ADB

Project Number: 42492-012
November 2011

Viet Nam: Technical Training Manuals for Microfinance Institutions In Vietnam

Basic Course in Delinquency Management

Asian Development Bank

Training Manual for Microfinance Institutions

DELINQUENCY MANAGEMENT

COURSE OUTLINE

<table>
<tr><td>Course Name</td><td colspan="2">PORTFOLIO QUALITY/DELINQUENCY MANAGEMENT</td></tr>
<tr><td>Target Participants</td><td colspan="2">Managers, Branch Manager, Credit Manager, Credit Officer</td></tr>
<tr><td>Course Duration</td><td colspan="2">3 days</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 on portfolio quality/delinquency management.
2. Develop institutional action plan on managing portfolio quality for respective MFIs.</td></tr>
<tr><td>Course Outline</td><td>Day 1:
• Opening Activities
o Welcome Remarks
o Introductions: Trainer, Guests, and Participants
o Project Overview
o Leveling of Expectations
o Training Objectives and Agenda
o House Rules
• Introduction to delinquency: cause and consequence
- Definition of delinquency</td><td>• Introduction to delinquency: cause and consequence
o Classification of delinquency
o Causes of delinquency and solutions
• Analysis of costs of delinquency
o Effect of delinquency
o Cost of delinquency
• Exercise based on MFI’s data</td></tr>
<tr><td></td><td>Day 2:
• Measurement of delinquency
o Introduction on delinquency indicators
• Provisions for delinquency and write off
o Terminologies
o Effects of delinquency on financial statements</td><td>• Delinquency Control
o Awareness of delinquency
o Preventive measures
o Uncontrollable causes of delinquency
o International experiences</td></tr>
<tr><td></td><td>Day 3:
• Credit Reporting
• Management information system
• Delinquency Management Plan
- Loan appraisal
- Loan design
- Credit Committees</td><td>• Closing Activities
o Evaluation
o Closing</td></tr>
<tr><td>Delivery Methods</td><td colspan="2">Large Group Discussions/Lectures; Small Group Discussions; Exercises; Post-Training Test</td></tr>
<tr><td>Materials Needed</td><td colspan="2">Computer, LCD Projector, Flipcharts (A0 Paper), Meta Plan Cards, Calculators, Paper, Pens, Tapes, Prizes, Stapler, Paper Clips, Training Kit (Agenda, PPT Presentations, Notepad, Pens, ID), Financial Statements of MFIs</td></tr>
<tr><td>Handouts</td><td colspan="2">Transactional Analysis Sheet, Sample of Complex Situations in Microfinance,</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	DELINQUENCY MANAGEMENT	
Session	1	Introduction to Delinquency
Activity	*4*	*Definition of delinquency*
Activity	*5*	*Classification and causes of delinquency*
Session	2	Analysis of Cost of Delinquency
Activity	*6*	*Effects of delinquency*
Activity	*7*	*Costs of delinquency*
Session	3	Measurement of Delinquency
Activity	*8*	*Introduction of delinquency indicators*
Activity	*9*	*Group exercise on measure delinquency of MFI*
Session	4	Provisions for Delinquency and Write-off
Activity	*10*	*Terminologies and effects of delinquency on financial statements*
Activity	*11*	*Write-off procedures*
Session	5	Delinquency Control
Activity	*12*	*Preventive measures and uncontrollable causes of delinquency*
Activity	*13*	*International experiences*
Activity	*14*	*Introduction sample portfolio report*
Session	6	Formulation of Delinquency Management Plan
Activity	*15*	*Methodologies to minimize delinquency*
Part III	ACTION PLAN	
Session	1	Delinquency Management Plan
Activity	*16*	*Delinquency management plan for MFIs*
Part IV	CLOSING ACTIVITIES	
Session	1	Wrap Up and Evaluations
Activity	*17*	*Evaluations*
Activity	*18*	*Closing*

HANDOUT	
1	Transactional Analysis
2	Sample of Complex Situations in Microfinance Institutions
3	SBV Circular No. 15
4	Credit Report Format
5	Exercises

INSTRUCTIONAL DESIGN SCRIPT

PART I	**OPENING ACTIVITIES**	
Session 1	**Introductions**	
Activity 1	**Registration, Welcome Remarks and Introductions**	
Purpose	• **To register the participants and distribute the training kit** • **To introduce the ADB-SBV Project, the guests, trainers and participants.**	
Objectives	By the end of the activity, the participants are able to: • Receive complete set of the training kit. • Know the project, host organizations, guests, trainers and participants.	
Time	**Materials**	**Steps/Method:**
30 minutes	Attendance Sheet Training Kit:: - Agenda - Notepad - Pen - ID - Training Material	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.
10-15 minutes	Brief profile of host organizations and guests	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.
	Brief profile of the trainers	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.
	Profile of the Participants, Registration Sheet, Computer, Slide Presentations, Flipcharts, Stands, Pens, Papers, Tapes, LCD Projector, PPT slide 2	Introduction of the Participants: *Plenary; Small Group Discussions* 1. The lead trainer welcomes the participants. 2. The lead trainer asks the participants to create five groups using their seat arrangements. 3. The lead trainer asks the participants to introduce themselves to the groups, identify a representative of each group, and summarize the points in 15 minutes: *a. Introduction of group members;* *b. Reason for attending this course'* *c. Expectations from this course;* *d. Total years of experience of the group members* 4. The lead trainer asks the representatives of the

		groups to describe the members of the group to the rest of the participants. 5. The lead trainer acknowledges each participant and welcomes them to the training. 6. 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:**
10 minutes	Computer, Group Outputs, PPT Slide 2,4; Flipchart for "Parking Lot", Stands, Tapes, LCD Projector	*Small Group Discussions; Plenary* 1. The lead trainer use the group outputs in Activity 1, consolidate participants' motivations and expectations from the course. <u>Training Objectives and Agenda</u>: 2. The lead trainer presents the training objectives and agenda to participants and validates expectations that cannot be covered by the training. 3. 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.* *4.* The lead trainer summarizes the participant's outputs and asks the participants for more inputs or questions. 5. When there are no more questions, the lead trainer thanks the participants and move to the next activity.

