Project Number: 42492-012
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Viet Nam: Technical Training Manuals for Microfinance Institutions In Vietnam

Basic Course in Introduction to Financial Management

Asian Development Bank

Training Manual for Microfinance Institutions

INTRODUCTION TO FINANCIAL MANAGEMENT

COURSE OUTLINE

<table>
<tr><td>Course Name</td><td colspan="2">OVERVIEW OF FINANCIAL MANAGEMENT</td></tr>
<tr><td>Target Participants</td><td colspan="2">Managers, Chief Accountants, Accountants</td></tr>
<tr><td>Course Duration</td><td colspan="2">1 day</td></tr>
<tr><td>Learning Objectives</td><td colspan="2">At the end of the course, participants are able to:
1. Enhance knowledge and skills in financial management and the relationships of different aspects of financial management to make effective management decisions for MFI.</td></tr>
<tr><td>Course Outline</td><td>

Opening Activities

Welcome Remarks
Introductions: Trainer, Guests, and Participants
Project Overview
Leveling of Expectations
Training Objectives and Agenda
House Rules

Introduction to financial management

Introduction to the Concepts
Benefits and Importance of Right Decision Making
Understanding Relationships of Different Components of Financial Management:

with the Balance Sheet
with Liquidity Management

</td><td>

Understanding Relationships, cont...

with Liability-Asset Management
with Capital Adequacy

Resource and Capital Management in relation to Financial Risks

Understanding Financial Indicators

Sustainability Indicators
Portfolio Quality Indicators
Financial Structure
Efficiency and Productivity

Understanding Non-Financial Indicators - Outreach
Understanding Administration and Management Efficiency Indicators
Analyzing financial indicators
Closing Activities

Evaluation
Closing

</td></tr>
<tr><td>Delivery Methods</td><td colspan="2">Lectures; Plenary; Small Group Discussions; Exercises; Post-Training Tests</td></tr>
<tr><td>Materials Needed</td><td colspan="2">Computer, LCD Projector, Flipcharts, Stands, Meta Plan/Index Cards, Paper, Pens, Tapes, Prizes, Stapler, Paper Clips, Training Kit (Agenda, PPT Presentations, Notepad, Pens, ID), Financial Statements of the MFIs, Exercises</td></tr>
<tr><td>Handouts</td><td colspan="2">Transactional Analysis Sheet, SBV Circular No. 07 on Prudential Ratios in Operation of Small Scaled Institutions, MFI Financial Statements</td></tr>
</table>

INSTRUCTIONAL DESIGN AT A GLANCE

Part I	OPENING ACTIVITIES	
Session	1	Introductions
Activity	*1*	*Registration, Welcome Remarks, and Introductions*
Activity	*2*	*Leveling of Expectations*
Activity	*3*	*House Rules*
Part II	INTRODUCTION TO FINANCIAL MANAGEMENT	
Session	1	Overview of Financial Management System
Activity	*4*	*Introduction to Financial Management Concepts*
Activity	*5*	*Benefits and Importance of Right Decision Making*
Session	2	Understanding Relationships of Different Components
Activity	*6*	*Financial Management and Balance Sheet*
Activity	*7*	*Financial Management and Liquidity Management*
Activity	*8*	*Financial Management and Asset-Liability Management*
Activity	*9*	*Financial Management and Capital Adequacy*
Activity	*10*	*Financial Management and Financial Risks*
Part III	FINANCIAL MANAGEMENT INDICATORS	
Session	1	Understanding Financial Indicators
Activity	*11*	*Financial Sustainability Indicators*
Activity	*12*	*Determining Financial Sustainability of an MFI*
Activity	*13*	*Portfolio Quality Indicators*
Activity	*14*	*Effective Financial Structure*
Activity	*15*	*Financial Efficiency and Productivity Indicators*
Session	2	Understanding Non-Financial Indicators
Activity	*16*	*Outreach Indicators*
Activity	*17*	*Administration/Management Indicators*
Session	3	Analyzing Financial Indicators
Activity	*18*	*Analyzing Financial Indicators*
Part IV	CLOSING ACTIVITIES	
Session	1	Wrap Up and Evaluations
Activity	*19*	*Evaluation*
Activity	*20*	*Closing*

HANDOUTS	
1	Transactional Analysis Sheet
2	SBV Circular No. 07
3	MFI Financial Statements

INSTRUCTIONAL DESIGN SCRIPT

<table>
<tr><td>PART I</td><td colspan="2">OPENING ACTIVITIES</td></tr>
<tr><td>SESSION 1</td><td colspan="2">INTRODUCTIONS</td></tr>
<tr><td>Activity 1</td><td colspan="2">Registration, Welcome Remarks and Introductions</td></tr>
<tr><td>Purpose</td><td colspan="2">• To register the participants and distribute the training kit.
• To introduce the ADB/JFPR-SBV Project, the guests, trainers and participants.</td></tr>
<tr><td>Objectives</td><td colspan="2">By the end of the activity, the participants are able to:
• Receive complete set of training kit.
• Know the project, host organizations, guests, trainers, and participants.</td></tr>
<tr><td>Time</td><td>Materials</td><td>Steps/Method:</td></tr>
<tr><td>30 minutes</td><td>Attendance Sheet
Training Kit::
- Agenda
- Notepad
- Pen
- ID
- Training Material</td><td>Registration:
1. The support staff facilitates the registration of the participants and the distribution of training kits at least 30 minutes before the start of the training.
2. The support staff checks completeness of the contents of the training kits with the participants.
3. The support staff ensures participants write their names on the IDs and wear the IDs at all times during the training.
4. The support staff ensures all equipment, facilities, supplies and materials required for the training are available.</td></tr>
<tr><td>Time</td><td>Materials</td><td>Steps/Method:</td></tr>
<tr><td rowspan="3">20-30 minutes</td><td>Brief profile of host organizations and guests</td><td>Welcome Remarks: Speech
1. The Training Coordinator introduces the host organizations (SBV, ADB, JFPR, ADB Consultants, etc.) and guests (if any).
2. The host organizations and guests deliver their welcome remarks.</td></tr>
<tr><td>Brief profile of the trainers</td><td>Introduction of the Trainers: Speech
1. The Training Coordinator welcomes and introduces the trainers (the lead trainer and co-trainers, if any).
2. The Training Coordinator gives the floor to the lead trainer to start the training.</td></tr>
<tr><td>Profile of the Participants, Registration Sheet, Computer, Slide Presentations, Flipcharts, Stands, Pens, Papers, Tapes, LCD Projector</td><td>Introduction of the Participants: Plenary; Small Group Discussions
1. The lead trainer welcomes the participants.
2. The lead trainer asks the participants to form four groups by counting off 1-4.
3. The lead trainer asks the participants to answer the following questions written in a slide:
- “Who are the members in your group?”
- “What motivated you to participate in this training?
- “What do you expect to learn from this training course?
- “How many years have you been working in the</td></tr>
</table>

		field of microfinance? and in the field of Financial Management 4. The lead trainer asks the groups to discuss their responses, write the responses on a flipchart, and select a representative of the groups to share their outputs to the other groups. 5. The lead trainer asks the representatives of the groups to describe the members of their group to the rest of the participants. 6. The lead trainer acknowledges each participant and welcomes them to the training. 7. When all groups have presented, the lead trainer thanks the participants and moves to the next activity.

PART I	**OPENING ACTIVITIES**	
SESSION 1	**INTRODUCTIONS**	
Activity 2	**LEVELING OF EXPECTATIONS**	
Purpose	• To determine what are the participants' expectations from the training. • To validate whether these expectations can be met by the training.	
Objectives	By the end of the activity, the participants are able to: • Present their motivations and expectations from the training. • Know the course agenda and validate coverage of their expectations with the trainers. • Identify items or issues that cannot be covered by the training.	
Time	**Materials**	**Steps/Method:**
20-30 minutes	Computer, PPT Slide 2, Paper, Pens, Flipchart for "Parking Lot", Stands, Tapes, LCD Projector PPT Slide No. 2	*Small Group Discussions; Plenary* 1. The support staff provides sheets of paper and pens to the participants. 2. The lead trainer asks the participants to respond to the following questions written on the slide and to write their answers on the sheets of paper: • *What do you hope to gain from this training/seminar?* • *What are you willing to give to have a meaningful session?* • *What do you expect from the facilitators?* *3.* The lead trainer asks the group representative to share with other groups their outputs. Outputs may look like these: "*Learning and sharing experiences"* *"Gain knowledge in financial management"* *"Active Participation"* *"Listen and resolve issues or confusions"* 4. The lead trainer summarizes the participants' motivations and expectations from the training. Training Objectives and Agenda: 5. The lead trainer presents the training objectives and agenda to the participants and validates expectations that can be covered by the training.

		6. The lead trainer also identifies items that cannot be covered, if any, and places them to the “Parking Lot”. *Note: The Parking Lot is a place where the trainer can write issues, items or any concern that is covered by the training. This is visited at the end of the training to determine whether items have been covered or need to be discussed in other venue.* 7. The lead trainer summarizes the participants’ outputs and asks the participants for more inputs or questions. 8. When there are no more questions, the lead trainer thanks the participants and moves to the next activity.

PART I	**OPENING ACTIVITIES**	
SESSION 1	**INTRODUCTIONS**	
Activity 3	**HOUSE RULES**	
Purpose	To ensure that the participants get the optimum learning from the course.	
Objectives	By the end of the activity, the participants are able to: • Define and agree on appropriate behaviors for the duration of the training. • Define and agree on appropriate penalties for violations of the house rules.	
Time	**Materials**	**Steps/Method:**
5-10 minutes	Flipcharts, Stands, Pens, Tapes	*Plenary* *1.* The lead trainer asks the participants what could help them achieve optimum learning from the training and lists them on a flipchart. *2.* The lead trainer may initiate discussions by providing standard or frequently mentioned house rules. Such house rules may include: *coming on time, turning off or placing on silent mode the mobile phones, participating actively, respecting others, etc.* 3. The lead trainer verifies acceptability of the responses with the participants by asking them to agree on each item. 4. When there are no more additions, the lead trainer shares his expectations if not yet covered by the listed items. 5. The lead trainer thanks the participants and closes the session by asking the participants to be always reminded of the house rules for the duration of the training. 6. The lead trainer posts the flipchart to the wall and moves to the next activity. *Note: Having completed the introductions, the expectations and the house rules, the participants are now ready to start with the main topics in the course.*

PART II	**INTRODUCTION TO FINANCIAL MANAGEMENT**	
Session 1	**Overview of Financial Management System**	
Activity 4	**Introduction to Financial Management Concepts**	
Purpose	**To introduce the concepts of financial management system.**	
Objectives	By the end of the activity, the participants are able to: • Understand the benefits of making right decisions in financial management.	
Time:	**Materials:**	**Steps/Method:**
20 minutes	Computer, PPT Slide 3, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector	*Plenary* 1. The lead trainer asks the participants what is their understanding of financial management. The lead trainer summarizes the responses which may include: *"making decision in financial, manage money, manage asset, manage resource, etc".* 2. The lead trainer explains to the participants what financial management is using the slides: "*Financial management is decision making relative to resource mobilize and using resource*" 3. The lead trainer follows up the question and asks the participants about the benefit of having knowledge on financial management. The responses may include*: preserve resource; use money more effective; reduce risk; increase income*." 4. The lead trainer follows this up with another question and asks the participants what factors are considered in financial management, with reference to the responses to previous question. The responses may include: *Balance Sheet, capital resources, assets, liquidity level, liabilities, etc.* 5. The lead trainer explains why these factors are important in financial management. 6. The lead trainer asks the participants if all is clear. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	**INTRODUCTION TO FINANCIAL MANAGEMENT**	
Session 1	**Overview of Financial Management System**	
Activity 5	**Benefits and Importance of Right Decision Making**	
Purpose	**To introduce the concepts of financial management system.**	
Objectives	By the end of the activity, the participants are able to: • Understand the benefits and importance of making right decisions in financial management.	
Time:	**Materials:**	**Steps/Method:**
20 minutes	Computer, PPT Slide 4, Paper, Pens, Flipcharts, Stands, Tapes, LCD	*Plenary* 1. The lead trainer then asks the participants who are responsible for financial management activities in the MFI. 2. The co-trainer lists the responses in a flipchart and posts them on the board. The responses may include:

	Projector	*Board, Managers, Chief Accountant, etc.* 3. The lead trainer asks the participants about the importance of having these responsible people making the right decisions for MFIs. Or, the lead trainer may provide some scenarios of what might happen to the MFI if wrong decisions are made. 4. The lead trainer summarizes the responses and concludes on the importance of making right decisions in financial management. 5. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.

