



Portfolio Assessment Report

Gulf Bank

Date: March 17th, 2012

Summary:

Gulf bank established SME lending department in order to start lending activities to the SME market in Iraq, department manager was assigned to follow up SME department activities , using the regular banking methodologies of lending , department back office team were assigned in different tasks to follow up on branches and verify the compliance of loan applications received from branches.

Department was relying on collateral based lending similar to other bank's loan products, without taking into consideration the nature of SME market , neither theoretical concept of lending to SME clients which depends on the ability and willingness of the client.

SME lending department was relying on regular daily work of branches loan officer regarding outreach and follow up, taking into consideration loan officers are committed to other regular banking activities which makes focusing on SME loan portfolio a low priority for those loan officers.

Branches loan officers were not trained to do SME lending using best practices techniques nor referring to a special credit policies and procedures.

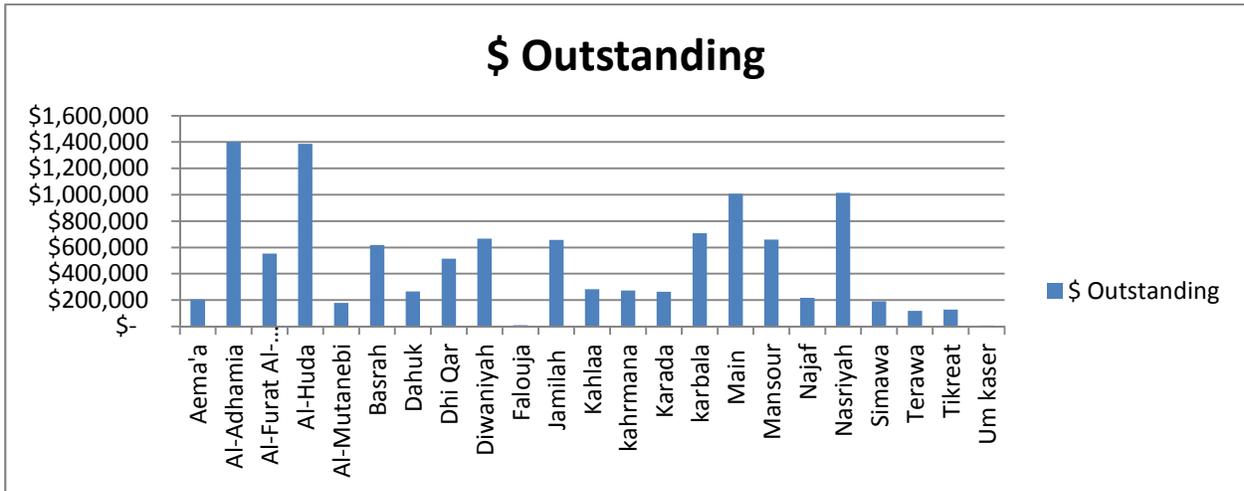
Outreach:

SME department didn't focus on monthly targets for branches loan officers, as mentioned before branches loan officer were not assigned or dedicated to support SME department over all goals.