<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 3</td><td colspan="2">House rules</td></tr>
<tr><td>Purpose</td><td colspan="2">To ensure that the participants get the optimum learning from the course.</td></tr>
<tr><td>Objectives</td><td colspan="2">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.</td></tr>
<tr><td>Time</td><td>Materials</td><td>Steps/Method:</td></tr>
<tr><td>5-10 minutes</td><td>Flipcharts, Stands, Pens, Tapes
PPT Slide no. 3</td><td>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 by present PPT slide (no. 3).
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.</td></tr>
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<table>
<tr><td>PART II</td><td colspan="2">DELINQUENCY MANAGEMENT</td></tr>
<tr><td>Section 1</td><td colspan="2">Introduction to Delinquency</td></tr>
<tr><td>Activity 4</td><td colspan="2">Definition of Delinquency</td></tr>
<tr><td>Purpose</td><td colspan="2">To introduce the definition of delinquency to the participants.</td></tr>
<tr><td>Objectives</td><td colspan="2">By the end of the activity, the participants are able to:
• Understand the concepts of delinquency and bad debts.
• Understand the SBV regulations on delinquency management.</td></tr>
<tr><td>Time:</td><td>Materials:</td><td>Steps/Method:</td></tr>
<tr><td>60 minutes</td><td>Flipcharts, Stands, Pens, Tapes, PPT Slide 5-9, Computer,</td><td>Plenary; Small Group Discussions
a. The lead trainer asks the participants their understanding of delinquency. The lead trainer lists the responses from participant on the flipchart. The responses may include: about overdue loan, about loan</td></tr>
</table>

	LCD Projector, SBV Circular No. 15	*loss, etc.* b. The lead trainer summarizes the responses, explains to the participants the nature of delinquency, and emphasizes that: "*Delinquency happens when client cannot pay back the loan (although MFI continues to collect) or delinquency happens even when 1 loan installment is not paid in time.* " c. The lead trainer asks the participants their understanding of financial sustainability and the formulas to calculate financial sustainability. d. The lead trainer explains to the participants the generally accepted standards for delinquency rate (Vietnam and international context). e. For the participants' better understanding, the lead trainer provides a handout on the SBV Circular No. 15 which discusses the SBV rules, and emphasizes the importance of understanding the concepts of loan loss and financial sustainability. f. The lead trainer asks the participants if the concepts are clear. If there are no questions, the lead trainer moves to the next activity. g. The lead trainer asks the participants to form groups of three people each and discuss the following questions: *a. Who determines or calculates the delinquency rate in your MFI?* *b. How much delinquency rate is acceptable to your MFI?* *c. Is the measurement of delinquency covered by written or unwritten policies in your MFIs?* *h.* The lead trainer provides the participants 5-7 minutes to discuss the questions and share their views with their group members. *i.* The lead trainer lists the groups' responses in a flipchart. *The responses to first question may include: Managers, Branch Manager, Board while to the third question, some MFIs have written while others have unwritten policies. Most MFIs do not have policy/system of measurement of delinquency or do not apply SBV regulations on delinquency.* j. The lead trainer summarizes the responses and emphasizes that *delinquency management help MFIs better deal with risks such as loan loss. When MFIs are licensed by SBV, they have to follow the SBV regulations on delinquency (Circular No. 15).*

<table>
<tr><td>PART II</td><td colspan="2">DELINQUENCY MANAGEMENT</td></tr>
<tr><td>Section 1</td><td colspan="2">Introduction to Delinquency</td></tr>
<tr><td>Activity 5</td><td colspan="2">Classification and causes of delinquency.</td></tr>
<tr><td>Purpose</td><td colspan="2">To introduce classification of past due loans, the causes of delinquency, as well as solutions to solve delinquency problems.</td></tr>
<tr><td>Objectives</td><td colspan="2">By the end of the activity, the participants are able to:
• Classify delinquency groups based on risk rating classification.
• Understand the causes of delinquency and identify ways to solve problems.</td></tr>
<tr><td>Time:</td><td>Materials:</td><td>Steps/Method:</td></tr>
<tr><td>90 minutes</td><td>Flipcharts, Stands, Pens, Tapes, PPT Slide 10-20, Computer, LCD Projector, SBV Circular No. 15</td><td>Plenary; Small Group Discussions
1. The lead trainer explains to the participants the classifications of delinquency based on SBV Circular No. 15.
2. The lead trainer asks the participants if the concepts are clear. If there are no questions, the lead trainer moves to the next activity, an exercise.
3. The lead trainer asks participants to form small groups of five members each and do the exercise on causes of delinquency:
a. Develop a list of causes of loan delinquency.
b. Organize the causes according to categories (organization, clients, external).
c. Discuss which are the most important causes to your MFI.
d. Discuss a way to control these causes of delinquency.
4. The lead trainer asks the participants to complete the exercise in 20 minutes and place their responses on the flipchart.
5. The lead trainer asks representatives of the groups to present their outputs while the other groups observe and provide feedback. The responses may include: credit policy, lack of strict on process, clients are not following MFI's, awareness of clients on their benefits and responsibility, regulation/policies, lack of capacity of staff, lack of monitoring, lack of internal control,…
6. The lead trainer summarizes the responses and concludes the session with the slide presentation.
7. The lead trainer asks the participants if they have any more comments or questions. If there is none, the lead trainer thanks the participants and moves to the next activity.</td></tr>
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PART II	**DELINQUENCY MANAGEMENT**	
Section 2	**Analysis of Costs of Delinquency**	
Activity 6	**Effects of delinquency to MFIs.**	
Purpose	**To introduce the effects of delinquency to MFIs.**	
Objectives	By the end of the activity, the participants are able to: • Understand the effects of delinquency to MFI's operation. • Know about the consequences of delinquency to the MFIs.	
Time:	**Materials:**	**Steps/Method:**
60 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 21-23, Computer, LCD Projector	*Small Group Discussions; Plenary* 1. The lead trainer asks the participants to form groups of five members each and respond to the following questions: *a. What is the effect of delinquency to the clients?* *b. What is the effect of delinquency to the staff?* *c. What is the effect of delinquency to the donors?* 2. The co-trainer provides the groups with color cards to write on their responses, in three colors for to match the three categories. 3. The lead trainer provides the groups with 20 minutes to complete the exercise and place the color coded cards on the flipchart. 4. The lead trainer asks the groups to present their outputs while the other groups observe and provide their feedback on the presentation. 5. The lead trainer summarizes and concludes the outputs with a slide presentation. 6. The lead trainer then asks the participants if they have other questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	**DELINQUENCY MANAGEMENT**	
Section 2	**Analysis of Costs of Delinquency**	
Activity 7	**Costs of Delinquency to MFIs.**	
Purpose	**To introduce the methods of calculating costs of delinquency to MFIs.**	
Objectives	By the end of the activity, the participants are able to: • Know how to calculate the costs of delinquency in their MFIs.	
Time:	**Materials:**	**Steps/Method:**
90 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 24-27, Computer, LCD Projector, Meta plan cards, Exercises	*Small Group Discussions; Plenary; Exercises* 1. The lead trainer asks the participants to keep the same groupings as the last activity. 2. The lead trainer shows an example of delinquency problem in an MFI in a slide and asks the groups to calculate the costs of delinquency for this MFI. 3. The lead trainer provides the groups about 10 minutes to complete the exercise and about 5 minutes each to present their outputs. 4. The lead trainer summarizes the points and guides the discussions on the effects of costs of delinquency on