PART II	**INTRODUCTION TO FINANCIAL MANAGEMENT**	
Session 2	**Understanding Relationships of the Different Components**	
Activity 6	**Financial Management and Balance Sheet**	
Purpose	**To introduce financial management in relation to the items in the balance sheet.**	
Objectives	By the end of the activity, the participants are able to : • Understand the balance sheet structure and how information provided by this helps in making decisions in financial management.	
Time:	**Materials:**	**Steps/Method:**
20 minutes	Computer, PPT Slide 5-6, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, MFI Financial Statement	*Plenary* 1. The lead trainer asks the participants what kind of financial information they are managing. The co-trainer lists the responses in a flipchart which may include: *assets, liabilities, owners' equity, revenues, expenses, gains and losses, etc.* 2. The lead trainer asks the participants where these types of information are likely to be found. Responses may include: *balance sheet, income statement, financial statement, etc.* 3. The lead trainer zeroes in on Balance Sheet and reviews the meaning of the terms mentioned with the participants to ensure that everybody is on the same page. 4. The lead trainer asks the participants if there is any question at this point. If there is none, the lead trainer moves on to the next activity. 5. The lead trainer shows a sample of the Balance Sheet to the participants and explains meaning of each item in the Balance Sheet. 6. The lead trainer then asks the participants which of the items in the Balance Sheet they normally use in making the financial management activities. 7. The lead trainer then asks if there are further questions about the topic. If there is no question, the lead trainer thanks the participants and moves on to the next activity.

PART II	**INTRODUCTION TO FINANCIAL MANAGEMENT**	
Session 2	**Understanding Relationships of the Different Components**	
Activity 7	**Financial Management and Liquidity Management**	
Purpose	**To introduce financial management in relation to liquidity management.**	
Objectives	By the end of the activity, the participants are able to : • Understand the fundamentals of liquidity management and understand how this helps in making decisions in financial management. • Understand better the SBV rules on liquidity reserves for MFIs.	
Time:	**Materials:**	**Steps/Method:**
30 minutes	Computer, PPT Slide 7-16, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, MFI Financial Statement, SBV Circular 07	*Plenary; Small Groups Discussions* *1.* The lead trainer asks the participants about their understanding of the concept of liquidity management. The responses may include: *Reserve money to pay for urgent things; ability to pay when client withdraws savings; ability to pay for the liabilities; etc.* 2. The lead trainer lists down the responses in a flipchart and posts on the board. The lead trainer then summarizes the responses and compares with the definition of liquidity management written on the slide. 3. The lead trainer then asks the group about their understanding of liquidity risks. The lead trainer asks the participants to form four groups to discuss their notions of liquidity risks and what can be done to minimize these risks. 4. The lead trainer asks the groups to write their responses and select the group representative within to represent the group. 5. After 5-10 minutes of discussions, the lead trainer asks the groups to present and for the other groups not presenting to observe and provide feedback. *6.* The lead-trainer lists down the responses in a flipchart while the co-trainer facilitates the sharing of responses. Responses may include: • *Liquidity Risks - when a number of savers/clients withdraw their saving account at the same time and the MFI has no enough funds* • *How to Minimize Risk - MFIs need to have clear policy of liquidity management, have to follow legal requirements, need to have options to solve problem if it happens.* 7. The lead trainer asks the participants if there are any questions. If there is no question, the lead trainer moves on to the next activity. 8. The lead trainer introduces the SBV Rule on Liquidity Reserves for MFIs. The lead trainer explains the rule in a way that the participants can better understand. The lead trainer also shows how this Rule affects the MFIs. 9. The lead trainer encourages sharing from the MFIs who are facing some challenges in terms of liquidity or who are foreseeing some challenges in relation to liquidity

		management. 10. The lead trainer also follows up the question with the options taken by the MFIs to solve their issues and challenges with liquidity management. 11. The lead trainer summarizes the discussions and emphasizes on the *3 options to deal with when liquidity management is at risk* 12. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.

PART II	**INTRODUCTION TO FINANCIAL MANAGEMENT**	
Session 2	**Understanding Relationships of the Different Components**	
Activity 8	**Financial Management and Asset-Liability Management (ALM)**	
Purpose	**To introduce financial management in relation to assets and liabilities management.**	
Objectives	By the end of the activity, the participants are able to : • Understand the fundamentals of asset-liability management and understand how this helps in making decisions in financial management. • Determine liquidity risks of an MFI based on their financial statements (mis-match of assets and liability).	
Time:	**Materials:**	**Steps/Method:**
30 minutes	Computer, PPT Slide 17-29, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, MFI Financial Statement, Transactional Analysis Sheet	*Plenary; Small Group Discussions* 1. The lead trainer asks the participants the form four groups. 2. The co-trainer provides the handouts to each of the groups. Using the handout and in their groups, the lead trainer asks the groups to find the assets and the liabilities in the balance sheet. 3. The lead trainer further asks the groups to define the types of the assets and classify by group whether they are "*earning assets, non-earning assets, interest-sensitive assets, etc.* 4. The lead trainer asks the groups to do the same for the liabilities – *liabilities sensitive with interest rates and liabilities not sensitive with interest rates.* 5. The lead trainer asks the groups to compare the assets and liabilities and identify whether there is any liquidity risk or mis-match in the assets and liabilities of the MFIs. 6. The lead trainer provides 10-15 minutes for the groups to discuss and prepare their presentation. 7. The groups present their outputs while the rest of the groups provide feedback on the presentation. 8. The lead trainer summarizes the information presented and concludes the session when all are on the same page. 9. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.

<table>
<tr><td>PART II</td><td colspan="2">INTRODUCTION TO FINANCIAL MANAGEMENT</td></tr>
<tr><td>Session 2</td><td colspan="2">Understanding Relationships of the Different Components</td></tr>
<tr><td>Activity 9</td><td colspan="2">Financial Management and Capital Adequacy</td></tr>
<tr><td>Purpose</td><td colspan="2">To introduce financial management in relation to capital adequacy.</td></tr>
<tr><td>Objectives</td><td colspan="2">By the end of the activity, the participants are able to :
• Understand the importance of capital adequacy and understand how this helps in making decisions in financial management..
• Understand the SBV Rule on Capital Adequacy Ratio (CAR).</td></tr>
<tr><td>Time:</td><td>Materials:</td><td>Steps/Method:</td></tr>
<tr><td>30 minutes</td><td>Computer, PPT Slide 30-40, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, MFI Financial Statement, SBV Circular 07</td><td>Plenary; Small Group Discussions; Exercises
1. The lead trainer asks the participants to stay in the groups.
2. The lead trainer asks the participants their understanding of capital adequacy and why is it important in financial management. The responses may include: to cover for losses; to write off losses; to protect the shareholders if MFIs face risk or losses…
3. The lead trainer asks if the participants are tracking adequacy of their capital and satisfaction of the minimum requirements for the capital adequacy ratio (CAR) for MFIs.
4. The lead trainer acknowledges those that are tracking these already and emphasizes that formalized MFIs will have to track these in the future.
5. To facilitate discussions, the lead trainer shows the slides and asks the groups to:
a. Explain Tier 1 and Tier 2 according to the SBV rules
b. Classify the risk categories of the MFI’s assets according to SBV rules
c. Calculate CAR of the MFI and determine if they adhere to SBV rules
6. The lead trainer provides 20 minutes for the groups to answer the three questions and place them on the flipcharts.
7. The lead trainer asks for volunteer group to present their outputs while the other groups observe and provide feedback on the presentation.
8. The lead trainer summarizes the information presented as well as the feedback from the groups; responds and clarifies issues, if any; and concludes the session to ensure that all participants are on the same page.
9. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.</td></tr>
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<table>
<tr><td>PART II</td><td colspan="2">INTRODUCTION TO FINANCIAL MANAGEMENT</td></tr>
<tr><td>Session 2</td><td colspan="2">Understanding Relationships of the Different Components</td></tr>
<tr><td>Activity 10</td><td colspan="2">Financial Management and Financial Risks</td></tr>
<tr><td>Purpose</td><td colspan="2">To introduce financial management in relation to resources and financial risks.</td></tr>
<tr><td>Objectives</td><td colspan="2">By the end of the activity, the participants are able to :
• Understand the fundamentals of leveraging and managing financial risks and understand how this helps in making decisions in financial management.
• Calculate the profit margin, identify interest rate risks</td></tr>
<tr><td>Time:</td><td>Materials:</td><td>Steps/Method:</td></tr>
<tr><td>30 minutes</td><td>Computer, PPT Slide 41-51, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, MFI Financial Statement, Exercise</td><td>Plenary; Small Group Discussions; Exercises
1. The lead trainer asks the participants to stay in their groups.
2. The lead trainer explains the concepts of “Assets”, “Liabilities” and “Net worth” using a sample balance sheet. Further, the lead trainer introduces the concepts of interest rate risks and sensitivity to interest rates fluctuations.
3. The lead trainer asks the groups if there are questions on the concepts presented. If there are no questions, the lead trainer continues with the next activity, an exercise.
4. The co-trainer provides the groups with a copy of the exercise. The lead trainer asks the groups to calculate the profit margin based on the exercise; identify if there are any risks to the MFI; and to provide comments and recommendations for the MFI.
5. The lead trainer provides 20 minutes for the groups to answer the three questions and place them on the flipcharts.
6. The lead trainer then asks for volunteer group to present their outputs while the other groups observe and provide feedback on the presentation.
7. The lead trainer summarizes the information presented and concludes the session when all participants are on the same page.
8. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.</td></tr>
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PART III	**FINANCIAL MANAGEMENT INDICATORS**	
Session 1	**Understanding Financial Indicators**	
Activity 11	**Financial Sustainability Indicators**	
Purpose	**To introduce the concept of financial sustainability and indicators used to measure this.**	
Objectives	By the end of the activity, the participants are able to : • Understand the concept of financial sustainability and indicators that measure financial sustainability.	
Time:	**Materials:**	**Steps/Method:**
30 minutes	Computer, PPT Slide 52-54, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Exercise	*Plenary; Small Group Discussions; Exercises* 1. The lead trainer explains the concepts of financial sustainability to the participants and the common indicators used to measure financial sustainability. 2. The lead trainer asks the participants if there are questions so far. If there are no questions, the lead trainer moves to the next activity, an exercise. 3. The lead trainer asks the participants to maintain the same grouping and provides the groups with a copy of the exercise. The lead trainer asks the groups to answer the question with either "True", if the statement is true or "False", if the statement is false. 4. The lead trainer provides 10 minutes for the groups to answer the questions. 5. The lead trainer asks the participants about their answers. The trainer validates that all participants have the same answer for all questions. If not, the lead trainer asks others to explain why or the lead trainer explains why the answer is such so that all are on the same page. 6. The lead trainer summarizes the information presented and concludes the session. 7. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.

