

Zholamanova M.T.
**Management of a loan portfolio
of a commercial bank**

A service of crediting is one of the most profitable items of a commercial bank. It is the crediting that forms a basic part of the net profit, which further is listed into the reserve funds. Simultaneously credits' defaults (especially of the large credits) promoted bank's bankrupt and later, due to bank's importance on the macroeconomical level, it causes bankrupts of companies, legal entities and individuals.

Bank activity is directly connected to different risks in the process of bank's communications with clients and other banks. Loan risk is the main threat for successful bank functioning. Increasing the volume of problem loans in the structure of a loan portfolio makes a negative influence on a reputation and a position of a bank in the market of credit resources. The issues of management of a loan portfolio of a commercial bank is considered in this article.

Key words: Commercial banks, problem loans, provisions, market, past due debt, The National Bank.

Жоламанова М.Т.
**Коммерциялық банктердің
несиелік портфелін басқару**

Несие қызметін ұсыну коммерциялық банктер үшін кірісі ең мол бағыт болып табылады. Атап айтқанда, банктің қаражат резервісіне бөлінетін таза кірістің басты бөлігін дәл осы несиелендіру құрайды. Осымен қатар, несиелердің, әсіресе ірі несиелердің өтелмеуі банктің банкротқа ұшырауына жол ашады, ал банктің макроэкономикалық деңгейдегі маңыздылығын ескерсек, олармен қатар кәсіпорындардың, жеке және заңды тұлғалардың да банкротқа ұшырауына жол ашады.

Банк қызметі - тұтынушылар және басқа банктермен өзара ынтымақтастық процестері барысында әртүрлі тәуекелдермен тікелей байланысты. Әсіресе, несиелік тәуекел, банк қызметінің табысты жалғасуына үлкен қатер туғызады. Несиелік портфель құрамындағы проблемалық несиелер көлемінің ұлғаюы несиелік ресурстар нарығындағы банктің беделі мен позициясына кері әсер етеді. Бұл мақалада коммерциялық банктердің несиелік портфелін басқару мәселелері қаралады.

Түйін сөздер: Коммерциялық банктер, проблемалық несиелер, нәпақалар, нарық, мерзімі өткен берешек, Ұлттық банк.

Жоламанова М.Т.
**Управление ссудным
портфелем
коммерческого банка**

Предоставление услуг кредитования является одной из самых доходных статьей коммерческих банков. Именно кредитование формирует основную долю чистой прибыли, отчисляемой в фонды резервирования. Одновременно неплатежи по кредитам, особенно крупных кредитов, способствуют банкротству банка, а в силу его значимости на макроэкономическом уровне, к банкротству предприятий, юридических и физических лиц.

Банковская деятельность напрямую связана с различными рисками в процессе взаимодействия банка с клиентами и другими банками. Кредитный риск предоставляет наибольшую угрозу для успешного функционирования банка. Увеличение объемов проблемных кредитов в структуре ссудного портфеля негативно влияет на репутацию и позицию банка на рынке кредитных ресурсов. В статье рассматриваются вопросы управления ссудным портфелем коммерческого банка.

Ключевые слова: коммерческие банки, проблемные ссуды, провизии, рынок, просроченная задолженность, Национальный банк.

MANAGEMENT OF A LOAN PORTFOLIO OF A COMMERCIAL BANK

During the bank's realization of a loan policy about loan repayment provision there is very important work with problem loans. Problem loans are those loans whose borrower doesn't discharge a liabilities after receiving a loan on time and in full or those loans which security price has dramatically decreased.

A problem loan is a loan that has a delay of discharge a liabilities according to a bank loan agreement.

The observed increase of population crediting, including blank and express loans, leads to the growth of problem loans part in bank assets. Problem loans can be displayed in many different ways.

More often problem loans are resulted by a money crisis of a client. In this connection after loaning bank should implement measures for preventing bank losses. For this purpose banks conduct periodical independent and objective clients surveys, executed by audit department for their indication the problem loan's signs.

For more detailed assessment of a loan market statement it is necessary to thoroughly consider the changes in the structure of a loan portfolio.

The credit investment volume which is presented by a banking sector during the last 3 years has increased on 21,7% from 11 657 billion tenge to 14 184 billions tenge. This growth shows a positive trend for the future growth. However, there are possible deteriorations of the quality of a loan portfolio.

The quality of a loan portfolio is one of the most important indicators of banking sector activity, which directly affects on financial sustainability and bank stability.