		new loans and earnings of the MFIs. 5. The lead trainer asks the participants if the concepts are clear and if they have any questions. If there are no questions, the lead trainer moves to the next activity. 6. The lead trainer explains how to calculate the loan loss provisions of the sample MFIs so that all the participants are on the same page. The lead trainer emphasizes the difference between the Loan Loss Provisions and Portfolio At Risk (PAR). 7. The lead trainer asks participants if they have other questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	**DELINQUENCY MANAGEMENT**	
Section 3	**Measurement of Delinquency**	
Activity 8	**Introduction of Delinquency Indicators.**	
Purpose	**To introduce the indicators of delinquency in an MFI.**	
Objectives	By the end of the activity, the participants are able to: • Learn the various indicators of delinquency applicable to the MFIs.	
Time:	**Materials:**	**Steps:**
120 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 28-43, Computer, LCD Projector, Meta plan cards	*Small Group Discussions; Plenary* 1. The lead trainer asks the participants their understanding of an “outstanding loan”. The lead trainer lists the responses from the participants in a flipchart. Response may include*: “all loans are still unpaid by the clients”* 2. The lead trainer defines the meaning of “outstanding loans” and then asks the participants if the concept is clear. If there are no questions, the lead trainer moves to the next activity. 3. The lead trainer asks the participants to form groups of five members each and within the groups respond to the following questions: *a. What is portfolio quality?* *b. Why is portfolio quality important?* *c. How can your MFI measure portfolio quality?* 4. The co-trainer provides the groups with the papers and markers to write their responses on. The lead trainer provides the groups about 20 minutes to complete the exercise and about 5 minutes each to present. 5. The lead trainer asks two group volunteers to present and share their outputs while the other groups observe and provide feedback. 6. The lead trainer summarizes the pointers from the group outputs and validates with the slide presentation. The lead trainer explains to participants the methods of measuring delinquency in MFIs using examples, emphasizing on the importance of PAR and Loan Loss Provision.

		7. The lead trainer further explains the set of indicators to evaluate portfolio quality and validates with what the MFIs are using. *The response may include: overdue rate, payment rate, loan loss rate, PAR, etc* . 8. The lead trainer asks the participants if there are questions on the concepts and exercise. If there are no questions, the lead trainer concludes the session and moves to the next activity.

PART II	**DELINQUENCY MANAGEMENT**	
Section 3	**Measurement of Delinquency**	
Activity 9	**Measurement delinquency of MFI**	
Purpose	**To practice to measure the delinquency of MFI**	
Objectives	By the end of the activity, the participants are able to: • Able to calculate and measure the delinquency of MFI	
Time:	**Materials:**	**Steps:**
60 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 42-43, Computer, LCD, Meta plan cards	*Small Group Discussions; Plenary; Exercises* 1. The lead trainer asks participants to keep the same groups of last exercise and calculate delinquency indicators of a sample MFI in Microsave's data, as follows: *delinquent amount, payment rate, and PAR.* 2. The co-trainer again provides the groups with the papers and markers to write their responses on. The lead trainer provides the groups about 10 minutes to complete the exercise and about 5 minutes each to present. 3. The lead trainer asks two group volunteers to present and share their outputs while the other groups observe and provide feedback. 4. The lead trainer summarizes the group outputs, validates the correct answers by walking the participants through with the calculation to ensure that all participants are all on the same page. 5. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer concludes the session and moves to the next activity.