PART III	**FINANCIAL MANAGEMENT INDICATORS**	
Session 1	**Understanding Financial Indicators**	
Activity 12	**Determining Financial Sustainability of an MFI**	
Purpose	**To practice calculation of financial sustainability of an MFI.**	
Objectives	By the end of the activity, the participants are able to : • Calculate the financial sustainability of the MFI.	
Time:	**Materials:**	**Steps/Method:**
30 minutes	Computer, PPT Slide 55-57, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector,	*Small Group Discussions; Plenary; Exercises* 1. The lead trainer introduces the concepts of operating and financial self-sufficiency ratios as measure of financial sustainability. 2. The lead trainer asks the participants to use the same grouping. The co-trainer provides the groups with a copy of the statements of the financial condition of two MFIs. 3. The lead trainer asks the groups to determine which of

	Exercises	the MFIs have reached the operating self-sufficiency and which have reached the financial self-sufficiency. 4. The lead trainer provides 10-15 minutes for the participants to do the exercise. 5. The lead trainer then asks the participants about their answers. The trainer validates that all participants have the same answer for all questions. If not, the lead trainer asks others to explain why or the lead trainer explains why the answer is such so that all are on the same page. *6.* The lead trainer summarizes the discussions and concludes the session. *7.* The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.

PART III	**FINANCIAL MANAGEMENT INDICATORS**	
Session 1	**Understanding Financial Indicators**	
Activity 13	**Portfolio Quality Indicators**	
Purpose	**To introduce the concepts of portfolio quality indicators.**	
Objectives	**By the end of the activity, the participants are able to :** • **Calculate portfolio quality of the MFI.**	
Time:	**Materials:**	**Steps/Method:**
30 minutes	Computer, PPT Slide 58-59, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Exercises	*Small Group Discussions; Plenary; Exercises* 1. The lead trainer introduces the concepts of portfolio quality and common indicators used to measure it in MFIs. 2. The lead trainer asks the participants to use the same grouping for the exercise. 3. The co-trainer provides the groups with a copy of the statements of the financial condition of two MFIs. 4. The lead trainer asks the groups to determine from the data provided the overdue rate, portfolio at risk (30 days) and the credit losses incurred by the MFI. 5. The lead trainer provides 10-15 minutes for the participants to do the exercise. 6. The lead trainer then asks the participants about their answers and asks for volunteers to share them with the group. 7. The lead trainer validates that all participants have the same answer for all questions. If not, the lead trainer asks others to explain why or the lead trainer explains why the answer is such so that all are on the same page. 8. The lead trainer summarizes the discussions and concludes the session. 9. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.

PART III	FINANCIAL MANAGEMENT INDICATORS	
Session 1	Understanding Financial Indicators	
Activity 14	Effective Financial Structure	
Purpose	To introduce the concepts of effective financial structure.	
Objectives	By the end of the activity, the participants are able to : • Calculate some ratios used in measuring effective financial structure.	
Time:	**Materials:**	**Steps/Method:**
30 minutes	Computer, PPT Slide No 60-61, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Exercises	*Small Group Discussions; Plenary; Exercises* 1. The lead trainer introduces the concepts of effective financial structure and common indicators used to measure it in MFIs. 2. The lead trainer asks the participants to use the same grouping for the exercise. 3. The co-trainer provides the groups with a copy of the statements of the financial condition of two MFIs. 4. The lead trainer asks the groups to determine from the data the following: *a. How much is MFI's outstanding loan?* *b. How much is MFI's assets?* *c. How much is the ratio of outstanding loan to assets?.* 5. The lead trainer provides 10-15 minutes for the participants to do the exercise. 6. The lead trainer then asks the participants about their answers and asks for volunteers to share them with the group. 7. The lead trainer validates that all participants have the same answer for all questions. If not, the lead trainer asks others to explain why or the lead trainer explains why the answer is such so that all are on the same page. 8. The lead trainer summarizes the discussions and concludes the session. 9. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.

PART III	FINANCIAL MANAGEMENT INDICATORS	
Session 1	Understanding Financial Indicators	
Activity 15	Financial Efficiency and Productivity Indicators	
Purpose	To introduce the concepts of financial efficiency and productivity indicators.	
Objectives	By the end of the activity, the participants are able to : • Calculate some ratios used to measure efficiency and productivity	
Time:	**Materials:**	**Steps/Method:**
30 minutes	Computer, PPT Slide 62-63, Paper, Pens, Flipcharts,	*Small Group Discussions; Plenary; Exercises* 1. The lead trainer introduces the concepts of financial efficiency and productivity and common indicators used to measure it in MFIs. 2. The lead trainer asks the participants to use the same

	Stands, Tapes, LCD Projector, Exercises	grouping for the exercise. 3. The co-trainer provides the groups with a copy of the statements of the financial condition of two MFIs. 4. The lead trainer asks the groups to determine from the data provided the following: a. *Which MFI has higher loan efficiency?* b. *Which MFI has higher savings mobilized?* 5. The lead trainer provides 10-15 minutes for the participants to do the exercise. 6. The lead trainer then asks the participants about their answers and asks for volunteers to share them with the group. 7. The lead trainer validates that all participants have the same answer for all questions. If not, the lead trainer asks others to explain why or the lead trainer explains why the answer is such so that all are on the same page. 8. The lead trainer summarizes the discussions and concludes the session. 9. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.

PART III	**FINANCIAL MANAGEMENT INDICATORS**	
Session 2	**Understanding Non-Financial Indicators**	
Activity 16	**Outreach Indicators**	
Purpose	**To introduce the concepts of non-financial indicator such as outreach indicators.**	
Objectives	**By the end of the activity, the participants are able to :** • **Calculate some ratios used to measure outreach in MFIs.**	
Time:	**Materials:**	**Steps/Method:**
30 minutes	Computer, PPT Slide 64, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Exercises	*Small Group Discussions; Plenary; Exercises* 1. The lead trainer introduces the concepts of non-financial indicators and outreach indicators. 2. The lead trainer asks the participants to use the same grouping for the exercise. 3. The co-trainer provides the groups with a copy of the operational report of the MFIs. 4. The lead trainer asks the groups to determine from the data provided the following: number of active borrowers, savers, amount of loans outstanding, voluntary savings amount, number of new products, number of transaction points. 5. The lead trainer provides 10-15 minutes for the participants to do the exercise. 6. The lead trainer then asks the participants about their answers and asks for volunteers to share them with the group. 7. The lead trainer validates that all participants have the same answer for all questions. If not, the lead trainer asks

		others to explain why or the lead trainer explains why the answer is such so that all are on the same page. 8. The lead trainer summarizes the discussions and concludes the session. 9. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.

PART III	**FINANCIAL MANAGEMENT INDICATORS**	
Session 2	**Understanding Non-Financial Indicators**	
Activity 17	**Administration/Management Efficiency Indicators**	
Purpose	**To introduce the concepts of non-financial indicator such as administration/management efficiency indicators.**	
Objectives	**By the end of the activity, the participants are able to :** • **Calculate some ratios used to measure administration/management efficiency in MFIs.**	
Time:	**Materials:**	**Steps/Method:**
30 minutes	Computer, PPT Slide 65-66, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Exercises	*Small Group Discussions; Plenary; Exercises* 1. The lead trainer introduces the concepts of non-financial indicators and outreach indicators. 2. The lead trainer asks the participants to use the same grouping for the exercise. 3. The co-trainer provides the groups with a copy of the operational reports of MFIs. 4. The lead trainer asks the groups to determine from the data provided the following: operating efficiency, administrative efficiency, and operating expense to income ratio 5. The lead trainer provides 10-15 minutes for the participants to do the exercise. 6. The lead trainer then asks the participants about their answers and asks for volunteers to share them with the group. 7. The lead trainer validates that all participants have the same answer for all questions. If not, the lead trainer asks others to explain why or the lead trainer explains why the answer is such so that all participants are on the same page. 8. The lead trainer summarizes the discussions and concludes the session when all participants are on the same page. 9. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.

PART III	**FINANCIAL MANAGEMENT INDICATORS**	
Section 3	**Analyzing Financial Indicators**	
Activity 18	**Analyzing financial indicators**	
Purpose	**To introduce the methodologies to analyze financial indicators**	
Objectives	By the end of the activity, the participants are able to: • Know how to calculate and analyze financial indicators.	
Time:	**Materials:**	**Steps:**
30 minutes	PPT Slides 67-70, Flipcharts, Pens, Tapes, Meta plan cards	*Small Group Discussions; Plenary; Exercises* 1. The lead trainer introduces the concepts of Return on Assets (ROA) and Return on Equity (ROE). 2. The lead trainer asks the participants if there are questions on the concepts of ROA and ROE. If there are no questions, the lead trainer moves to the next activity, an exercise. 3. The lead trainer divides the class in four groups. The lead trainer provides the group with the financial statement of the MFI. The lead trainer then asks the groups to discuss the financial statements of the MFI and calculate the ROA and ROE. In addition, the lead trainer asks the groups to interpret and analyze the performance of the MFI based on the data and the calculated ratios. 4. The lead trainer provides the groups with 10 minutes for discussion and 5 minutes each for presentation and feedback. 5. The groups present their outputs to the other groups while the other groups provide feedbacks on the presentation. 6. The lead trainer ensures that all participants have the same answer for all questions. If not, the lead trainer asks others to explain why or the lead trainer explains why the answer is such so that all participants are on the same page. 7. The lead trainer summarizes the discussions and concludes the session. 8. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.

PART IV	**CLOSING ACTIVITIES**	
SESSION 1	**Wrap Up and Evaluations**	
Activity 19	**Evaluations**	
Purpose	To validate whether the training objectives have been met.	
Objectives	By the end of the activity, the participants are able to: • Validate achievement of the training objectives, participants' training expectations, and resolve "parking lot" issues. • Complete the evaluation form.	
Time:	**Materials:**	**Steps/Method:**
15-20	Pens,	*Plenary; Post Training Evaluation*

minutes	Agenda, Computer, LCD Projector, Evaluation Forms	1. The support staff distributes the evaluation forms to the participants and asks them to fill up the form. 2. The support staff provides a short explanation on the content and how the form should be filled up by the participants. 3. The support staff collects the forms from the participants. 4. The training coordinator reviews the training objectives against the learning experiences of the participants along with their expectations from the training. 5. The training coordinator reviews the issues listed in the parking lot, if any and tries to resolve such issues. 6. The training coordinator asks the participants if they want to share anything to the group and provides time for people to make their speech. 7. The lead trainer asks the participants if all is clear. If there are no questions, the lead trainer concludes the session, thanks the participants and moves to the next activity

PART IV	**CLOSING ACTIVITIES**	
SESSION 1	**Closing**	
Activity 20	**Closing Remarks**	
Purpose	To officially mark the end of the training.	
Objectives	By the end of the activity, the participants are able to: • Complete the requirements of the training. • Receive the certificate of completion.	
Time:	**Materials:**	**Steps/Method:**
15-20 minutes	Certificates	*Plenary* 1. The training coordinator requests the representatives of host institutions (e.g. ADB, SBV) to deliver the closing remarks. 2. The training coordinator thanks all the people that supports the delivery of the training (ADB, SBV, PMU, MFI, others) and thanks the participants for the hard work and active participation. 3. The hosts' organization representatives issue the certificate of completion to the participants. 4. The host, trainers and participants pose for the group picture.

