

TO WHOM IT MAY CONCERN

EXPRESSION OF INTEREST (EOI)

**PROVISION OF CLASSIFICATION, SUSPENSION OF INTEREST AND PROVISIONING
(BID-2) COMPLIANCE ASSESSMENT SERVICES**

**CLOSING DATE: FRIDAY, 21 AUGUST 20 20, AT 12:00
EOI BON NO. 01/2020**

YOU ARE HEREBY INVITED TO SUBMIT AN EXPRESSION OF INTEREST TO CONDUCT AN ASSESSMENT OF COMMERCIAL BANKS' ASSET CLASSIFICATION, SUSPENSION OF INTEREST AND PROVISIONING IN LINE WITH THE DETERMINATION (BID-2) AS INDICATED IN THIS DOCUMENT.

ANY INFORMATION CONTAINED HEREIN DOES NOT CONSTITUTE AN EXPRESSED OR IMPLIED CONTRACT OR OFFER. THE BANK MAY CANCEL THIS PROCESS AT ITS DISCRETION

THE SUBMISSION MUST BE SEALED IN AN ENVELOPE CLEARLY MARKED "PROVISION OF CLASSIFICATION, SUSPENSION OF INTEREST AND PROVISIONING (BID-2) COMPLIANCE ASSESSMENT SERVICES" AND MUST BE HAND DELIVERED

TO:

THE BANK OF NAMIBIA
71, ROBERT MUGABE AVENUE
WINDHOEK

Yours sincerely,

Johanna Iiyambula
Director: Finance & Administration

PERFORMANCE OF BID-2 COMPLIANCE ASSESSMENT TASK

1. INTRODUCTION

The Bank of Namibia, (hereinafter referred to as “the Bank”) has the intention to entrust the performance of the asset classification, suspension of interest and provisioning exercise at commercial banks to an external service provider.

2. THE EXPRESSION OF INTEREST OBJECTIVE

The objective of the Expression of Interest is to conclude on the Service Level Agreement for the assessment of the asset classification, suspension of interest and provisioning at two (2) Domestic Systemic Important Banks (DSIBs).

3. BID-2 COMPLIANCE ASSESSMENT SCOPE

The conduct of the asset classification, suspension of interest and provisioning assessment to determine compliance with the Determination on Asset Classification, Suspensions of Interest and Provisioning, include:

- **Establish classification of performing and non-performing loans based, at least, on the objective criteria.**
 - (i) Objective criteria relate to the quantitative number of days an account has been operating in arrears of the contractual arrangement and has demonstrated non-payment of instalments in part or in full.
 - (ii) Subjective criteria relate to the qualitative conditions which demonstrate the financial condition of the borrower that are to be taken into consideration for classification of a loan.
 - (iii) While both the quantitative (objective) and qualitative (subjective) criteria should be considered in the evaluation and classification of loan accounts, it may not be practical to consider the subjective criteria of all loans, hence the objective criteria should serve as a basis.
 - (iv) Asset classification grades: A bank may choose to use other classification groups for internal use, if they can be correlated to the regulatory grades. However, all loans and other assets shall be classified into one of the five classification grades listed below based on the criteria provided: The classification grades or categories are to be viewed as groupings or buckets within which certain actions are required. Each time band or bucket requires settlement in full for an amount to no longer be considered as having any portion of principal or interest due and unpaid.

Table 1: Loan Classification Categories

Performing		Non-Performing		
1. "Pass" or "Acceptable"	2. "Special Mention"	3. "Sub-Standard"	4. "Doubtful"	5. "Loss"
<59 days	60 days or more but < 90 days	90 days or more but < 180 days	180 days or more but < 360 days	360 days or more

- **Establish the accuracy of provisioning requirements:**

The following minimum provisioning amounts are to be maintained unless reliable data suggests that loss potential is higher and thus larger provisions are warranted:

- (i) for loans graded "Pass" or "Acceptable" 1%;
- (ii) for loans graded "Watch" or "Special Mention" 2%;
- (iii) for loans graded "Substandard" 10%;
- (iv) for loans graded "Doubtful" 50%; and
- (v) for loans graded "Loss" 100%

- **Determine timeous transfer of accounts to non-accrual status:**

- (i) A loan or advance is to be placed on non-accrual if: it is maintained on a cash basis because of deterioration in the financial condition or paying ability of the borrower;
- (ii) Payment in full of principal or interest is not expected; or
- (iii) It is non-performing unless it is both well-secured and in the process of collection as defined in BID-2.