PART II	**DELINQUENCY MANAGEMENT**	
Section 4	**Provisions for Delinquency and Write-offs**	
Activity 10	**Effects of Delinquency on Financial Statements of MFIs.**	
Purpose	**To introduce terminologies and effects of delinquency and provisioning to the financial statements of MFIs.**	
Objectives	By the end of the activity, the participants are able to: • Learn the relevant terminologies in the SBV Circulars on delinquency, provisions, and write offs. • Practice ageing of delinquent accounts and calculating provisions for delinquency.	
Time:	**Materials:**	**Steps/Method:**
90 minutes	Flipcharts,	*Small Group Discussions; Plenary; Exercises*

	Stands, Pens, Tapes, PPT Slide 44-62, Computer, LCD Projector, SBV Circular No. 15	*1.* The lead trainer writes down some terminologies on a flipchart and asks the participants to explain the meaning of these terminologies such as: *loan loss allowance, provision for loan losses, and write-offs.* *2.* The lead trainer lists the responses from the participants and emphasizes that: a. *Loan loss allowance represents the level of allowance required to cover the amount of outstanding principal that is not expected to be recovered by the microfinance organization. It is a negative asset on the balance sheet thus reducing the gross loan portfolio.* b. *Provision for loan losses is the amount expensed in the income and expenses statement to build up the allowance required to cover the risks.* c. *Write–offs help improve the quality of portfolio by reducing the amount of delinquent accounts and therefore the gross loan portfolio. It consequently reduces the loan loss reserves. It becomes an off-balance sheet account but recovery of the loans is still pursued*. 3. The lead trainer asks the participants “why MFIs need to make provisions for credit risk?”. The response may include: *to reflect the actual state of portfolio quality* 4. The lead trainer explains the effects of credit risk on Balance Sheet and to the MFI. The lead trainer also introduces the provisions of the SBV Circular No. 15. 5. The lead trainer asks the participants if there are questions at this point. If there are no questions, the lead trainer moves to the next activity, an exercise. 6. The lead trainer asks the participants to form groups of three people and asks the groups to calculate the provision required for credit risks incurred based on the data of sample MFI and to reflect them in the financial statements of the MFI and the adjustments that have to be made. 7. The lead trainer provides the groups about 10 minutes to discuss and place their responses in a flipchart and then about 5 minutes each to present their outputs to the groups while the others observe and provide feedback. 8. The lead trainer ensures that all groups have the same answers. If not, the lead trainer walks the participants through the proper way of calculating provisions and presenting them in the financial statements of the MFIs. 9. The lead trainer then asks the participants if there are questions. If there are no questions, thanks the participants and moves to the next activity.

PART II	**DELINQUENCY MANAGEMENT**	
Section 4	**Provisions for Delinquency and Write-offs**	
Activity 11	**Write-off Procedures for MFIs.**	
Purpose	**To introduce the concept and procedure of writing-off**	
Objectives	By the end of the activity, the participants are able to: • Understand the procedure to write–off delinquent loans. • Practice recording write offs on the Balance Sheet.	
Time:	**Materials:**	**Steps/Method:**
60 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 63-70, Computer, LCD Projector	*Small Group Discussions; Plenary* 1. The lead trainer asks the participants what procedure they adopt in writing–off delinquent loans in their MFIs. The lead trainer lists the participants' responses in a flipchart and summarizes them. 2. The lead trainer explains to the participants the proper procedure of writing–off delinquent accounts based on the SBV Circular No. 15. 3. The lead trainer asks the participants if there are questions. If there are no questions at this point, the lead trainer moves to the next activity. 4. The lead trainer then explains to the participants how write-offs affect the Balance Sheet and Income Statement of the MFI. 5. The lead trainer asks the participants if there are questions. If there are no questions at this point, the lead trainer thanks the participants and moves to the next activity.

PART II	**DELINQUENCY MANAGEMENT**	
Section 5	**Delinquency Control**	
Activity 12	**Preventive Measures and Causes of Delinquency.**	
Purpose	**To introduce the causes of delinquency and methods applied by MFIs in delinquency prevention.**	
Objectives	By the end of the activity, the participants are able to: • Learn the causes of delinquency and the measures that MFIs adopt to prevent delinquency. • Practice preparing credit report for MFIs.	
Time:	**Materials:**	**Steps/Method:**
90 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 71-77, Computer, LCD Projector, Meta plan cards	*Small Group Discussions; Plenary* 1. The lead trainer asks the participants to form groups of five people each and discuss methods applied by MFIs to prevent delinquency. 2. The lead trainer provides 10 minutes to the groups to discuss and place their responses on a flipchart and another 5 minutes to present. The lead trainer asks for two volunteer groups to present their outputs while others observe and provide feedback. Responses from the participants may include the following: *a. Maintain good image of the MFI* *b. Value the access of credit*