PRESENTATION MATERIAL

Balance between financial results and risks is a measure of financial management performance

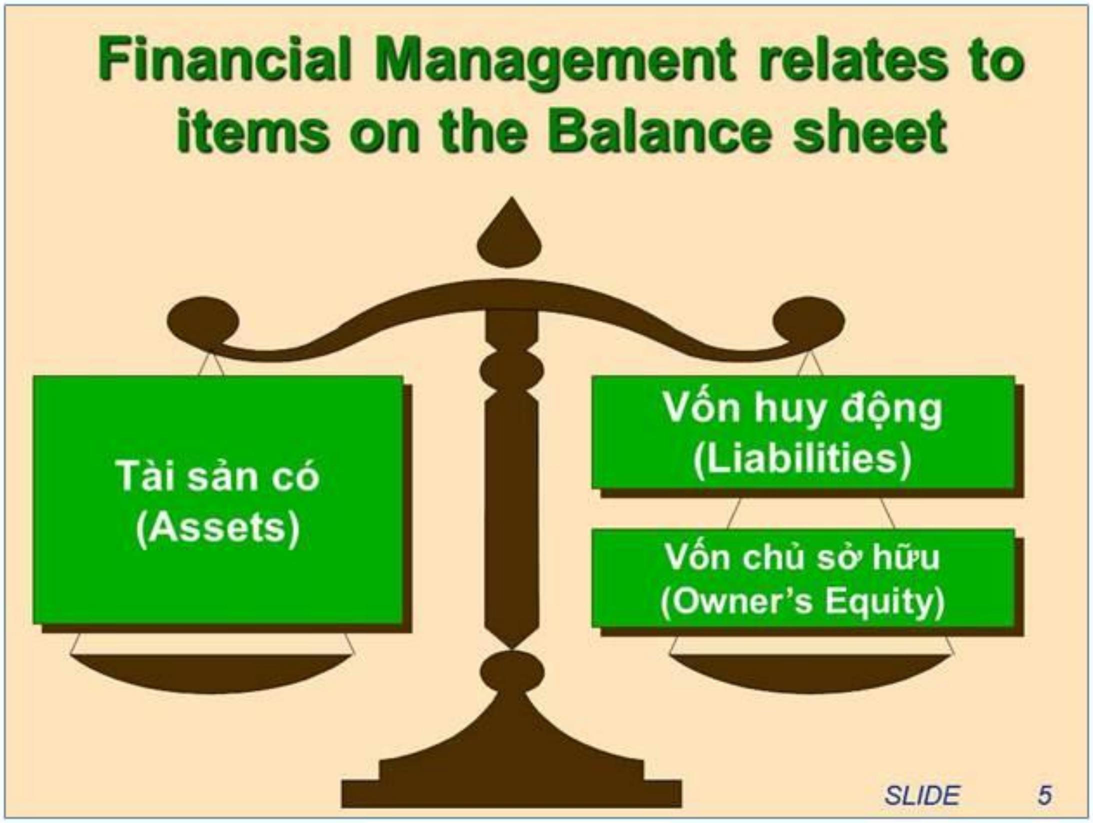
- To achieve financial sustainability, MFIs need to maximize income.
- Generally income growth associates with increased risk.
- To ensure financial sustainability, financial management must balance between risks and income of the organization.
- Managers must keep in mind this dual concept when analyzing income and risks of the organization.

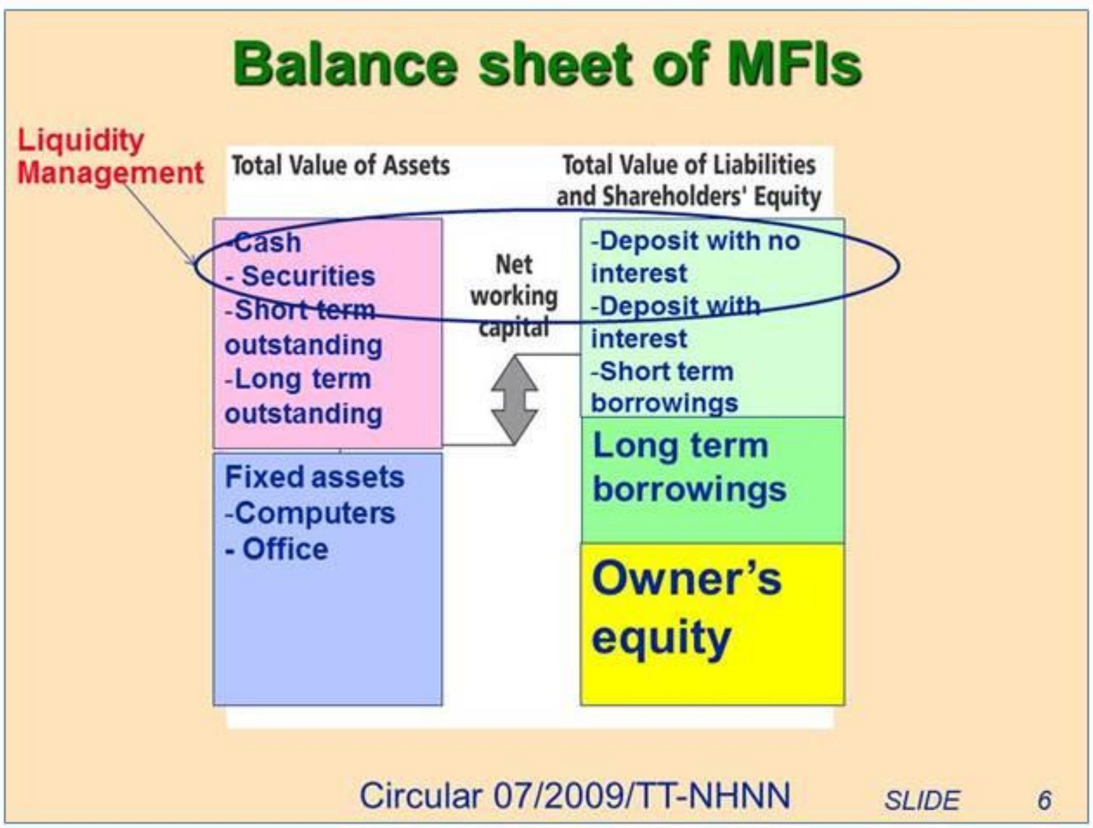
SLIDE 3

Financial management of MFIs relate to:

1. Management of Liquidity (solvency)
   - To ensure sufficient cash and equivalent assets to pay the depositors, to comply with reserve requirements
2. Management of assets
   - Diversify portfolio to maximize interest income
3. Management of Liabilities and Assets
   - Narrow the maturity mismatch
4. Management of Capital Adequacy Ratio
   - Ensure the CAR as regulated by SBV
5. Management of capital resources in relation with financial risks

SLIDE 4


Financial Management relates to items on the Balance sheet
Tài sản có (Assets)
Vốn huy động (Liabilities)
Vốn chủ sở hữu (Owner's Equity)
SLIDE 5


Balance sheet of MFIs
Liquidity Management
Total Value of Assets
Total Value of Liabilities and Shareholders' Equity
-Cash
- Securities
-Short term outstanding
-Long term outstanding
Net working capital
-Deposit with no interest
-Deposit with interest
-Short term borrowings
Fixed assets
-Computers
- Office
Long term borrowings
Owner's equity
Circular 07/2009/TT-NHNN
SLIDE 6

Liquidity Management

Liquidity Risks

- Liquidity risk occurs whenever depositors for some reason make massive withdrawals

SLIDE 7

Liquidity Management…

- Assignment of personnel to monitor liquidity

- b) Implementation plans to ensure liquidity

- c) Provisions on budget management, revenue and expenditure, capital sources, liquidity securities

SLIDE 8

Liquidity Management…

- **MFIs must maintain a regular minimum liquidity rate of 20%.**

 + 

+ 

$$\text{Liquidity rate} = \frac{\text{Cash} + \text{Deposit} + \text{Securities}}{\text{Compulsory savings} + \text{Voluntary savings}} = 20\%$$

 + 

SLIDE 9

Liquidity Management…

- **Limits on lending by MFIs**

Outstanding loan of non-MF client <10% of equity

Outstanding loan of MF client < 30trđ

Outstanding loan of associated group of clients <15% of equity

SLIDE 10

Liquidity Management…

- MFIs must allocate sufficient reserves as required
- Compulsory reserves serve as insurance to prevent massive withdrawals
- Not too much?
- Not too little?

SLIDE 11

Surplus reserve

MFI A			
Assets		**Liabilities**	
Reserve	$20M	Deposits	$100M
Loans	$80M	Owner's equity	$10M
Fixed assets	$10M		

MFI A			
Assets		**Liabilities**	
Reserve	$10M	Deposits	$90M
Loans	$80M	Owner's equity	$10M
Fixed assets	$10M		

- If the required reserve ratio is 10%, with $100M deposits, how much is the deposit reserve required to the MFIs?
- Reserve surplus
- When deposit reduces within the reserve limit (say $10M) MFIs do not need to supplement.

SLIDE 12

Handling with lack of reserve

MFI A (t)			
Assets		**Liabilities**	
Required reserve	$10M	Deposits	$100M
Loans	$90M	Owner's equity	$10M
Fixed assets	$10M		

MFI A(t+1)			
Assets		**Liabilities**	
Required reserve	$0	Deposits	$90M
Loans	$90M	Owner's equity	$10M
Fixed assets	$10M		

- Reserve is to cover sudden withdrawals
- Reserve is legally required and not allowed to deficit
- MFIs suffering deficit has 3 options to compensate

SLIDE 13

Option 1: Borrow from SBV

MFI			
Assets		**Capital sources**	
Reserve	$9M	Deposit	$90M
Loans	$90M	Borrowings from SBV	$9M
Fixed assets	$10M	MFI's capital	$10M

- Borrowings from SBV will be subject to high interest rate as regulated.

SLIDE 14

Option 2: Borrowings from other FIs

MFI			
Assets		Capital sources	
Reserves	$9M	Deposits	$90M
Loans	$90M	Borrowings from commercial banks	$9M
Fixed assets	$10M	MFI's capital	$10M

- For temporary loans (overnight), interest rate is prescribed by the market.
- For long term loans, interest rate will be higher

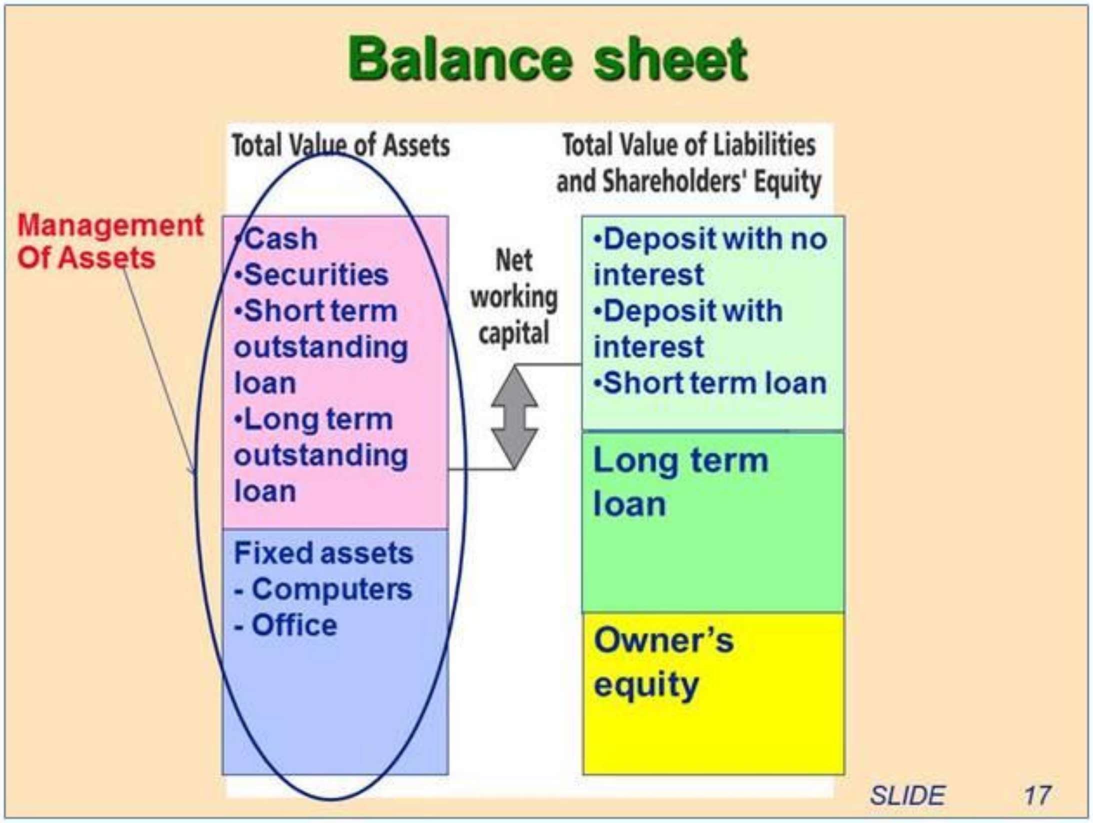
SLIDE 15

Option 3: Loan recovery

MFI			
Assets		Capital sources	
Reserve	$9M	Deposits	$90M
Loans	$81M		
Fixed assets	$10M	MFI's capital	$10M

- Recovery of debt is the most expensive.
- Recovery of debt causes discontent by clients.

