



Iraqi Middle East Investment Bank



Credit Policies and Procedures Manual

2012



Instructions for the small and medium loans department at IMEI

Below are instructions related to the origination of loans, marketing and loan approval process, back office and branch operations related to SME lending, including procedures and institutionalization of the actual SME Unit incubation as part of the bank.

SME Unit Administration:

1. SME is linked to the Credit Department and its Director, who directly oversees and carries out instructions for the credit department related to the SME Unit.
2. Director of the SME Unit oversees and supervises *the loan production and credit activities* all loan officers assigned to SME, who are directly involved in the branches. The Branch Manager's oversee the operations of SME loan origination on the branch level, including the completion and recommendation to the SME Unit and Credit Department all SME loans.
3. The SME Unit shall be responsible for the SME Loan Officers in these branches: Al Zaher, Al Mustaqbal, Al Taqadum, Al Najah, Al Ghuson, Al Numan, Takadum and the main branch with respect to loans only.
4. Loan approvals for the SME Unit will include all loans from ID 5,000,000 (\$5,000) up to ID 50,000,000 (\$50,000). All loans in this range will be referred to the SME unit for credit processing and approval. All loans above that range will be handled on a case-by-case basis, or referred to the IMEI corporate banking department for approval.
5. SME loans in this range may have varying collateral and reporting requirements related to their application for ICBG and ICF facilities.

SME Unit and Credit Department Responsibilities:

Compliance and Diversification: The Bank will at all times ensure compliance with CBI regulations and directives as they pertain to the credit portfolio. The bank will develop and maintain a diversified portfolio risk profile by use of business and geographic sector limits.

Credit Committee: The SME and Bank Credit Committee comprising senior management members will be responsible for credit quality, loan portfolio risk management and general oversight of the Bank's lending operations.

SME Credit Products and Approvals:

1. The Bank's primary credit product is the SME Loan, a business loan to relatively enterprises in specific business sectors i.e small sized trading, manufacturing, service, agriculture, agro-based industries, tourism and services.



2. The SME Unit shall process and analyze all files of loans with amounts ranging from (\$5000 to \$50,000 USD)
3. The SME Unit Manager will have the authority for loan disbursement for up to \$25,000 if the financial records, collateral and risk management standards are closely adhered to. Loans that fall out of range of standards or above \$25,000 will be referred to the Head of Credit Department or Bank Credit Committee for approval. The SME unit shall adopt the following policy standards regarding SME loans.
4. The SME Unit will be responsible for follow-up premiums owed by customers who have not paid their dues and in cooperation with the Loan Officers and Branch Managers.

SME Loan Guarantors and Collateral: The SME Unit will employ a variety of safeguards and risk management practices, including:

1. Collateral guarantees for residential and commercial property:
 - Commercial Real Estate mortgages are the first class and priority collateral for SME loans. The commercial property collateral should be carefully valued according to “liquidation value” and independently valued by a professional third party.
 - Residential Real Estate mortgages should be considered a second class of collateral. The limited liquidation value of these properties, and the limited ability for banks to evict or monetize these properties, should disqualify their use except in cases of limited alternative collateral or personal guarantees.
 - Real Estate documentation should be checked with the Real Estate Department and documented per IMEI bank policy (current month statement of ownership).
2. Personal guarantees: The SME Unit should ensure that personal guarantees are made by existing IMEI customers in good standing, or are the staff of the state or fixed corporation or business that pays by salaries.
3. Salaries should be certified by the Government Office/Department or business employing the guarantor.
4. A notary should certify that the amount of loan plus support from the same department that employs the sponsor stating the amount of salary that does not exceed the amount \$15,000 in the case of personal sponsorships and higher than this amount, demanding customer guarantees of real estate.
5. Ensure that a person has a confirmed bank account has a strong credit history and transaction record sufficient to guarantee up to \$15,000. This amount can be increased or decreased depending on the type and value of real estate collateral used in combination with the personal guarantee.
6. Reserve funds to provide or deposit must be equal to the amount of the loan or part thereof required to ensure the bank’s assets.
7. Taking into account the need to obtain a bill of exchange, the amount of the loan demand should not be greater than 30% of the value of the loan guarantee instrument from the borrower and the guarantor combined.