		c. Strict screening *d. Assessment based on capacity to pay* *e. Incentives to pay, disincentives not to pay* *f. Incentives for staff if performance is effective* *g. Provision of information/feedback to field staff about their portfolio* *h. Provision of information to management to monitor delinquency* 2. The lead trainer summarizes the points raised by the groups and compares them with the methods listed in the slide presentation. 3. The lead trainer asks the participants if there are questions at this point. If there are no questions, the lead trainer moves to the next activity, another exercise. 4. The lead trainer asks the participants to keep the same groupings and discuss the advantages and disadvantages of a borrower if they pay on time and when they pay late. 5. The lead trainer summarizes the points raised by the groups and compares with the slide presentation. The lead trainer explains the risks of rescheduling the loans and emphasizes on the benefits of the paying on time. 6. The lead trainer then asks the participants about the uncontrollable factors that causes delinquency in MFIs. The responses from the participants may include: *a. Natural Disasters: Earthquakes, fires, floods, and drought wreak havoc on economies and the activities of micro- entrepreneurs.* *b. Changes in Government Policy: Changes in Government Policy* *c. Individual Crisis: Illness or death, fire, or theft can throw the household into a dire economic situation.* *d. State of Local, National and World Economies: Even MF Clients are affected by the above factors* 7. The lead trainer summarizes the points from the participants and concludes the session. 8. The lead trainer asks the participants if there are other questions at this point. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	**DELINQUENCY MANAGEMENT**	
Section 5	**Delinquency Control**	
Activity 13	**International Experiences in Delinquency Management.**	
Purpose	**To show some examples of international experiences in delinquency management.**	
Objectives	By the end of the activity, the participants are able to: • Learn the experiences among MFIs in delinquency management, locally and internationally.	
Time:	**Materials:**	**Steps/Method:**
60 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 78, Computer, LCD Projector, Meta plan cards, Microsave Video Clip	*Small Group Discussions; Plenary; Video Clip Presentation* 1. The lead trainer asks the participants to watch a video clip of how an MFI is collecting overdue loans from clients in the Microsave program. 2. The lead trainer connects to the link of Microsave's website and starts to play. The lead trainer narrates and translates the conversations into Vietnamese because some of participants cannot understand the English language. 3. When the running of the video clip is completed, the lead trainer asks the participants to share what they learnt from video clip. 4. The lead trainer validates and consolidates the responses of the participants and adds some more that have not been mentioned. 5. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	**DELINQUENCY MANAGEMENT**	
Section 5	**Delinquency Control**	
Activity 14	**Credit Reporting/MIS in Delinquency Management.**	
Purpose	**To introduce some of the issues in MIS for delinquency management.**	
Objectives	By the end of the activity, the participants are able to: • Practice preparing credit report for MFIs.	
Time:	**Materials:**	**Steps/Method:**
90 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 79-80, Computer, LCD Projector, Meta plan cards	*Small Group Discussions; Plenary* 1. The lead trainer asks the participants to form groups of five people each and discuss the issues in Management Information Systems (MIS) for delinquency management such as: o *How does the quality of an institution's information systems affect its delinquency rates?* o *What are the specific data needs of field officers and program managers?* o *How might these data be used to control delinquency?* o *What would it take to bring your MFI's information systems to where they can supply needed data?* 2. The lead trainer walks the participants through the format

		of credit report from the slide presentation. The lead trainer explains how the format is and how information should be recorded. 3. The lead trainer provides the groups 20 minutes to discuss and place their responses in a flipchart and 5 minutes to present. The lead trainer asks for volunteer groups to present their outputs while the other groups observe and provide feedback on the presentations. 4. The lead trainer validates and summarizes the responses from the participants, and concludes the session. The lead trainer the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	**DELINQUENCY MANAGEMENT**	
Section 6	**Formulation of Delinquency Management Plan**	
Activity 15	**Methodologies to Minimize Delinquency**	
Purpose	**To introduce common practices and experiences of MFIs to minimize delinquency.**	
Objectives	By the end of the activity, the participants are able to: • Learn common methodologies and practices in delinquency management. • Learn experiences of MFIs in minimizing or managing delinquency.	
Time:	**Materials:**	**Steps/Method:**
90 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 81-89, Computer, LCD Projector, Meta plan cards	*Small Group Discussions; Plenary* *1.* The lead trainer explains to the participants the philosophy behind effective management: *effective and efficient methodologies in selecting clients, loan size and repayment methods; enhancing motivation and effective MIS.* 2. The lead trainer asks the participants to form groups of five people to discuss about methodologies adopted by the MFIs to minimize delinquency. 3. The lead trainer provides 20 minutes to the groups to discuss and place their outputs on flipchart and another 5 minutes to present their outputs. 4. The lead trainer asks for two volunteer groups to present their outputs while the other groups observe and provide feedback on the presentation. *5.* The lead trainer validates and summarizes the responses and emphasizes the following: *To prevent delinquency, MFIs should focus on the following:* *a. Loan design as Borrowing Condition; Interest and Fee; Term; Payment Schedule; Installment Size; Loan Security* *b. Selection of borrowers: use of 5 Cs: Character; Capacity; Capital; Collateral; Condition* *c. Credit Committee: Credit Decision; Separation in Investigation; Set-up Credit Ceiling*