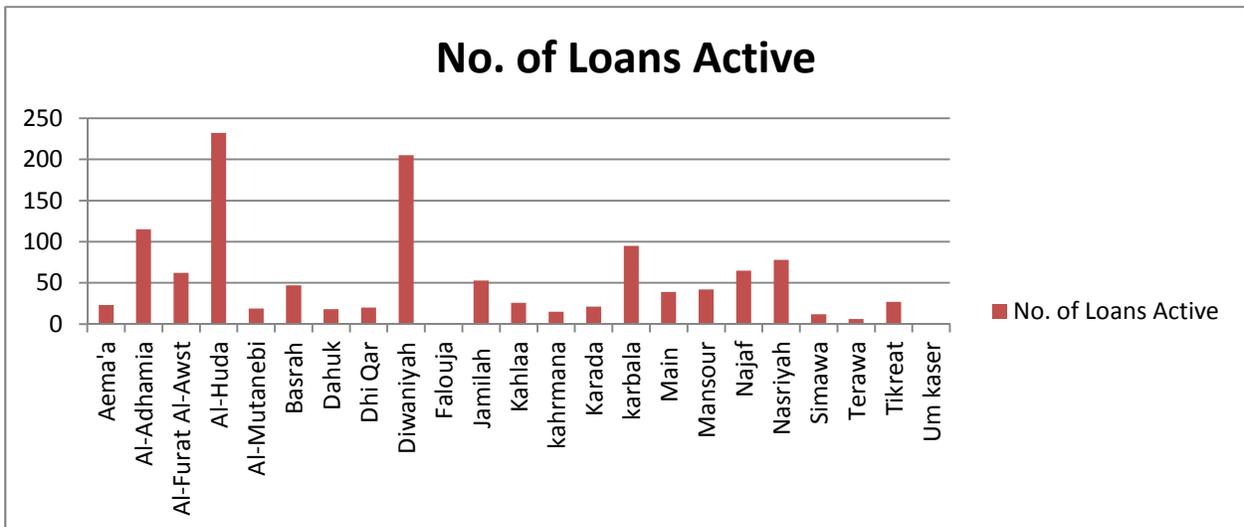
On the over hand loan officer didn't recognize the importance of improving their outreach performance as there was additional compensation for them to improve their achievements which need a lot of efforts and field work to search for new clients and discover new markets.

Branch manager on the same time were not aware on the importance of generating SME loan and their positive affect on their branches profitability and performance, they were not well educated on the need to follow up SME lending methodologies and enhance their outstanding portfolios, branch manager still depends on collateral based lending as they claim the country critical situation doesn't give them spacing to open the doors widely in front of other diversified potential markets.

Figure below show outreach performance of different Gulf branches and as it shows a very slow motion in improving branch performance of SME lending:



- This figures show outstanding SME loan portfolio per branch.



- This figures show number of SME active clients per branch.



Portfolio quality:

Gulf Bank outstanding portfolio witnessed a high increase of bank's portfolio at risk over 30 days (PAR>30), the majority of delinquent loans shown in 31-90 days bracket in the ageing report which means there is no immediate follow up for delinquent borrowers to protect their deterioration to upper brackets.

Days in Arrears	No. Of loans in arrears	Outstanding Balance in Arrears	% PAR
31-90 Days	116	\$ 794,557	7.02%
90-180 Days	69	\$ 356,986	3.15%
181-360	33	\$ 271,466	2.40%
> 360	11	\$ 191,601	1.69%
Total	229	\$1,614,610.00	14.26%

- Branches portfolio at risk indicator :