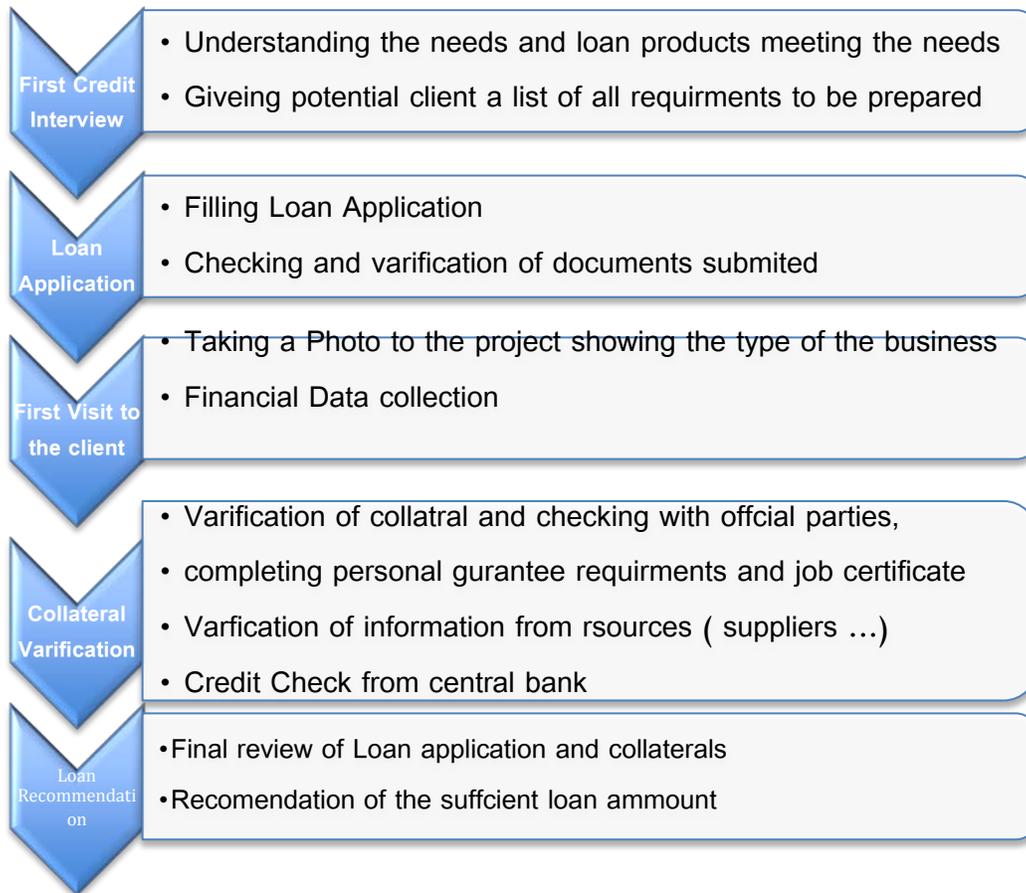


Operational Aspects of Guarantees and ICBG Applications:

1. The process of foreclosure of real estate provided by the customers is the responsibility of branch managers.
2. The Bank problem loan committee and problem loan management policies should determine support provided to branch managers in foreclosing and liquidating collateral provided by customers.
3. Mortgage and collateral documents are essential to bank security and risk management. All collateral and guarantor information and documents should be completed and audited prior to loan disbursement. All related documents should be kept in a fire-proof safe or vault. All instruments, insurance bills and document signatures by the customers should be the responsibility of the branch manager.
4. All loans made under the ICBG Guarantee should not include private property as collateral. Commercial real estate and personal guarantees should be used in applications to ICBG. Data collected from loan applications and general financial analysis will be revised according to ICBG and SME Incubation standards.