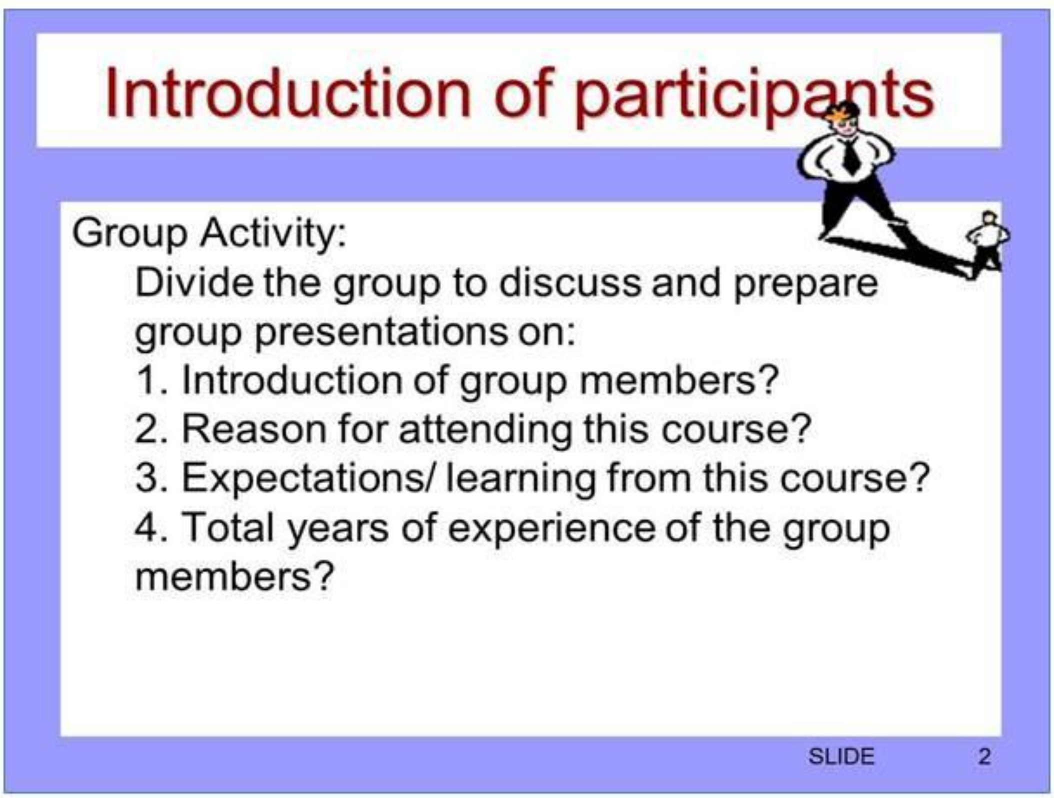
		d. *Information System: Reliable, accurate, and timely data; Relevant detail for level of use (Board of Director, Management, staff) and cost effective* 6. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART III	**ACTION PLAN**	
Session 1	**Delinquency Management Plan**	
Activity 16	**Delinquency Management Plan for MFIs.**	
Purpose	**To develop an action plan to manage delinquency in MFIs.**	
Objectives	By the end of the activity, the participants are able to: • Prepare preliminary action plan to manage delinquency for their MFIs.	
Time:	**Materials:**	**Steps/Method:**
30 minutes	Flipcharts, Stands, Pens, Tapes, Papers	*Small Group Discussions; Plenary* *1.* The lead trainer asks the participants to form groups by organization. *2.* The lead trainer asks the groups to prepare delinquency management plans for their respective MFIs. *3.* The lead trainer walks the groups through the format for the management plan or action plan. *4.* The lead trainer provides the groups 20 minutes to prepare the plans and 5 minutes to present the outputs. The lead trainer asks for volunteer groups to share their outputs while the other groups observe and provide feedback on the presentation. 5. The lead trainer consolidates the points and comments on the plans prepared by the groups. The lead trainer advises all groups to adjust and complete their action plans in a way more feasible and suitable to the MFI's local contexts. Further, the lead trainer reminds the participants to be guided by SMART objectives. 6. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer asks the participants to bring the plans back to their respective offices and discuss/propose to their managers. This may be monitored later by the ADB Project Team to test adoption. The lead trainer then thanks the participants and moves to the next activity.

PART IV	**CLOSING ACTIVITIES**	
Section 1	**Wrap Up and Evaluations**	
Activity 17	**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 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 4, Computer, LCD Projector, Evaluation Forms	*Plenary; Post Training Evaluation* 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. 1. The training coordinator reviews the training objectives against the learning experiences of the participants along with their expectations from the training. 2. The training coordinator reviews the issues listed in the parking lot, if any and tries to resolve such issues. 3. The training coordinator asks the participants if they want to share anything to the group. 4. 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 IV	**CLOSING ACTIVITIES**	
Section 1	**Closing**	
Activity 18	**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



Course rules

Punctuality

Turn off Mobile phone

Active participation

Respect

SLIDE 3

Course Objectives

- Explain relationship of delinquency management and interest rates to financial sustainability
- Analyze the causes of delinquency
- Explain the institutional costs of delinquency
- Apply ratios and tools to measure and control delinquency
- Explain loans aging and calculate provisioning for loan impairment, impairment loss allowance, and write-offs
- Develop an institutional action plan on delinquency management

SLIDE 4

Section I
Delinquency – Causes and effects of delinquency

SLIDE 5

What is delinquency in Micro-finance?

Delinquency occurs when one installment payment is late.

The debts that part or all of principal and/or interest is overdue (Circular 15)

SLIDE 6


Non-Performing Loans NPL
NPL occur when a borrower cannot or will not repay his or her loan and the MFI no longer expects to be repaid (Although it keeps trying to collect)
Non-performing loans (NPL) are loans overdue ≥ 30 days (Circular 15)
SLIDE 7


Sustainability Equals
Coverage of
Financial Expenses (incl. cost of funds + inflation)
+
Delinquency
Loan Loss
+
Operating Expenses (incl. personnel and administrative expenses)
+
Capitalization for Growth
from Financial Revenue
SLIDE 8