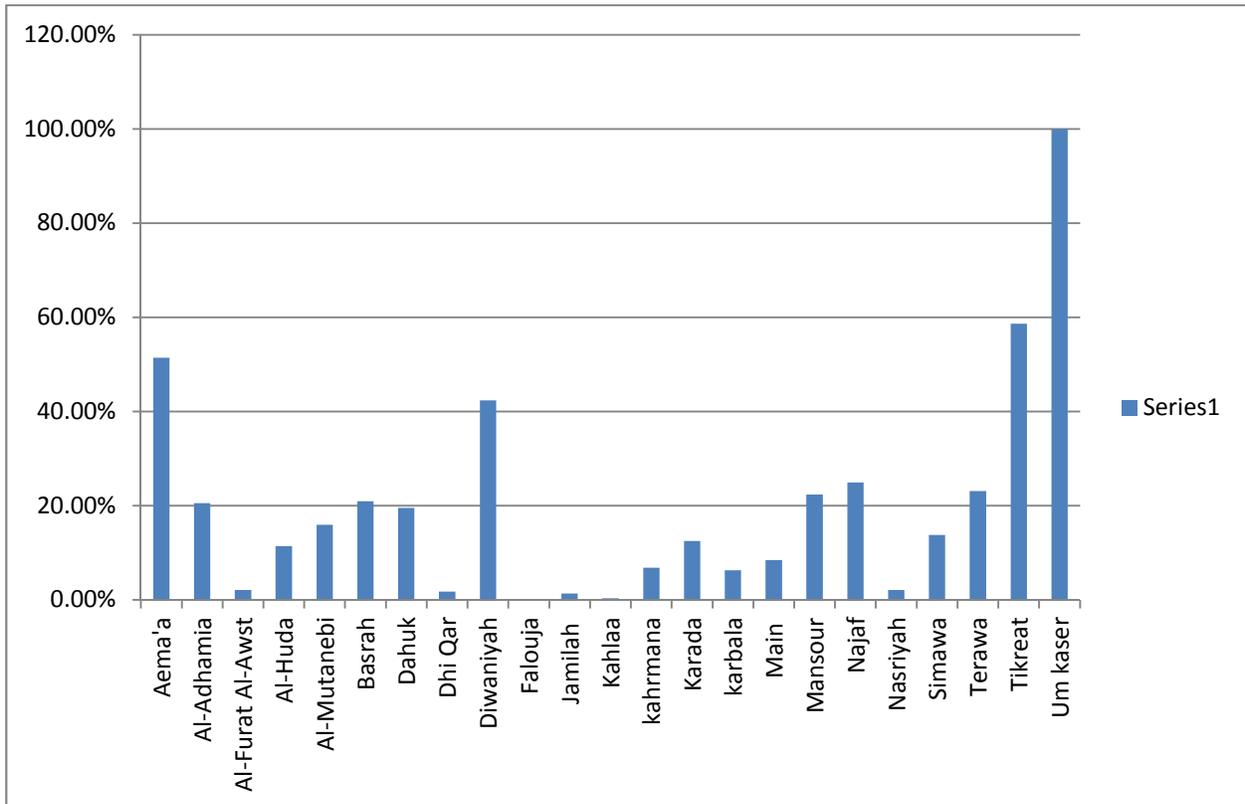
As its show from the table below there is a gap related to branches follow up activities , braches don't have a restricted follow up policy to maintain portfolio as its clear from the trend of PAR per bracket for each branch , some branches exceeded the red line limit for their loan portfolios as its clear there is lack of serious follow up for loans due to make sure they paid back their installments on time , on the other hand as it looks for some branches they froze loan disbursements which led to increase the percentage on Bank's PAR over 30 days , in depth analysis shows the majority of delinquent clients lays in the first bracket (31-90) in arrears , which leads by necessity to a jump of those delinquent borrowers to upper arrears brackets.

Some branches wittiness a deterioration of their portfolio at risk figures, and again referring to the paragraph above its clearly noticed lack of follow up led to such deterioration of loan portfolio.

Bank's head office team is also blamed for not taking an immediate action to prevent portfolio deterioration and as it looks they are also missing direct instructions for follow up.



