

TERMS OF REFERENCE

VALIDATION AND DOCUMENTATION OF IFRS9 EXPECTED CREDIT LOSS MODEL

Reference No: NG-DBN-351483-CS-CDS

Hiring of a consultant to assist the Development Bank of Nigeria in validating the enhanced IFRS 9 Excel Model used in computing Expected Credit Loss and document same for seamless automation.

I 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 required to provide periodic reports to the CBN. As part of the CBN's regulations 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, 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. The enhanced version would need to be validated in line with regulatory requirements for IFRS9 implementation.

2 SCOPE OF WORK

The IFRS9 model validation Consultant is expected to support DBN in validating the excel based ECL computation model and document same for a seamless automation. Specifically, the Consultant will be responsible with supporting the DBN to achieve the following:

- (i) Review of enhanced ECL model.
- (ii) Validate (i) above with proper documentation of what needs to be enhanced in the system.
- (iii) Documentation of Use Cases based on (i) above and testing once development is completed.

3 TIMEFRAME

The assignment is expected to be completed within four (4) 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:

- Report on review of the enhanced excel based ECL computation model - **within two (2) weeks of contract signing.**
- Review of the enhanced ECL model, after recommended changes have been implemented as may be required and submission and approval of a final report – **within four (4) weeks of contract signing.**

5 PAYMENT SCHEDULE

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

- Report of the review of the enhanced the excel based ECL computation model – **payment of 40% of contract sum.**
- Review of the enhanced ECL model, after recommended changes have been implemented as may be required and submission and approval of a final report – **payment of 60% of contract sum.**

6 MINIMUM QUALIFICATIONS

The Firm must be adequately qualified, with the required experience and proven track record in providing the proposed services. 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 be:

- Familiar with building and developing excel based ECL computation models.
- Familiar with implementation of IFRS9 in line with the CBN's guidelines.
- Demonstrated experience in the documentation of process automation requirements.
- Demonstrated experience in the validation of automated systems and processes.
- Familiar with loan processes of DFIs.