Changes in the structure of a loan portfolio looks this way (Table 1):

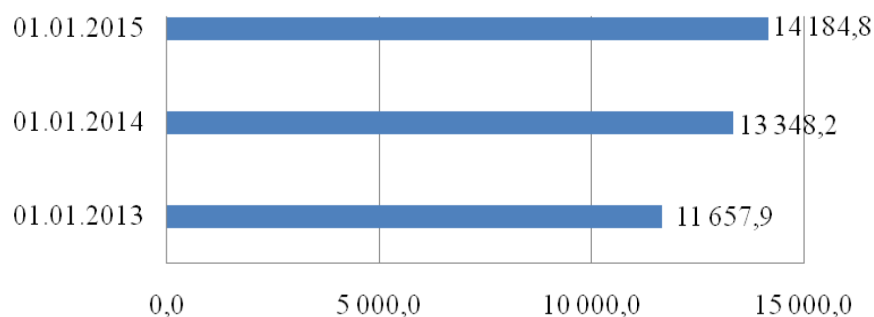
The table show that:

Loans in arrears from 1 to 30 days in the period of 2012-2014 increased on 69,4% in the total loan portfolio;

Loans in arrears from 31 to 60 days in the period of 2012-2014 increased on 23,1% in the total loan portfolio;

Loans in arrears from 61 to 90 days in the period of 2012-2014 increased on 41,2% in the total loan portfolio;

Loans in arrears more than 90 days in the period of 2012-2014 decreased on 3,8% in the total loan portfolio.



Picture 1 – Loans that are issued by second-tier banks

Table 1 – The quality of the loan portfolio of the Kazakhstan banking sector

Indicator's title / date	01.01.2013		01.01.2014		01.01.2015	
	Summ (billion tenge)	In % to the total	Summ (billion tenge)	In % to the total	Summ (billion tenge)	In % to the total
Bank loans (the main debt), including:	11 657,9	100,0	13 348,2	100,0	14 184,8	100,0
Loans for which there is no arrears of principal and / or accrued interest	7 796,6	66,9	8 745,9	65,5	10 259,3	72,3
Loans in arrears from 1 to 30 days	211,0	1,8	209,9	1,6	357,5	2,5
Loans in arrears from 31 to 60 days	128,7	1,1	91,5	0,7	158,4	1,1
Loans in arrears from 61 to 90 days	48,4	0,4	142,7	1,1	69,3	0,5
Loans in arrears more 90 days	3 473,2	29,8	4 158,2	31,2	3 340,4	23,5
Provisions IFRS	3 715,2	31,9	4 643,9	34,8%	3 581,1	25,2
The coverage ratio of provisions for IAS loans overdue more than 90 days	107,00		111,70		107,20	

Consequently, the volumes of bad loans in total for the Kazakhstan commercial banks have increased in every category, except loans in arrears more than 90 days, which have decreased on 3,8%. It all was preceded by the work of the banks itself and of the National Bank of the country.

It's common knowledge that the communication with the borrowers of this category is very long, and it's set reforms, a partnership with collector companies and creating the Problem loans Fund promotes the fulfillment of the requirements of the National Bank.

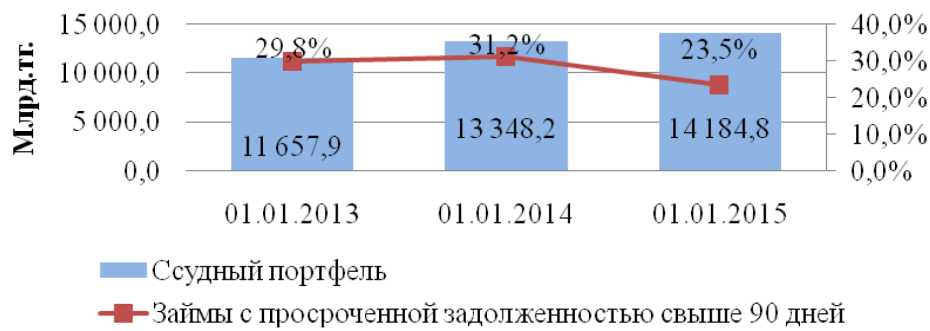
One of the actual problems in providing the stable functioning of a banking sector and a financial system is production and using efficient measures for clearing bank balances from loans in arrears more than 90 days.

For the best understanding the problems of «non-working» loans of STB (second-tier banks) of The Republic of Kazakhstan let's research the data on the Picture 2:

Beginning of the second half-year 2014 there was conducted an active work for decreasing the level of «non-working» loans, however, despite this decreasing, the quality of a loan portfolio is still being unsatisfactory.

Changes of NPL for more than 90 days in 2014 compared with 2012 decreased on 6,3%, notwithstanding that a situation with providing the quality and optimal structure of loan portfolios of Kazakhstan banks hasn't changed during last several years. It is a progress in the work with loans in arrears more than 90 days.