	31-90 days	90-180 days	180-360 days	over 360 days	Total	Outstanding Portfolio	PAR>30 / Branch
Gulf Branch							
Aema'a	\$ 13,054	\$2,273	\$21,136	\$68,765	\$ 105,228	\$ 204,722	51.40%
Al-Adhamia	\$ 112,510	\$93,629	\$81,702	\$0	\$ 287,841	\$ 1,401,792	20.53%
Al-Furat Al-Awst	\$0	\$0	\$11,655	\$0	\$ 11,655	\$ 552,644	2.11%
Al-Huda	\$ 76,923	\$47,398	\$30,921	\$3,409	\$ 158,651	\$ 1,386,617	11.44%
Al-Mutanebi	\$ 28,578	\$0	\$0	\$0	\$ 28,578	\$ 179,021	15.96%
Basrah	\$ 58,120	\$12,489	\$24,087	\$34,619	\$ 129,315	\$ 617,465	20.94%
Dahuk	\$ 24,631	\$0	\$0	\$27,273	\$ 51,904	\$ 265,967	19.52%
Dhi Qar	\$ 9,169	\$0	\$0	\$0	\$ 9,169	\$ 513,055	1.79%
Diwaniyah	\$ 143,738	\$109,207	\$29,544	\$0	\$ 282,489	\$ 666,722	42.37%
Falouja	\$0	\$0	\$0	\$0	\$ -	\$ 10,101	0.00%
Jamilah	\$6,721	\$2,364	\$0	\$0	\$ 9,085	\$ 657,697	1.38%
Kahlaa	\$1,026	\$0	\$0	\$0	\$ 1,026	\$ 283,077	0.36%
kahrmana	\$18,648	\$0	\$0	\$0	\$ 18,648	\$ 272,999	6.83%
Karada	\$29,526	\$0	\$3,182	\$0	\$ 32,708	\$ 261,950	12.49%
karbala	\$1,166	\$8,502	\$11,364	\$23,580	\$ 44,612	\$ 707,616	6.30%
Main	\$56,721	\$21,639	\$6,838	\$0	\$ 85,198	\$ 1,006,211	8.47%
Mansour	\$107,226	\$21,368	\$18,803	\$0	\$ 147,397	\$ 659,558	22.35%
Najaf	\$13,794	\$21,800	\$18,831	\$0	\$ 54,425	\$ 218,099	24.95%
Nasriyah	\$20,979	\$0	\$0	\$0	\$ 20,979	\$ 1,013,986	2.07%
Simawa	\$26,417	\$0	\$0	\$0	\$ 26,417	\$ 191,258	13.81%
Terawa	\$0	\$0	\$0	\$27,273	\$ 27,273	\$ 118,066	23.10%
Tikreat	\$45,610	\$16,317	\$13,403	\$0	\$ 75,330	\$ 128,438	58.65%
Um kaser	\$ -	\$ -	\$ -	\$ 6,682	\$ 6,682	\$ 6,682	99.99%





Each of those delinquent branch participated in increase banks over all PAR over 30 and led to record a 14.3% PAR of the bank, figure below shows each branch contribution in increasing the portfolio at risk figures for the bank:

Gulf Branch	
Aema'a	0.9%
Al-Adhamia	2.5%
Al-Furat Al-Awst	0.1%
Al-Huda	1.4%
Al-Mutanebi	0.3%
Basrah	1.1%
Dahuk	0.5%
Dhi Qar	0.1%
Diwaniyah	2.5%
Falouja	0.0%
Jamilah	0.1%
Kahlaa	0.0%
kahrmana	0.2%
Karada	0.3%
karbala	0.4%
Main	0.8%
Mansour	1.3%
Najaf	0.5%
Nasriyah	0.2%
Simawa	0.2%
Terawa	0.2%
Tikreat	0.7%
Um kaser	0.1%
Total	14.3%

Another indicator was the number of delinquent borrowers located in each bracket , which give a clear indicator on the performance of follow up activities per branch , which mean how many clients are affecting the bad figures for each branch compared with branch total active clients , the surprising figures showed that some branches reached a percentage shows that over 30% of their clients are delinquent which lead us back to the first square which is the loan generation process , in other words as it looks there was a bad decision taken in disbursing loans to those clients without taking into consideration factors related to the loan approval process which depends on the ability and willingness of the client :