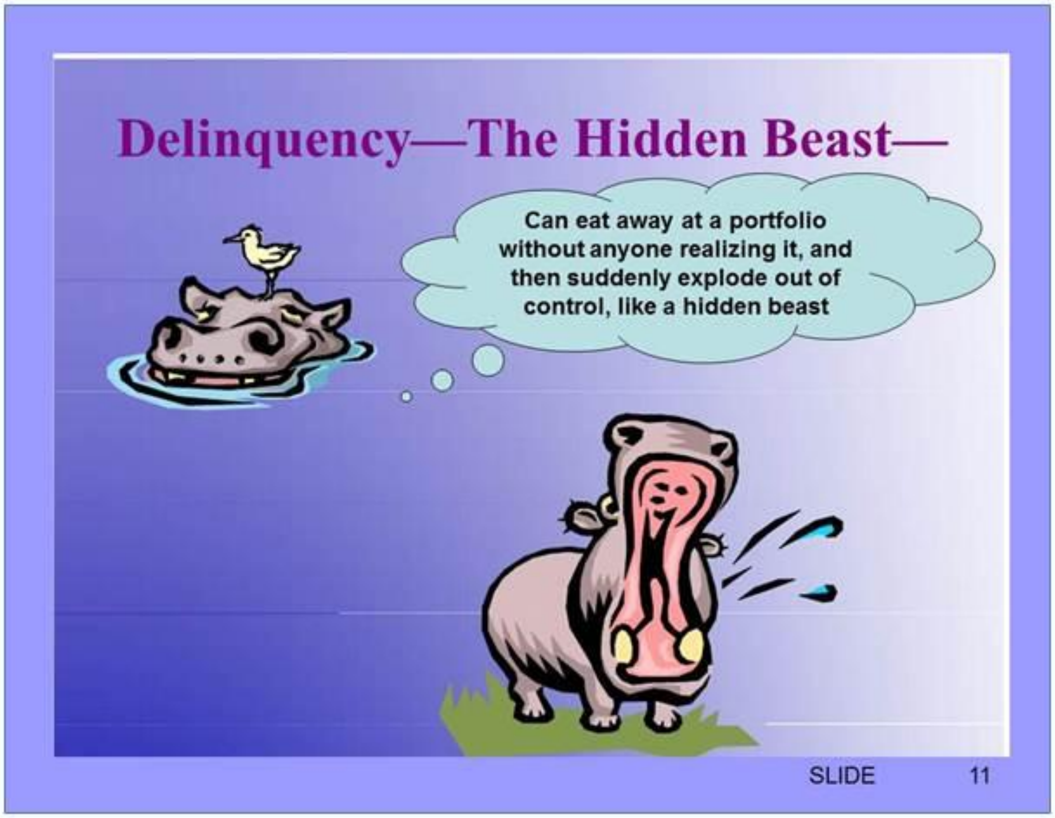
Three Questions About Delinquency

1. Who defines delinquency in your organization?
2. What is the level of accepted delinquency in your organization?
3. Is it a written policy? Or is it a “general understanding”?

SLIDE 9

CLASSIFICATIONS OF DELINQUENCY

SLIDE 10



Causes of Delinquency *(Exercise)*

a) Develop a list of causes of loan delinquency.

b) Organize the causes according to categories (organization – Clients – External).

c) Discuss which are most important causes to your MFI.

d) Discuss a way to control these causes of delinquency.

SLIDE 12

Causes of Delinquency (Suggestion)

I. Credit policy is not effective.

- There is no orientation on utilization of loans
- Loose procedures on lending and savings withdrawal
- Loan size is decided without rationale
- Credit policy and principles are not clear and concrete

SLIDE 13

Causes of Delinquency (Suggestion)

II. Institutional Development

- Awareness of members are not raised
- Staff are not qualified
- Role of groups, group management is not utilized

SLIDE 14

Causes of Delinquency (Suggestion)

III. Implementation of credit program:

- Principles are not strictly observed, e.g:
- Borrowing other member's Book
- Un-appropriate trainings for groups
- Credit officers do not attend group meetings regularly
- Group meetings are not conducted on a regular basis
- Lending procedures are not followed (group's evaluation; commitment to pay …)
- Borrowers are not visited regularly
- Financial and institutional principles are not strictly observed

SLIDE 15

Causes of Delinquency (Suggestion)

IV. Supervision of Management Team

- Supervision is not fully conducted: data examination, monthly cash check-up
- Lack of supervision tools
- Issues discovered are not solved immediately

SLIDE 16

Causes of Delinquency (Suggestion)

V. Productivity of Credit Officers

- Credit officers do not fulfill their tasks
- Low responsibility
- Lack of prestige in community
- COs are not supported by their families
- Poor health conditions
- Unsatisfied compensations
- Lack of tools and facilities for their work
- Management tools are not comprehensive and on-time

SLIDE 17

Causes of Delinquency (Suggestion)

VI. Borrowers

- Borrowers are not fully aware of rights and responsibilities of group members (since they are not well informed and trained)

- Borrowers are unable to utilize the loans in an effective way due to their lack of knowledge and experience.

SLIDE 18

Causes of Delinquency (Suggestion)

VII. External factors

- Natural calamities, diseases (unavoidable)
- Effects of national and international economic situations
- Government policies (legal & financial frameworks)

SLIDE 19

Solutions (Suggestion)

Solutions may include:

- Improve operational procedures on credit management as well as institutional management
- Credit principles must be strictly observed by all levels
- Improve Supervision and Evaluation system
- Raise awareness of members
- Provide more trainings on wisely loan investment and promote sharing of experience among members
- Define the roles and responsibilities of each levels and their interactions.
- Make use of support and assistance from local authorities and mass organizations.

SLIDE 20

SECTION II

ANALYZE THE COSTS OF DELINQUENCY

SLIDE 21

Costs of Delinquency

How Delinquency Affects an MFI?

+ Use the color cards to write down effects of delinquency to:
- Your MFI
- Clients
- Staff
- Donor's action

Work in group of 5 persons

SLIDE 22

What are the effects of delinquency?

On MFI:

- Less income
- Less clients
- Increasing expenses
- Decreasing profits
- Restructured
- Increasing NPL
- Decreasing sustainability
- Image of institution
- Shortening MFI's life
- Bankruptcy

On clients:

- Less discipline
- Less trust
- Less motivation
- Less family income
- No possibility to borrow again
- Bad image in the community
- Client not served effectively
- Chained reaction
- Less savings

On staff:

- Low performance
- Decreasing benefits
- Must focus on delinquent
- Loss of motivation
- Retrenchments/Forced resignation/Downsizing
- Extra efforts to motivate clients
- Can't focus on main work

On donors:

- Lose credibility
- Less donation

SLIDE 23

Costs of Delinquency – Postponed Income

Example: **The actual amount of postponed income can be determined by comparing the interest (and fees) received in a given month with the interest (and fees) expected.**

Portfolio on January 1, 2005	$100000
Interest Rate (24% flat per year/12)	2%
Interest Due January 31 (2% x 100,000)	2,000
Interest Received January 31	1,500

The MFI's January income is $500 less than it should be but because delinquent payments are credited as income, the MFI must pay income tax for that income.