- **Determine treatment of accrued interest:**

All interest which is accrued but is uncollected and still carried on the books shall be reversed by the end of the calendar quarter in which the loan is, or should have been, placed on non-accrual status, but in no event later than 90 days after being transferred to non-accrual status or included in the loan balance with an adequate specific provision to offset the full amount which was previously accrued.

- **Establish the reclassification of loans to accrual status:**

A non-accrual loan may only be reclassified to accrual status or performing status when all of the following criteria are simultaneously met:

- (i) The counterparty does not have any material exposure more than 90 days past due;
 - (ii) Repayments have been made when due over a continuous repayment period of six months or agreed repayment period for both non-performing exposures and forborne exposure;
 - (iv) The counterparty situation has improved so that the full repayment of the exposure is likely, according to the original or, when applicable, modified conditions are met; and
 - (v) The exposure is not “defaulted” according to BID-2.
- **Determine the accuracy of the treatment of collateral:** Collateral is a secondary source of repayment, and classification grades do not depend on the amount or quality of collateral pledged. Therefore, collateral is only used in determining the amount of provision for loans graded Substandard, Doubtful or Loss. This is especially true where the validity, value, and ability to realise collateral are questionable. For loans graded Substandard, Doubtful or Loss, the net realisable value of collateral and suspended interest, if any, shall be deducted from the outstanding balance; regardless whether the loan is analysed separately or as part of a pool of loans, before applying the provisioning percentages. In the case of real property collateral, the net realisable value may be deducted only if transferability of title is certain and an active market for the property exists. An "active market" means that a willing buyer and willing seller exist, and a sale can be achieved within a reasonable period (not exceeding one year after judgment).

4. CONDITIONS

- 4.1 The service provider shall ensure the supervision and execution of the assessment agreed upon.
- 4.2 The company must observe the Namibian legislation and laws.
- 4.3 Preference will be granted to audit firms with prior audit experience at commercial banks.
- 4.4 The service provider should be willing to be shadowed by Bank of Namibia staff and explain step by step the methodology, processes and procedures that will be applied during the Determination on Asset Classification, Suspension of Interest and Provisioning (BID-2) compliance assessment review.
- 4.5 Allow for the transfer of skills to Examiners on how to use a loan book assessment review tool.
- 4.6 The service provider should ensure strict confidentiality of the information reviewed and obtained during the process.

4.7 The report produced shall remain the property of the Bank of Namibia and may not be dissemination to any third parties without prior authorization of the Bank of Namibia.

5. PAYMENTS METHODS

The Bank will settle all payments within 30-days after date of invoice. The Service provider should ensure that all invoices are attached to the statement prior to submission.

6. CONTRACT

The procedure will conclude with the signature of a Service Level Agreement covering the works included in the specifications.

7. EVALUATION CRITERIA FOR ASSESSING EXPRESSIONS OF INTEREST

7.1 General Information

- A brief company profile and Curriculum Vitae of proposed key personnel that will be working on this engagement.
- Details of services that the company can provide.
- Company years of experience as auditors of banking institutions.

7.2 References and Current Contracts

Proponents shall submit a statement outlining current or previous contracts and agreements where services of a similar nature were or is currently being rendered with other organisations. Information shall include the contact details of the persons relating to these contracts and agreements that can be contacted by the Bank of Namibia.

8. DOCUMENTS TO BE SUBMITTED

8.1 A Supplier Registration form should be completed and submitted with the requested supporting documentation;

- The date and place of incorporation of the business and its main business;
- The Memorandum and Articles of Association;
- Full details of directors and/or beneficial owners, especially substantial shareholders who own more than 10% of the shares;
- Full details of the business' recognized auditors or accountants;
- Copies of the latest financial statements, not older than six (6) months;
- A certified copy of a certificate (not older than six (6) months) indicating that the Service Provider is a registered employer at the Social Security Commission; and
- A certified copy of a certificate issued by the Receiver of Revenue (not older than six (6) months) indicating that the Service Provider is a taxpayer in good standing.
- Proof of NPPC certificate and/or ownership.

- A Service Provider Registration form should be completed and submitted.
- Two cost proposals pertaining to the assessment scope on 2 Domestic Systemic Banking Institutions.
- Two cost proposals pertaining to the assessment scope on all 4 Domestic Systemic Banking Institutions.
- Details of the ageing tool to be used during the assessment.
- Proposals on how skills transfer will take place.
- Proposed timelines - resources and time required to perform the scope.

8.2 Submissions shall be hand delivered in a sealed envelope which shall be clearly marked:

**EXPRESSION OF INTEREST: PROVISION OF CLASSIFICATION,
SUSPENSION OF INTEREST AND PROVISIONING (BID-2) COMPLIANCE
ASSESSMENT SERVICES**

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