SLIDE 16



Assets

MFI's Assets fall into 4 major sub-categories:

- **Cash and equivalent**

  Cash in hand, deposits in banks, demand deposit.

- **Short term securities**

  Bills, Bonds, Certificates of Deposits…

- **Loans**

- **Other assets**

  Office, fixed assets…

SLIDE 18

Average Balance Sheet

Assets	2009		2010		Liabilities	2009		2010	
	$	%	$	%		$	%	$	%
Cash	1M	1%	1M		Compulsory savings	10M	10%	11M	11%
Reserve	9M	9%	10M		Voluntary savings	30M	30%	38M	38%
Short term loans	51M	51%	59M		Short term borrowings	10M	10%	10M	10%
Long term loans	31M	31%	31M		Long term borrowings	40M	40%	40M	40%
Assets	9M	9%	9M		Owner's equity	10M	10%	11M	11%
Total	100M		110M		Total	100M		110M	

Earning Assets

SLIDE 19

Average Balance Sheet

Assets	2009		2010		Liabilities	2009		2010	
	$	%	$	%		$	%	$	%
Cash	1M	1%	1M		Compulsory savings	10M	10%	11M	11%
Reserve	9M	9%	10M		Voluntary savings	30M	30%	38M	38%
Government bond	10M	10%							
Short term loans	41M	41%	59M		Short term borrowings	10	10%	10	10%
Long term loans	31M	31%	31M		Long term borrowings	40	40%	40	40%
Assets	9M	9%	9M		Owner's equity	10	10%	11	11%
Total	100M		110M		Total	100M		110M	

Non-earning assets

SLIDE 20

Average Balance Sheet

Assets	2009		2010		Liabilities	2009		2010	
	$	%	$	%		$	%	$	%
Cash	1M	1%	1M		Compulsory savings	10M	10%	11M	11%
Reserve	9M	9%	10M		Voluntary savings	30M	30%	38M	38%
Government bond	10M	10%							
Short term loans	41M	41%	59M		Short term borrowings	10	10%	10	10%
Long term loans	31M	31%	31M		Long term borrowings	40	40%	40	40%
Assets	9M	9%	9M		Owner's equity	10	10%	11	11%
Total	100M		110M		Total	100M		110M	

Non-risk assets

SLIDE 21

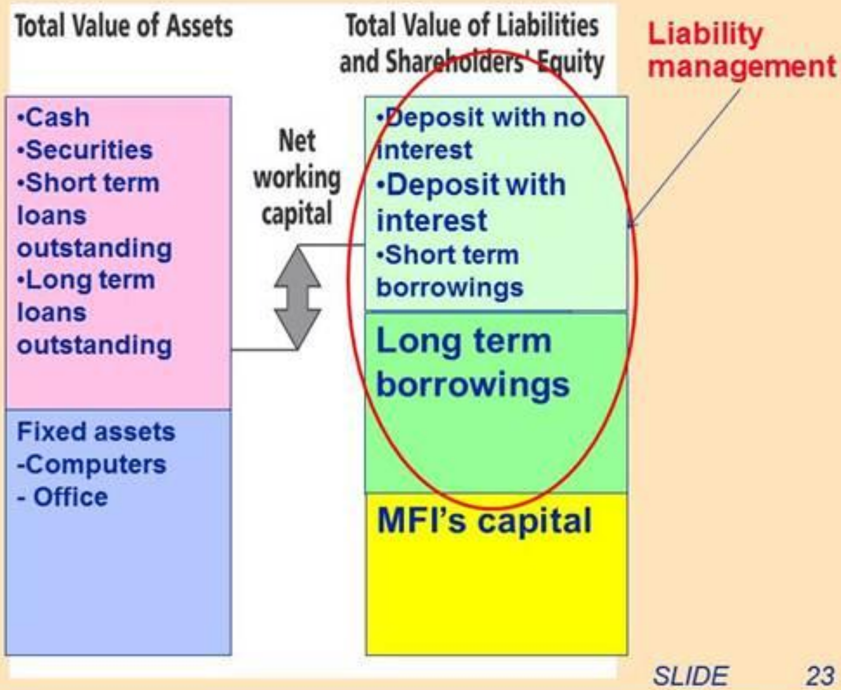
Average Balance Sheet

Assets	2009		2010		Liabilities	2009		2010	
	$	%	$	%		$	%	$	%
Cash	1M	1%	1M		Compulsory savings	10M	10%	11M	11%
Reserve	9M	9%	10M		Voluntary savings	30M	30%	38M	38%
Government bond	10M	10%							
Short term loans	41M	41%	59M		Short term borrowings	10	10%	10	10%
Long term loans	31M	31%	31M		Long term borrowings	40	40%	40	40%
Assets	9M	9%	9M		Owner's equity	10	10%	11	11%
Total	100M		110M		Total	100M		110M	

Rate Sensitive Assets

SLIDE 22

Balance Sheet of MFIs



SLIDE 23

Average Balance Sheet

Assets	2009		2010		Liabilities	2009		2010	
	$	%	$	%		$	%	$	%
Cash	1M	1%	1M		Compulsory savings	10M		11M	
Reserve	9M	9%	10M		Voluntary savings	30M		38	
Short term loans	51M	51%	59M		Short term borrowings	10		10	
Long term loans	31M	31%	31M		Long term borrowings	40		40	
Assets	9M	9%	9M		Owner's equity	10		11	
Total	100M		110M		Total	100M		110M	

Rate sensitive liability

SLIDE 24

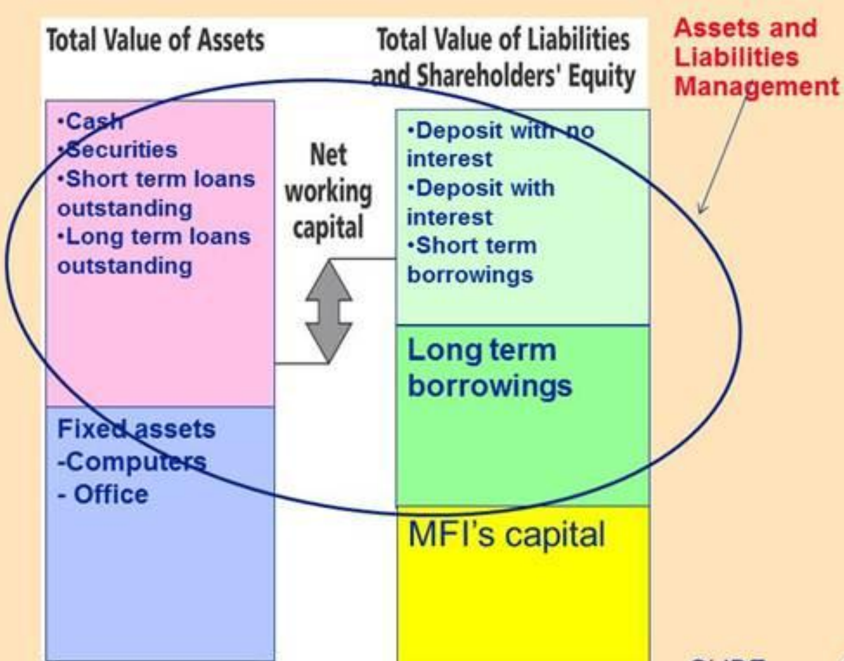
Average Balance Sheet

Assets	2009		2010		Liabilitie s	2009		2010	
	$	%	$	%		$	%	$	%
Cash	1M	1%	1M		Compulsor y savings	10M		11M	
Reserve	9M	9%	10M		Voluntary savings	30M		38	
Short term loans	51M	51%	59M		Short term borrowings	10		10	
Long term loans	31M	31%	31M		Long term borrowings	40		40	
Assets	9M	9%	9M		Owner's equity	10		11	
Total	100M		110M		Total	100M		110M	

Rate non-sensitive liability

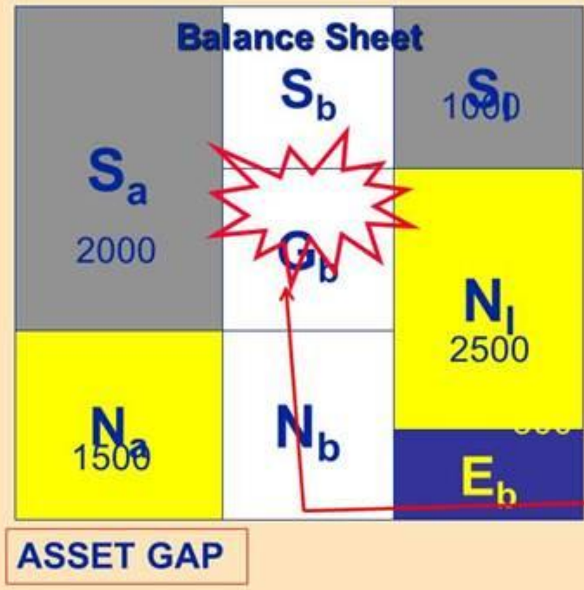
SLIDE 25

MFIs Balance Sheet



SLIDE 26

Assets and Liabilities Management – Asset gap



	Asset/Liabilities sensitive with interest rate
	Asset/Liabilities not sensitive with interest rate
	Owner's equity
S_b	RSL is funded by RSA
G_b	RSL is funded by asset not sensitive with interest rate
N_b	Liabilities not sensitive with interest rate is funded by asset not sensitive with interest rate
G_b	Positive balance makes margin subject to changes of general interest rates

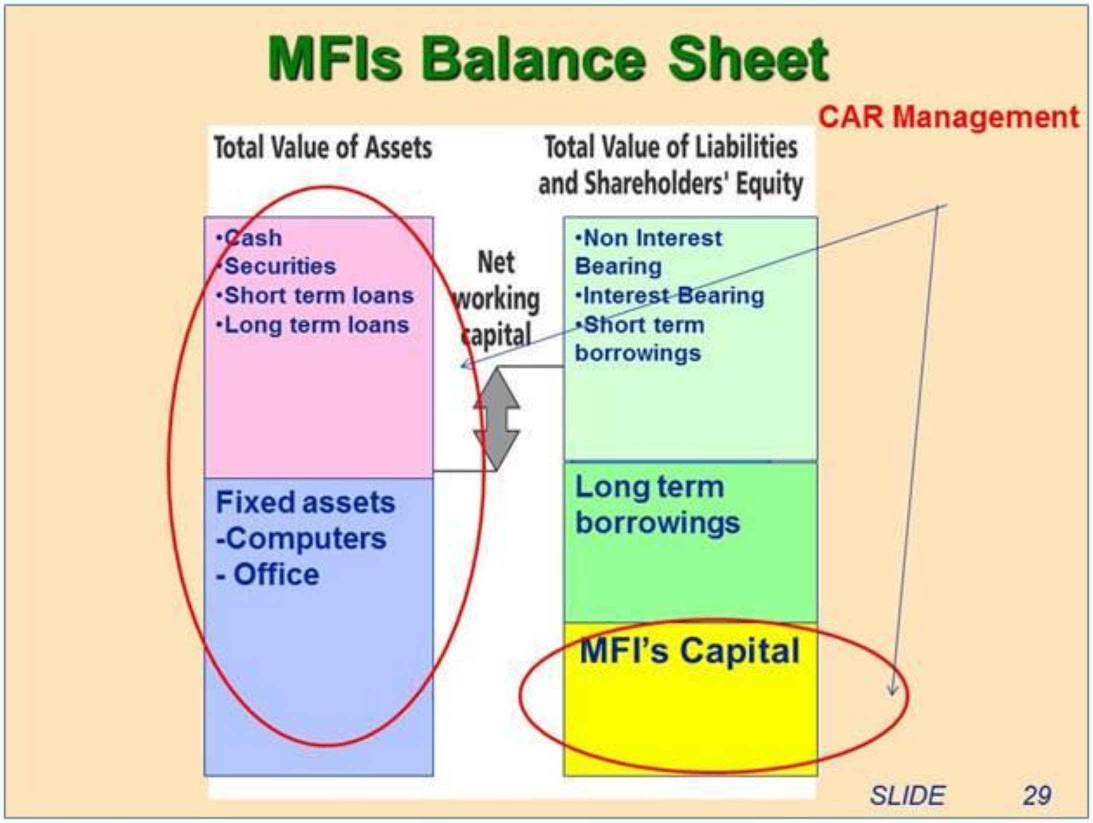
SLIDE 27

Assets and Liabilities Management – Maturity Analysis

Assets/Liabilities	Sight (0 days)	0-30 days	31-90 days	91-180 days	181-360 days	> 360 days
Interest bearing assets						
Short term loans	1,000	2,500	2,000	-	-	-
Medium term loans	500	1,200	2,700	3,000	200	-
Long term loans	200	300	500	750	1,800	4,500
Total	1,700	4,000	5,200	3,750	2,000	4,500
Interest bearing Liabilities						
Non-term savings	1,100	-	-	-	-	
Term savings	500	900	3,000	3,200	4,000	4,800
Other borrowings	100	200	800	1,800	3,000	3,500
Total	1,700	1,100	3,800	5,000	7,000	8,300

- Is there a mismatch between the interest bearing assets and interest bearing liabilities?
- What are the warning signs of immediate or potential liquidity risks for the bank?