Loan Process Map

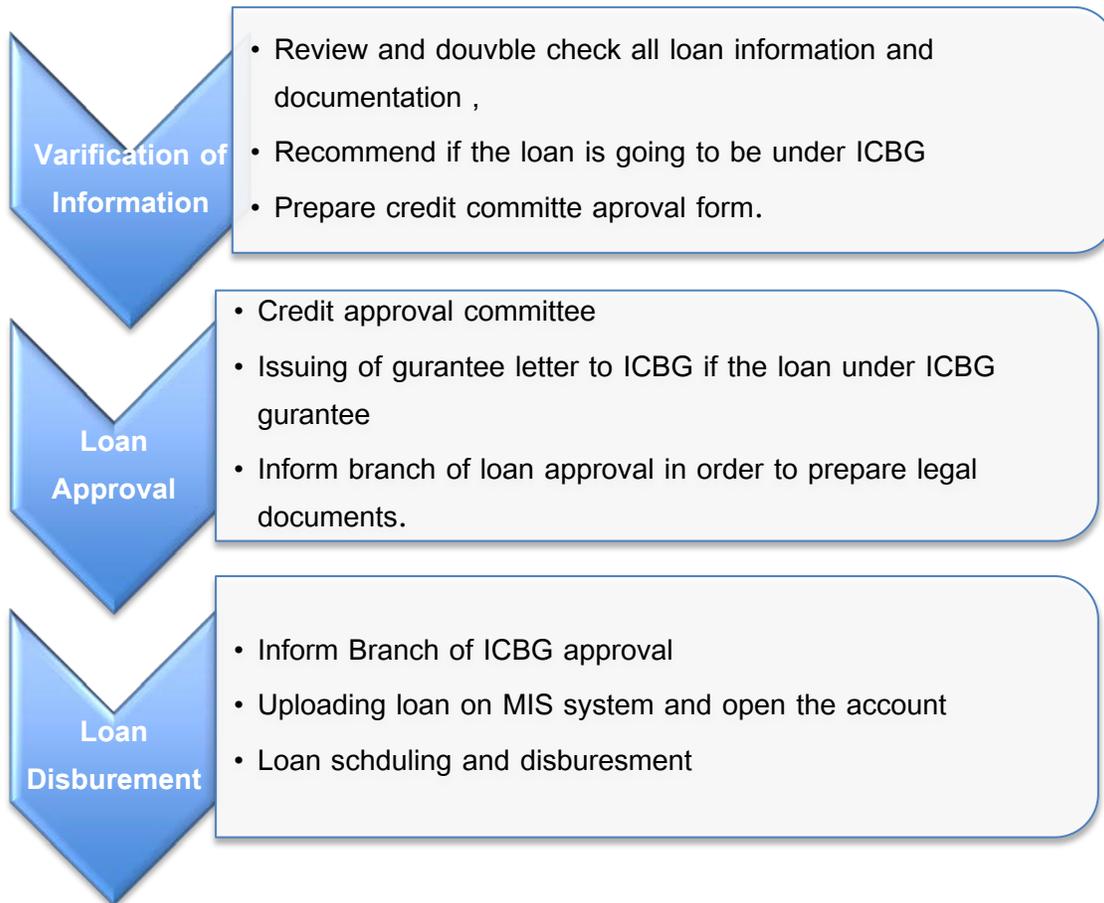
Branch procedures



- **Branch send one copy of loan application to head office for approval or two copies if the loan will be under ICBG .**

Loan Process Map

SME Department Procedures



Responsibilities: SME Loan Officers

1. SME Loan Officers are responsible for conducting marketing, completing market surveys and developing strong SME loans.
2. All loan documentation, signatures, collateral and legal documentation is the responsibility of the Loan Officer, with the Branch Manager supervising the loan application process.
3. All loan files should be completed, audited/checked by the Branch Manager with their recommendation before submitting to the SME Unit and Credit Department for approval. No incomplete loan files will be accepted by the SME Unit for processing until documentation is completed, including collateral evaluation and guarantors.
4. The weekly pipeline report for SME loans in development should be sent to the SME Unit and Credit Department. This report should describe the loans/projects developed in the branches and the stage of the approval process.



Loan Follow up procedures

Below list of suggested procedures in order to maintain healthiness of the loan portfolio :

Week	Action	Description
3 days Before Installment is due	Call Client	Friendly reminder to the client on
Due Date	Call Client	Friendly call to remind the client of the installment
Week 1-2	Call Client	Remind client of the installment and check delay reasons
Week 3-4	Visit No. 1 to the client	Document the visit , reasons for delay , current status of the project.....etc.
Week 4-5	Send a Reminder + Write a report	Reminder of installment payment
Week 6-7	Call Client	Remind the client of paying the installment and current status of the client
Week 8-9	Send A reminder	Reminder of installment payment
Week 9-10	Visit No. 2 to the client	Prepare loan delinquency report showing all data available related to client's delinquency in addition to loan officer recommendations of actions should be taken.
Week 10-11	Committee Meeting	Discuss loan officer recommendations to solve client's delinquency
Week 12	Send A Reminder	Reminder of installment payment
Week 13-14	Send a letter from the legal Department	Send a written letter from the legal department to the client asking him to pay all due installments
Week 15-16	Call Client , Collateral liquidation process initiated	Start liquidation of collaterals process in order to cover the due loan
Week 17-18	Visit No. 3 to the client	Document the visit showing current status of the client and



		his business
Week 19-20	Call Client	Legal Department calling the client to discuss ability to settle the delinquent loan
Week 21-22	Legal Procedures	Document all legal actions used
Week 23-24	Liquidation of collaterals	Collateral liquidation in place , final report about the case

SME Unit: Basic Credit Principles

These fundamental guidelines have been established to provide a structure around which lending decisions must be based. They are the key elements supporting the IMEI's credit culture in this regard and must be taken into consideration when dealing with clients and in management of the loan portfolio. The following credit principles are the ultimate reference points for all IMEI Bank officers and officials making lending decisions:

1. Assess the customer's CHARACTER for honesty, integrity and intent to repay
2. Only lend when the customer has both the CAPACITY and CAPABILITY to repay
3. Only lend if the borrower has the CAPITAL strength to withstand adverse events
4. Plan for the possibility of default
5. Only extend credit if you can sufficiently understand and manage the risks to which the business is exposed.
6. Use commonsense and past experience in conjunction with thorough credit evaluation and risk analysis
7. Do not base credit decisions solely on customer's reputation, accepted practice, the opinion of another lender or other officers.
8. Behave ethically in all credit activities.
9. Be diligent in ensuring that credit exposures and activities comply with the requirements set out in this manual.
10. Be proactive in identifying, managing and communicating credit risk.
11. Build and maintain a diversified credit risk portfolio to avoid credit risk concentration and ensure better liquidity management.