon timely submission and approval of deliverables as stated in Section 4 above. Payment of contract sum will be made with respect to each deliverable as follows:

- Review and update the ECL model in line with deliverables (i) to (iv) above – **payment of 40% of contract sum.**
- Train the relevant DBN staff on the use of the updated model – **payment of 40% of contract sum.**
- Update the model with the feedback, as may be required, from vendors engaged by DBN to validate the enhanced version of the model and submission and approval of a final project report – **payment of 20% of contract sum.**

6 QUALIFICATION AND EXPERIENCE

The Firm must be adequately qualified, with the required experience and proven track record in providing the service required. The Firm must moreover have the necessary team of experts and subject specialists required to deliver the services outlined in the Scope of Work.

The consulting firm should possess:

- Demonstrated experience with the building and development of excel based models.
- Demonstrated experience with the implementation of IFRS9 in line with the CBN's guidelines.
- Demonstrated experience in the documentation of process automation requirements.
- Demonstrated experience in the loan processes of DFIs.