SLIDE 28



The importance of CAR

- Absorb losses on liquidated assets, written off loan losses.
- Payoff uninsured depositors
- Help the Board avoid legal obstacles (avoid bankruptcy)
- Protect shareholders from capital loss in case the institution fails
- Help MFIs attract investment to expand operations

SLIDE 30

Capital Structure

Capital 1 (Tier 1):

Charter capital,
donor's capital,
undivided profits,
funds from profits

Capital 2 (Tier 2):

Not yet published profits,
50% added value of re-evaluated assets,
general provisions must equal at least 1,25% of "Assets" at risk,
Secondary debts ≥10 years

$\boxed{\textbf{Total capital (Tier 1 + Tier 2).}}$

Circular 07/2009/TT-NHNN

SLIDE 31

Minimum Capital Adequacy Ratio (CAR)

$$CAR = \frac{\text{Total Capital (Tier 1 + Tier 2)}}{\text{Risk Weighted Assets}}$$

Required ratio:≥ 10% (Circular: 07)

SLIDE 32

Risk-Adjusted Assets

- **Risk Adjusted Assets are classified into 1 of 4 levels of risk**
- ***Total Risk-Adjusted Assets* are the Total "Assets" of MFIs determined by level of risk specified in Article 5 of Circular 17**

SLIDE 33

Classification of Assets

Category **1: Weight 0%**

Cash and deposits at SBV

Outstanding loans by foreign grants, trust

Trusted loans, Savings back loans, T-bill, Government Bonds (SBV)

Government Bonds guaranteed by the Government

SLIDE 34

Classification of Assets

Category **2: Weight 20%**

Deposits in national credit institutions

Guaranteed loan outstanding = Deposit by Credit Institution

Loans outstanding from Credit institutions/MFIs

Cash in collection process

SLIDE 35

Classification of Assets

Category 3: Weight 50%

Outstanding loan < 1 year

Collateral loans = Real Estate

SLIDE 36

Classification of Assets

Category 4: Weight 100%

Real estates and fixed assets

Other Receivables

SLIDE 37

MANAGEMENT OF CAR BY MFIs

Risks and CAR ratio

ASSETS		Risk Weighted Assets	LIABILITIES		
CASH	1000	0	Deposits	7700	
			Borrowings from CIs	2100	9800
Bills	1000	0			
Collateral Loans	2000	1000			
Outstanding loans <12 month	5510				
Loan Loss Provisions	-10		Stocks	75	
	5500	5500	Funds	75	
Fixed assets	500	500	Undivided profit	50	200
	10000	7000			10000

$$CAR = \frac{200}{7000} = 2,8\%$$

BELOW SAFETY LEVEL

SLIDE 38

MANAGEMENT OF CAR BY MFIs...

- MFIs must maintain CAR in accordance with the growth of the institutions

MFI A (t)

	Deposit 90
	Capital 10
100	100

MFI A(t+1)

	99
	11
110	110

g_A = 10 %

g_E must be equal to 10% to maintain C/A = 0.10 at t+1

SLIDE 39

MANAGEMENT OF CAR BY MFIs...

Considering MFI A: If dividend 0.50 is paid and ROA = 0.01,

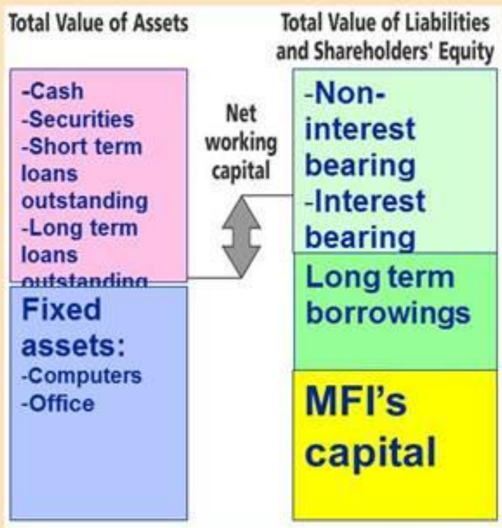
MFI A (t+2)

	Deposit 99
	Capital 10.50 $\Rightarrow$ C/A = 10.50 / 109.50 = 0.096
109.50	109.50 $\Rightarrow$ drop in C/A ratio 0,4% in one year

To maintain C/A =0.10, MFI A must "call" for more investments or reduce assets

SLIDE 40

Sources and Uses of MFI Funds – Financial risks



SLIDE 41

Management of capital resources in relation to financial risk

Based on financial analysis of a MFI through relationships of the following factors:

- Gross profit (margin)
- Interest rate gap (spread);
- Net interest income;
- Net income;
- Provision for Loan Loss
- Rate sensitive assets (RSA), Rate sensitive Liabilities (RSL);
- Measuring the interest risk

SLIDE 42

Margin by MFI

MFI A

Earning Assets (0.10)	95	90	Deposit (0.05)
Non-Earning Assets	5	10	Capital
	100	100	

$$\text{MARGIN} = \frac{\$\text{ INTEREST EARNED} - \$\text{ INTEREST COST}}{\$\text{ INTEREST EARNING ASSETS}}$$

$$= \frac{(\$95 \times 10\%) - (\$90 \times 5\%)}{\$95}$$

$$= \frac{\$9.50 - \$4.50}{\$95}$$

$$= \underline{0.053}$$

SLIDE 43

SPREAD BY MFI

MFI A

Earning Assets (0.10)	95	90	Deposit (0.05)
Non-Earning Assets	5	10	Capital
	100	100	

$$\text{SPREAD} = \frac{\text{INTEREST EARNED}}{\text{INTEREST EARNING ASSETS}} - \frac{\text{INTEREST COST}}{\text{INTEREST BEARING LIABILITIES}}$$

$$= \frac{(\$95 \times 10\%)}{\$95} - \frac{(\$90 \times 5\%)}{\$90}$$

$$= 0.10 - 0.05$$

$$= \underline{0.05}$$

SLIDE 44

INCOME MODEL OF MFI

NII = II – IE

NI = (II-IE) + FEES – Overhead – PLL – Tax

NII = net interest income
II = interest income
IE = interest expense
NI = net income
PLL = Provisions for loan loss

SLIDE 45

Interest rate risk and gap analysis

MFI A

Short term loans (RSA)	**Short term deposits** (rate sensitive capital- RSC)
3 months 6% 60	3 months 5% 90
Outstanding loan Fixed interest rate 10% 30	
Other assets 90	Other capital sources 90
180	180

RSA – RSC = Gap

RSA = 60 RSC = 90

RSA - RSC = 60 - 90 = - 30 = (-)Gap

$$\frac{RSA}{RSC} \quad \frac{60}{90} = 0.67$$

SLIDE 46

MFI A at the time T0

Income Statement

Interest expense		Revenue	
(0.05 x 90)	4.50	(0.06 x 60)	3.60
		(0.10 x 30)	3.00
Net Interest Income	2.10		
	6.60		6.60

SLIDE 47

MFI A at the time T1 :

Assumption: short term interest rate reduces by 1 %

Income Statement

Interest expense		Revenue	
(0.04 x 90)	3.60	(0.05 x 60)	3.00
		(0.10 x 30)	3.00
Net Interest Income	2.40		
	6.00		6.00

SLIDE 48

Leverage Effect on MFI's Income

$\$ \Delta$ Net income from interest $= (\Delta \text{ Interest}) \times (\text{gap})$
$= (-0.01) \times (-30)$
$= \$0.30$

$\|$

$\$ \Delta$ Net income from interest = Net income from interest (T1) - Net income from interest (T0)
$= \$ 2.40 - \$ 2.10$
$= \$ 0.30$

Note: Leverage effect

Δ Interest = 0.01 → ΔNet income from interest = $ 0.30

0.30 / 2.10 = 0.14 or Net income from interest increases 14%

SLIDE 49

Interest Rate Sensitivity

- The ratio between RSA and RSC can be like a teeter:
- RSA = RSC → balance

  →Change in interest rate does not change income
- On the contrary the greater the imbalance is, the bigger the change in income due to fluctuating interest rate

SLIDE 50

Interest Rate Sensitivity and Net Income

Interest Rate Sensitive Asset (RSA)
Interest rate Sensitive Liability(RSL)
Net Interest Income
Gap: Teeter

Model: ΔNet income from interest = Δ Interest rate difference (Gap)

RSA 90 RSC 90

Balance
RSA - RSC = Gap=90 - 90 = 0

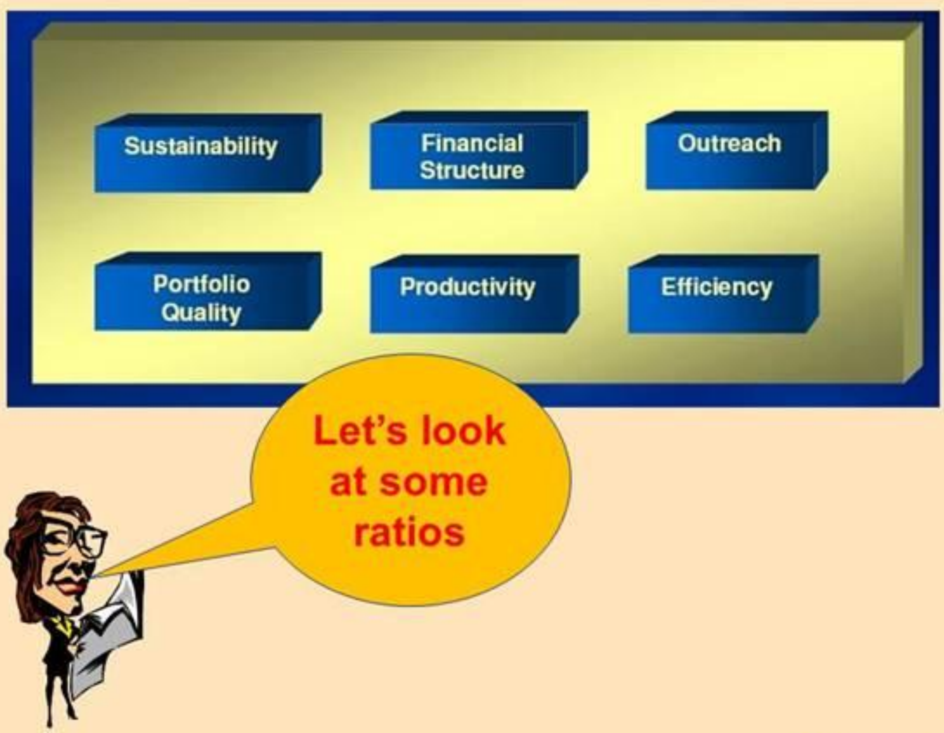
RSA 40 RSL 90

Surplus capital
Gap = -50
Δ Rate = -0.01, 0.01
ΔNII = (-0.01)(-50) = 5,
(0.01)(-50) = -5

RSL 90 RSA 100

Deficit capital
Gap = -10
Δ Rate = -0.01, 0.01
ΔNII = (-0.01)(10) = -1
(+0.01)(10) = +1

SLIDE 51



SLIDE 52

Purposes of Using Financial Ratios

Financial ratios are used to:

+ Identify strengths and weaknesses of MFIs;

+ Forecast future performance.