Gulf Branch	31-90 days	No. of borrowers	90-180 days	No. of borrowers	180-360 days	No. of borrowers	over 360 days	No. of borrowers	Total	Total No. of delinquent clients	Total No. of clients	% of Overall Active clients
Aema'a	\$ 13,054	2	\$2,273	1	\$21,136	4	\$68,765	1	\$ 105,236	8	23	35%
Al-Adhamia	\$ 112,510	7	\$93,629	7	\$81,702	5	\$0	0	\$ 287,860	19	115	17%
Al-Furat Al-Awst	\$0	0	\$0	0	\$11,655	1	\$0	0	\$ 11,656	1	62	2%
Al-Huda	\$ 76,923	19	\$47,398	12	\$30,921	3	\$3,409	1	\$ 158,686	35	232	15%
Al-Mutanebi	\$ 28,578	4	\$0	0	\$0	0	\$0	0	\$ 28,582	4	19	21%
Basrah	\$ 58,120	8	\$12,489	4	\$24,087	3	\$34,619	4	\$ 129,334	19	47	40%
Dahuk	\$ 24,631	2	\$0	0	\$0	0	\$27,273	1	\$ 51,907	3	18	17%
Dhi Qar	\$ 9,169	1	\$0	0	\$0	0	\$0	0	\$ 9,170	1	20	5%
Diwaniyah	\$ 143,738	38	\$109,207	25	\$29,544	7	\$0	0	\$ 282,559	70	205	34%
Falouja	\$0	0	\$0	0	\$0	0	\$0	0	\$ -	0	1	0%
Jamilah	\$6,721	2	\$2,364	1	\$0	0	\$0	0	\$ 9,088	3	53	6%
Kahlaa	\$1,026	1	\$0	0	\$0	0	\$0	0	\$ 1,027	1	26	4%
kahrmana	\$18,648	1	\$0	0	\$0	0	\$0	0	\$ 18,649	1	15	7%
Karada	\$29,526	1	\$0	0	\$3,182	1	\$0	0	\$ 32,710	2	21	10%
karbala	\$1,166	1	\$8,502	3	\$11,364	1	\$23,580	2	\$ 44,619	7	95	7%
Main	\$56,721	6	\$21,639	2	\$6,838	1	\$0	0	\$ 85,207	9	39	23%
Mansour	\$107,226	4	\$21,368	1	\$18,803	1	\$0	0	\$ 147,403	6	42	10%
Najaf	\$13,794	11	\$21,800	7	\$18,831	4	\$0	0	\$ 54,447	22	65	34%
Nasriyah	\$20,979	1	\$0	0	\$0	0	\$0	0	\$ 20,980	1	78	1%
Simawa	\$26,417	2	\$0	0	\$0	0	\$0	0	\$ 26,419	2	12	17%
Terawa	\$0	0	\$0	0	\$0	0	\$27,273	1	\$ 27,274	1	6	17%
Tikreat	\$45,610	5	\$16,317	6	\$13,403	2	\$0	0	\$ 75,343	13	27	48%
Um kaser	\$ -	0	\$ -	0	\$ -	0	\$ 6,682	1	\$ 6,683	1	1	100%
Total	\$ 794,557	116	\$ 356,986	69	\$ 271,466	33	\$ 191,601	11	\$ 1,614,839	229	1222	19%

Recommendations:

- Additional job titles and responsibilities need to be identified at Gulf Bank back office in order to follow up and monitor credit risks and portfolio performance per loan officer and branch , identification of risk mitigation factors is a must to monitor future risks and delinquencies before and when occurred.
- Credit Risk manual to be used from Gulf bank team is a must in order to be aware of credit risks and how to prevent their occurrence, such manual needs to be well recognized from Gulf Bank top management and circulated to field staff to be followed and understood.
- Follow up procedures are essential to be agreed and circulated to the Gulf bank team, monitoring compliance to those follow up procedures is also a must and should be linked in the future to staff incentive scheme.
- Branch managers should be committed to those manuals and procedures, branch managers are responsible on follow up to make sure their team are following those procedures , there is a need to get them aware also on the importance of commitment to those procedures.
- Different portfolio reports should be generated and submitted on daily, weekly and monthly basis to raise early alerts on bad performing loans or delay in follow up by branch and loan officer.
- Retribution policy should take place for different levels of operations to raise in Bank culture on the importance of maintaining the healthiness of bank's portfolio.