Provisions are the amounts of funds which is necessary for covering the losses of failures to return assets of their price reduction.



Млрд.т. – billion tenge
 Ссудный портфель – a loan portfolio
 Займы ... - Loans in arrears more than 90 days

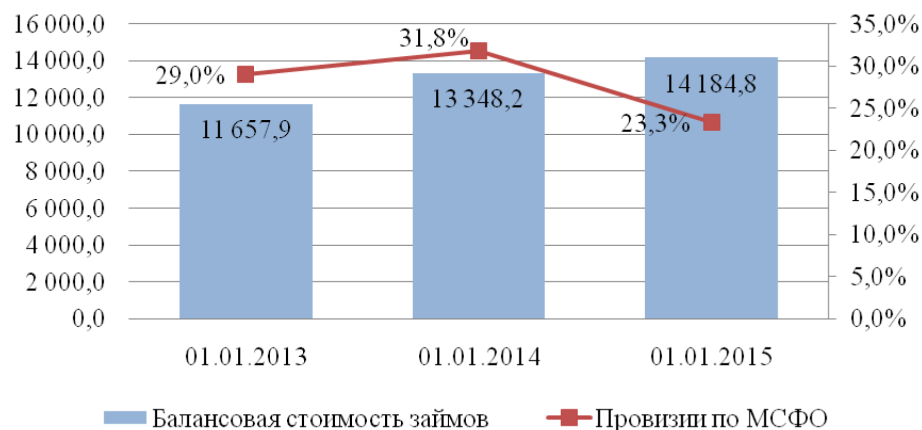
Picture 2 – Dynamics of the loan portfolio and loans in arrears more than 90 days.

Provisions are divided into general and special ones. Special provisions are the provisions that are formed for covering losses of the concrete classifies assets, for which the possibility of failure to return prevails or which current price at least two times less than the buying price. General provisions are the provisions for the possible losses in the whole totality of bank assets, except those for which it is necessary to create special provisions. Let's observe the picture for researching the ratio of the provisions volume to the whole volume of a loan portfolio of banking sector.

It is shown in the picture the reduction of the provision volume in 2014 compared with 2013

and 2012. In total there is decreasing of provisions on 5,7% for the reporting period. It proves the effectiveness of using the tools by The National Bank for improving the quality of a loan portfolio.

As it shows the practice of the developed countries in the solving problems of bad loans that finding of such a solution can last for long years if there is no active policy and support from government. It also can cause the decrease of the competitiveness of the Kazakhstan banking sector, including the integration process within Eurasian Economil Space, and the stability in front of the possible future deterioration in world markets.



Балансовая стоимость займов – The carrying value of loans
 Провизии по МСФО – provisions under IFRS

Picture 3 – he provisions volume to the whole volume of a loan portfolio of second-tier banks

In order to realization of the measures, provided by The Plan of realization of The Road Map 2020 of The Republic of Kazakhstan, there was developed the conception of the shareholding «Problem Loans Fund». The purpose of the conception is the increase of the effectiveness of the Fund functioning and of its methods of partnership with banks.

In its turn, the goal of the Fund is assistance to banks in the process of «clearing» a balance from «non-working» loans in order to implementation the strategic objective for improving the quality of a loan portfolio in a bank system, reaching the target level of «non-working» loans (no more than 10% by 2016), including through long-term financing in the national currency. Wherein the ability of partnership with the Fund must be considered by banks along with another available tools for work with «non-working» loans (remission, write-off, sale and transfer to a bank's daughter organization, acquiring doubtful and helpless assets of a parental bank, collector companies, etc.)

Generalizing abovementioned information, we can conclude the seriousness of the problem with risk management in bank activity. It should be noted that the necessary conditions in risk management is

a right system of full powers distribution, concrete official instructions and perfect information transfer channels. Generally, the risk management system is realized through precise events, implemented on the level of strategic management and within the cooperation of the structural departments of a bank.

The analysis above has shown that the volume of given loans rises from year to year, which is caused by financial needs of borrowers. For satisfaction such needs the second-tier banks use different innovations, including inventing new products, creating advantageous conditions, running marketing manipulations.

The quality statement, the portfolio bottom have showed good changes. As it was stated before, it was affected by the reforms and the reasonably strict policy of The National Bank. As we see in the struggle with loans in arrears more than 90 days there used the tools of a default and a loan policies. As the most priority measures in the work with problem loans there are sale to collector companies, write-off the hopeless loans, prolongation the total term of a loan, changing a payment schedule, refinancing of a debt.

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