SLIDE 53

Which of the following is the possible reason why MFIs conduct financial analysis?	True/False?
To increase profitability	True
To determine interest rate	True
To decide brand names for new loan products	False
To manage administrative and operating costs	True
To determine whether to comply with Government regulations	True
To analyze actual vs planned performance	True
To manage liquidity	True
To analyze why a loan officer has not been turning up for work ?	False

SLIDE 54

SUSTAINABILITY

Operational Sustainability

$$\frac{\text{Income}}{\text{Operating expenses}}$$

Financial Sustainability

$$\frac{\text{Income}}{\text{Operating expenses} + \text{Cost of funds} + \text{Loan Loss Provisions} + \text{Capital growth}}$$

SLIDE 55

SUSTAINABILITY

Among MFIs below, which MFI is:
1.Operationally sustainable?
2.Financially sustainable?

MFI A	Income: \$100.000 Operating expense: \$100.000 Loan cost + Loan Loss Provision + Capital growth = \$50.000
MFI B	Income: \$300.000 Operating expense: \$350.000 Loan cost + Loan Loss Provision + Capital growth = \$200.000
MFI C	Income: \$200.000 Operating expense: \$95.000 Loan cost + Loan Loss Provision + Capital growth = \$80.000

SLIDE 56

SUSTAINABILITY

	Operational sustainability	Financial sustainability
MFI A		
MFI B		
MFI C		

SLIDE 57

PORTFOLIO QUALITY

$$\text{PAST DUE RATE} = \frac{\text{TOTAL AMOUNT PAST DUE}}{\text{OUTSTANDING PORTFOLIO}}$$

$$\text{PAR} = \frac{\text{UNPAID PRINCIPAL AMOUNTS OF PAST DUE}}{\text{OUTSTANDING LOAN PORTFOLIO}}$$

$$\text{LOAN LOSS RATIO} = \frac{\text{VALUE OF LOANS WRITTEN OFF}}{\text{OUTSTANDING LOAN PORTFOLIO}}$$

SLIDE 58

LOAN PORTFOLIO OF MFI X	VALUE
HOUSING LOANS	5.000
EDUCATION LOANS	2.500
CONSUMPTION LOANS	4.100
OTHER LOANS	1.900
ADDITIONAL INFORMATION	
PRINCIPAL VALUE OF OVERDUE LOANS	1.000
PRINCIPAL LOAN OUTSTANDING OF OVERDUE LOANS	2.500
VALUE OF LOANS WRITTEN OFF	500

CALCULATE:

+ OVERDUE LOANS RATE

+ PAR

+ LOAN LOSS RATE

SLIDE 59

Financial Structure

$$\text{Deposit to Loan ratio} = \frac{\text{Total Deposits}}{\text{Total Loan Outstanding}}$$

$$\text{Deposit to Asset ratio} = \frac{\text{Total Deposits}}{\text{Total Assets}}$$

$$\text{Loan to Asset ratio} = \frac{\text{Total Loan Outstanding}}{\text{Total Assets}}$$

SLIDE 60

Financial structure (…)

A MFI has a Deposit to Loan ratio of 0.5 and a Deposit to Assets ratio of 0,4. Its Deposit Amounts is $8M.

What is the MFI's:

a. Total outstanding loans?

b. Total Assets?

c. Loan to Asset ratio?

SLIDE 61

Productivity

Active borrowers per staff

Active savers per staff

SLIDE 62

Productivity…

+ MFI A has 1.250 staff, 250.000 borrowers and 75.000 savers

+ MFI B has 4.000 staff, 1.200.000 borrowers and 200.000 savers

a. Which MFI has higher productivity for loans?

b. Which MFI has higher productivity for savings deposits?

	Borrowers / staff	Savers / staff
MFI A		
MFI B		

SLIDE 63

OUTREACH

Average number of daily service transactions

Number of active borrowers

Number of active savers

Value of Loan portfolio

Value of savings portfolio

Value of Voluntary savings

Number of new products introduced per annum

Number of active transaction points

SLIDE 64

EFFICIENCY

Operating efficiency ratio = $\dfrac{\text{Operating expense}}{\text{Total loan outstanding}}$

Admin efficiency ratio = $\dfrac{\text{Admin expense}}{\text{Total loan outstanding}}$

Operating Expense to Income ratio = $\dfrac{\text{Total operating expense}}{\text{Total income}}$

SLIDE 65

EFFICIENCY…

This is the Profit-Loss Statement of a MFI w/ outstanding loans value $400.000

Please calculate:

a. Operating efficiency ratio

b. Administrative efficiency ratio

c. Operating expense to Income ratio

INCOME	$
Interest Income	200.000
Fee income	130.000
Others	20.000
Total	350.000
EXPENSES	
Administrative	150.000
Operating	80.000
Others	20.000
Total	250.000
Profit (loss)	100.000

SLIDE 66

Financial Statement Analysis Using a Return on Equity Framework

- Time series analysis - analysis of financial statements over a period of time
- Cross-sectional analysis - analysis of financial statements comparing one MFI with others

Return on equity (ROE) - measures overall profitability of the MFI per dollar of equity

$$\text{ROE} = \frac{\text{Net income}}{\text{Total owner's equity}}$$

SLIDE 67

ROA and its components

Return on Assets (ROA) – measures profits generated related to the MFI's Assets

$$\text{ROA} = \frac{\text{Net income}}{\text{Total assets}}$$

SLIDE 68

Other indicators related to income-expenses

Profit Margin (PM) – measure a MFI's ability to pay expenses and generate net income from interest and non-interest incomes

$$\text{Interest expense ratio} = \frac{\text{Interest expense}}{\text{Total operating income}}$$

$$\text{Provision for loan loss ratio} = \frac{\text{Provision for loan losses}}{\text{Total operating income}}$$

$$\text{Non-interest expense ratio} = \frac{\text{Non-interest expense}}{\text{Total operating income}}$$

SLIDE 69

Indicators on Overhead Efficiency

Overhead Efficiency ratio measures MFI's ability to generate non-interest income to cover non-interest expenses

$$\text{OE} = \frac{\text{Non-interest expenses}}{\text{Non-interest income}}$$

SLIDE 70

HANDOUTS

Handout 2
SBV Circular No. 07

STATE BANK	**SOCIALIST REPUBLIC OF VIETNAM**
OF VIETNAM	***Independence – Freedom – Happiness***
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No. 07/2009/TT-NHNN Hanoi, 17 April 2009

CIRCULAR OF GOVERNOR OF THE STATE BANK OF VIETNAM

Providing for prudential ratios in operation of small scaled financial institutions

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- Pursuant to the Law on the State Bank of Vietnam No. 01/1997/QH10 issued in 1997 and the Law on the amendment, supplement of several Articles of the Law on the State Bank of Vietnam No. 10/2003/QH11 issued in 2003;

- Pursuant to the Law on the Credit Institutions No. 02/1997/QH10 issued in 1997 and the Law on the amendment, supplement of several Articles of the Law on the Credit Institutions No. 20/2004/QH11 issued in 2004;

- Pursuant to the Decree No.178/2007/ND-CP dated 03/12/2007 of the Government providing for the functions, duties, authorities and organizational structure of the Ministries, Ministerial level agencies;

- Pursuant to the Decree No. 28/2005/ND-CP dated 09/03/2005 on the organization and operation of small scaled financial institutions operating in Vietnam and the Decree No.165/2007/ND-CP dated 15/11/2007 on the amendment, supplement, abrogation of several articles of the Decree No.28/2005/ND-CP,

The State Bank of Vietnam (hereinafter referred to as the State Bank) hereby provides for prudential ratios in operation of small scaled financial institutions as follows:

CHAPTER I. GENERAL PROVISIONS

Article 1. Governing scope and subjects of application

1. Small scaled financial institutions operating in Vietnam shall be required to maintain prudential ratios in accordance with provisions of this Circular, including:

a. The minimum capital adequacy ratio;

b. The lending limit to customer

c. The liquidity ratio.

2. Based on inspection, examination result of the State Bank Inspectorate on the operational performance of small-scaled financial institutions, the State Bank may request small scaled financial institutions to maintain prudential ratios, which are higher than ratios stipulated in Article 4 and Article 7 of this Circulation.

Article 2. Interpretation

In this Circulation, following terms shall be construed as follows:

1. *The total risk adjusted "Assets"* shall be the total value of "Assets" of small scaled financial institution which is adjusted to the risk level provided for in Article 5 of this Circular.

2. *Claims* are on-balance sheet "Assets" formed from deposits, loans and from the performance of other operational activities under the guidance of the State Bank.

3. *Immovable assets of the borrower* are lands to which the borrower has the legal use right; houses, construction works tied to land and other immovable assets in accordance with provisions of applicable laws under the ownership of the borrower. In the event where immovable asset has been leased by the borrower, the use of asset as a pledged asset must be agreed by the lessee during the lease term.

4. *A single customer* is a legal entity, an individual, a family household, a cooperative group, a private enterprise, a partnership company, or other organizations that have credit relationship with a small scaled financial institution.

5. *A group of related customers* includes two or more customers who have credit relationship with a small-scaled financial institution and have mutual credit relationship, belonging to one of following cases:

5.1. An individual customer who owns at least 25% of charter capital of another legal entity, which is being a customer of a small scaled financial institution;

5.2. An individual customer who is a member of the family household in accordance with provisions of the Civil Code, which is being a customer of the small scaled financial institution or other individuals of which (including individuals who are independent subjects, taking self-liability with their own asset) are also being customers of the small scaled financial institution.

5.3. An individual customer who is a member of a cooperative group in accordance with provisions in the Civil Code, while such cooperative group is a customer of the small scaled financial institution.

5.4. An individual customer who is a partner of a partnership company, which is a customer of the small scaled financial institution.

5.5. An individual customer who is an owner of a private enterprise, which is a customer of the small scaled financial institution.

5.6. An individual customer who is a member of the administrative, executive and controlling mechanism of a legal entity which is being a customer of the small scaled financial institution.

5.7. A legal entity customer who owns at least 50% of charter capital of another legal entity which is being a customer of the small scaled financial institution.

5.8. A legal entity customer who is being a customer of the small scaled financial institution, meanwhile the representative of which is a member in the administrative, executive and controlling mechanism of another legal entity, which is also a customer of the small scaled financial institution.

6. *Total loans outstanding* shall include the entire balance of current loans and overdue loans of small scaled financial institutions.

7. *Undistributed profit* shall be the profit, which is determined through auditing by an independent auditing institution after the tax payment and setting up of funds have been

completed in accordance with provisions of applicable laws and retained for the small scaled financial institution's capital supplement in accordance with provisions of applicable laws.

CHAPTER II. SPECIFIC PROVISIONS

Article 3. Own capital

1. Own capital of a small- scaled financial institution shall include:

1.1. Tier 1 capital:

a. Charter capital;

b. Capital officially financed, without refund, by organizations, individuals to small-scaled financial institutions;

c. Funds as provided for by the Ministry of Finance (Including: reserve fund for supplement of the charter capital; financial provisions fund; fund for the operational investment and development);

d. Undistributed profits.

The Tier 1 capital shall be used as the basis for the determination of the limit on purchase of, investment in fixed assets of the small scaled financial institution.

1.2. Tier 2 capital:

a. 50% of the increased value of fixed assets, which are revaluated under provisions of applicable laws;

b. Debt of the small scaled financial institution which satisfy following conditions:

- Being the debt, of which the creditor is subordinate to other creditors, specifically: in any case, such creditor shall only be paid after the small scaled financial institution has completely made payment to all other secured and unsecured creditors;

- Its initial term is more than 10 years at the minimum;

- It is not secured by asset of the very small-scaled financial institution;

- The small scaled financial institution is entitled to stop the interest payment and carry over accumulated interests to the following year, if the interest payment results in the loss in the current year's business activity;

- The small-scaled financial institution is only entitled to repay its debt to the creditor prior to the maturity after obtaining the written approval from the State Bank.

- The increase of interest rate shall only be made after 5 years from the signing of the contract and for one time only during the loan term.

c. General provisions (reserves), which are equal to 1.25% of the total risk adjusted Assets at the maximum.

2. Limitation on the determination of tier 2 capital:

2.1. Total value of the tier 2 capital shall be 100% value of the tier 1 capital at the maximum.

2.2. Total value of debts stipulated in point 1.2.b Paragraph 1 of this Article shall be equal to 50% value of the tier 1 capital at the maximum.

2.3. During the last 5 years prior to the maturity date, debts included into the tier 2 capital shall be annually deducted by 20% from the initial value.

3. Amounts to be deducted from the own capital:

3.1. The entire decreased value of fixed assets due to revaluation in accordance with provisions of applicable laws.

3.2. Business losses, including accumulated losses.

Article 4. Minimum capital adequacy ratio

1. Small scaled financial institution must maintain a minimum ratio of 10% of the own capital over the total risk adjusted Assets.

2. The way to determine the minimum capital adequacy ratio is guided in Appendix A attached to this Circular.

Article 5. Classification of Assets

Assets are classified by risk levels as follows:

1. The group of Assets with risk coefficient of 0% includes:

1.1. Cash;

1.2. Deposits at the State Bank;

1.3. Loans from funds financed, entrusted for lending under trust contracts, by which, the small scaled financial institution only enjoys trust fees and shall not be subject to any risk;

1.4. Loans secured by 100% of deposit (voluntary savings and/or compulsory savings) at the very small scaled financial institution;

1.5. Outstanding principal and interest of the loan which is secured by compulsory savings at the very small scale financial institution;

1.6. Claims from Vietnam Government, including: Government bond (Treasury bills, Treasury bonds, bonds for Central Government's projects, investment bonds, Government bond for construction of Motherland), bonds guaranteed by the Government;

1.7. Loans secured by valuable papers which are issued by the Government, State Bank.

2. The group of Assets with the risk coefficient of 20%, includes:

2.1. Deposits at domestic commercial banks, credit institutions;

2.2. Loans outstanding (principals, interests) to credit institutions, other small scaled financial institutions (if any);

2.3. Loans outstanding (principals, interests) to be secured by deposits at credit institutions, which are operating in Vietnam;

2.4. Loans outstanding (principals, interests) to be secured by valuable papers, which are issued by credit institutions operating in Vietnam, state-owned financial institutions;

2.5. Cash, which is in collection process.

3. The group of Assets with the risk coefficient of 50%, includes

3.1. Loans outstanding (principals, interests) to be secured by immovable assets of the borrower;

3.2. Small scaled credit outstanding (principals, interests) to small-scaled financial customers with loan term of less than 1 year.

4. The group of Assets with the risk coefficient of 100%, includes:

4.1. Immovable assets and other fixed assets;

4.2. Other claims other than those stipulated in Paragraphs 1, 2 and 3 of this Article.

Article 6. Internal regulations

1. Pursuant to provisions of this Circular, current provisions of the State Bank and actual performance, the small scaled financial institution shall draw up and issue internal regulations on:

1.1. The determination and classification of a single customer, a group of related customers, lending limits applicable to a single customer and a group of related customers, including following contents:

a. Criteria for determining, classifying a single customer and a group of related customers shall be implemented in accordance with provisions in Paragraph 4 and Paragraph 5 in Article 2 of this Circular.

b. Determination of lending limits applicable to a single customer and a group of related customer; competence to decide lending to a single customer and a group of related customer.

c. Determination of the manner of following up loans exceeding 5% of own capital of the small scaled financial institution.

d. Limit, maximum lending ratio in total loan outstanding to small scaled financial customers and those other than small-scaled financial customers.

1.2. Management of the liquidity with following main contents:

a. Assigning an officer who is in charge of supervising the liquidity of small-scaled financial institutions.

b. Implementation plans to secure the liquidity in case of temporary default as well as in case of potential insolvency.

c. Regulations on the management of budget, receipts, expenses, daily capital source and provisions on holding valuable papers which are freely convertible into cash.

2. Board of Directors of small-scaled financial institutions shall be responsible for the consideration, assessment of internal regulations as stated in Paragraph 1 of this Article for timely adjustment in necessary cases in order to ensure the prudential activities of small-scaled financial institutions.

Article 7. Lending limit to customer

1. Lending limit of a small scaled financial institution to its customer shall be as follows:

1.1. Total loans outstanding of the small scaled financial institution to a single customer, who is not a small scaled financial institution, shall not exceed 10% of the small scaled financial institution's own capital.

1.2. Total loans outstanding of the small scaled financial institution to a small scaled financial institution shall not exceed VND 30 million. This loan level may be adjusted from time to time by the Governor of the State Bank.

1.3. Total loans outstanding of the small scaled financial institution to a group of related customers as stated in Paragraph 5 Article 2 of this Circular shall not exceed 15% of the small scaled financial institution's own capital, in which, the lending limit to a single customer shall not exceed the ratios provided for in Points 1.1 and 1.2 in Paragraph 1 of this Article.

2. Limits stipulated in Paragraph 1 of this Article shall not be applicable to following cases:

2.1. Loans from entrusted funds of Vietnam Government, of organizations, individuals against which the small scaled financial institution is not required to make and use provisions for dealing with credit risks.

2.2. Loans secured entirely by deposits of the customer at the very small scale financial institution.

2.3. Loans to credit institutions, other small scaled financial institutions with the term of less than 1 year (if any).

2.4. Loans secured by Vietnamese Government's bonds, bonds guaranteed by the Vietnam Government.

Article 8. Liquidity ratio

The small- scaled financial institution must regularly maintain the minimum liquidity ratio of 20%.

2. This ratio shall be calculated as follows:

2.1. Numerator: includes assets as cash and assets which are easily convertible into cash, specifically as follows:

a. Cash;

b. Deposits at the State Bank (excluding required reserve deposit);

c. Deposits at credit institutions;

d. Government bonds, bonds guaranteed by the Government.

2.2. Denominator: Total deposits, including compulsory savings and voluntary savings.

3. The way to determine liquidity is guided in Appendix B attached to this Circular.

Article 9. Reporting, dealing with violations

1. Small scaled financial institutions shall make report on their implementation of provisions on prudential ratios in accordance with current provisions of the Governor of the State Bank on the statistic reporting regime applicable to small scaled financial institutions.

2. Any small scaled financial institution which violates provisions of this Circular, depending on the seriousness of the violation, shall be subject to administrative punishment in line with provisions of applicable laws.

CHAPTER III. IMPLEMENTING PROVISIONS

Article 10. Implementation effectiveness

This Circular shall be effective after 45 days since its signing date.

Article 11. Responsibility of implementation

The Director of the Administrative Department, the Director of the Banks and Non-banking Credit Institutions Department, Heads of related units of the State Bank, General Managers of State Bank branches in provinces and cities under the central Government's management, Chairman of the Board of Directors and General Directors (Directors) of small scaled financial institutions shall be responsible for the implementation of this Circular.

In the implementation, any query that may arise should be timely reflected to the State Bank for instruction and settlement.

The Governor of the State Bank of Vietnam
NGUYEN VAN GIAU *(Signed and sealed)*

APPENDIX A: THE WAY TO DETERMINE THE MINIMUM CAPITAL ADEQUACY RATIO

A. The own capital for the determination of the minimum capital adequacy ratio of the small scaled financial institution (SSFI) A as of 31/3/2008:

As of 31/3/2008, state of capital and assets of the SSFI A is as follows:

1. Tier 1 capital:

Unit: VND billion

Item	Amount
a. Charter capital (appropriated capital, contributed capital)	30
b. Capital officially financed without refund by organizations, individuals	10
c. Reserve fund for the supplement of the charter capital	2
d. Financial provisions fund	2
dd. Fund for operational investment and development	1
e. Undistributed profits	2
TOTAL	**47**

2. Tier 2 capital:

Unit: VND billion

Item	Increased amount	Calculating ratio	Amount to be included into the tier 2 capital
a. The increased value of revaluated fixed assets under provisions of applicable laws	0.2	50%	0.1
b. Debts with remaining term of over 5 years		100%	3
c. General provisions		100%	1
TOTAL			**4.1**

Note:

- Total debts are VND 3 billion, equaling 6.4% of tier 1 capital (less than 50% of tier 1 capital), satisfying requirements stated in item b, point 1.2, Article 3 of this Circular.

The own capital (A) of the SSFI A as of 31/3/2008 = Tier 1 capital + tier 2 capital

= VND 47 billion + VND 4.1 billion = VND 51.1 billion

3. Amounts to be deducted from own capital:

- Decreased value of fixed assets due to revaluation in accordance with provisions of applicable laws: 0

- Business losses, including accumulated losses: VND 0 billion.

Own capital (A) for calculation of prudential ratios of SSFI A = Own capital – amounts deductible

A = VND 51.1 billion – VND 0 billion = VND 51.1 billion

B. Value of risk-adjusted Assets on balance sheet (B)

Unit: VND billion

Item	Book value	Risk coefficient	Value of risk adjusted Assets
1. Group of Assets with the risk coefficient of 0%			
a. Cash	20	0%	0
b. Deposits at SBV	5	0%	0
c Loans from funds financed, entrusted for lending under trust contracts, by which, the small scaled financial institution only enjoys trust fees and shall not be subject to any risk;	30	0%	0
d. Loans secured by 100% of deposit (voluntary savings and/or compulsory savings) at the very small scaled financial institution	3	0%	0
dd. Outstanding principal and interest of the loan which is secured by compulsory savings at the very small scale financial institution	5	0%	0
e. Claims from Vietnam Government, including: Government bond, bonds guaranteed by the Government;	5	0%	0
g. Loans secured by valuable papers which are issued by the Government, State Bank	5	0%	0
2. Group of Assets with the risk coefficient of 20%			
a. Deposits at domestic commercial banks, credit institutions	20	20%	4
b. Loans outstanding (principals, interests) to credit institutions, other small scaled financial institutions (if any);	0	20%	0
c. Loans outstanding (principals, interests) to be secured	5	20%	1

by deposits at credit institutions, which are operating in Vietnam;			
d. Loans outstanding (principals, interests) to be secured by valuable papers, which are issued by credit institutions operating in Vietnam, state-owned financial institutions	3	20%	0.6
dd. Cash, which is in collection process	2	20%	0.4
3. Group of Assets with the risk coefficient of 50%			
a. Loans outstanding (principals, interests) to be secured by immovable assets of the borrower;	50	50%	25
b. Small scaled credit outstanding (principals, interests) to small-scaled financial customers with loan term of less than 1 year.	330	50%	165
4. Group of Assets with the risk coefficient of 100%			
a. Immovable assets and other fixed assets	8	100%	8
b. Other claims	50	100%	50
Total (B)			**254**

C. Minimum capital adequacy ratio

C = (A/B)*100%

= (51.1/254)*100% = 20.118%

Appendix B. the way to Determine liquidity ratio

Unit: VND billion

Item	Book value
I. Numerator	A
1. Cash	
2. Deposits at SBV	
3. Deposits at CIs	
4. Government bonds, bonds guaranteed by the Government	
II. Denominator	B
Total deposits, including compulsory savings and voluntary savings.	
III. Liquidity ratio (A/B*100%)	