SLIDE 24

Calculating the Costs of Default

Initial loan amount		$75,000	
Interest (15% flat)			
Loan term, weeks	25		
Weekly repayment of principal			
Weekly repayment of interest			
Total weekly repayment			
Payments received	15		
Payments lost	10		
Lost interest income			
Lost principal			
Total lost income and principal			
Expected revenue earned ($75,000 loan for 25 weeks)			
Costs per loan			$7,500
Net expected revenue per loan			
Actual net revenue earned (10 weeks lost payment)			

SLIDE 25

Costs-of-Default Formulas

Number of loans required to earn lost principal (+ interest)

$$= \frac{\text{Lost principal (+ interest)}}{\text{Revenue per loan}}$$

Number of loans required to earn lost principal (+ interest), taking costs per loan into account

$$= \frac{\text{Lost principal (+ interest)}}{\text{Net revenue per loan}}$$

SLIDE 26

Calculating the Costs of Default

Number of Loans Required to Earn Lost Principal
(taking into account variable costs of disbursing and managing loans)

___ loans of $75,000

Lost principal/net revenue per loan

/

Number of Loans Required to Earn Lost Interest and Principal
(taking into account variable costs of disbursing and managing loans)

___ loans of $75,000

Lost interest and principal/net revenue per loan

/

SLIDE 27

Section III
Measuring Delinquency

SLIDE 28

Gross Loan Portfolio of a Microfinance Institution

The principal amount

of loan balances outstanding

SLIDE 29

Importance of the Gross Loan Portfolio

Is an MFI's Largest Income Generating Assets (Generating Interest and Fees)

SLIDE 30

DISCUSSION

1. What is portfolio quality?
2. Why is portfolio quality important?
3. How does your MFI measure portfolio quality?

SLIDE 31

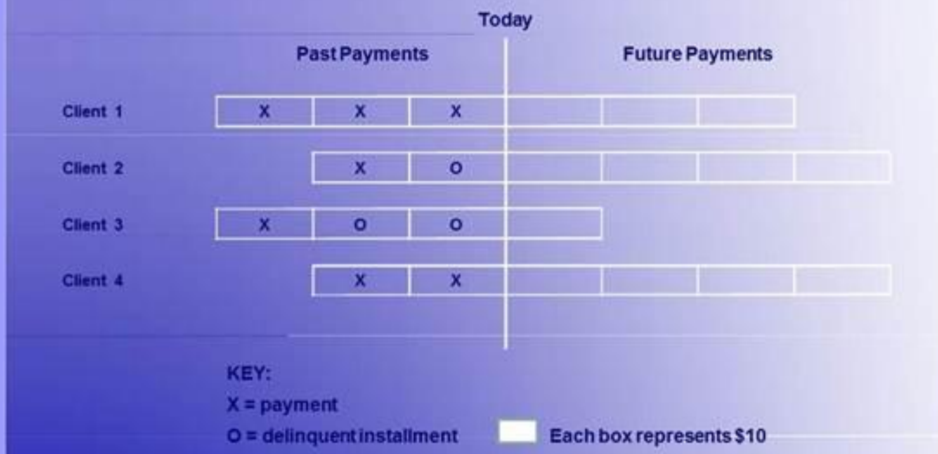
Portfolio Performance and Collection Ratios

INDICATOR	RATIO
Portfolio-at-Risk (PAR)	Unpaid principal balance of all loans with late payments + re-negotiated loans / Gross Loan Portfolio
Arrears Rate (Past Due) Rate	Amount past due / Gross Loan Portfolio
Repayment Rate	Amount received (current + past due) less prepayments / Total amount due this period + amounts past due from previous periods
Current Recovery Rate	Amount received this period / Total amount due this period
Write-Off Ratio	Amount of loans written off as unrecoverable / Average Loan Portfolio

What ratios are being used by your MFI?

SLIDE 32

Sample Portfolio of an MFI



SLIDE 33

Measuring delinquency in Micro-finance

<u>Example 1</u>: A client receive a loan of VND2000. She/he made two payments of VND250 and VND200 are principal, VND50 are interest. Then she/he has two mis-payments.

*At the time she/he started not to pay, the remaining balance was 2000-(2*200)=1600. VND1600 are considered at risk.*

The portfolio at risk is 1600/1600=1

In percentage, it is 100%.

SLIDE 34

Measuring delinquency in Micro-finance

Example 2: 2 loans are granted.

A VND 2000 loans to Ms. A and a VND3000 loan to Ms. B are released the same day.

Ms. A must pay in 5 installments. Ms. B must pay in 6 installments.

Ms. A pays regularly. Ms. B does not pay the 2nd and 3rd installments. Ms. B pays all the other installments.

What are the P.A.R after the release?

After every installment?

SLIDE 35

Measuring delinquency in Micro-finance

Example 2:

Installments	*Just after release*	*1st*	*2nd*	*3rd*	*4th*	*5th*	*6th*
Payments Miss A		*400*	*400*	*400*	*400*	*400*	
Payments Miss B		*500*			*500*	*500*	*500*
Outstanding portfolio	*5000*	*4100*	*3700*	*3300*	*2400*	*1500*	*1000*
Unpaid balance (1 mis-payment or more)	*0*	*0*	*2500*	*2500*	*2000*	*1500*	*1000*
PAR after installment.	*0%*	*0%*	*67.5%*	*75.7%*	*83.3%*	*100%*	*100%*

SLIDE 36

Repayment Problem

Client	Amount Due in December A	Amount Paid in December B	Amount Past Due before December 1 C
Total			

SLIDE 37

Repayment Problem *(Answers)*

Client	Amount Due in December A	Amount Paid in December B	Amount Past Due before December 1 C
F	58	58	
G	33	33	
H	60	60	
I	29	29	
J	50	50	
K	71	71	
L	69		69
M	58		174
N	60		60
O	44		0
P	55		55
Total	587	301	358

Repayment Rate = TOTAL B / (TOTAL A + TOTAL C)

301/945 = 0,32 = 32%

SLIDE 38

Formulas

Common: **(Past Due) Rate**

$$\frac{\text{Amount Past Due}}{\text{Gross Loan Portfolio}}$$

BETTER: PORTFOLIO-AT-RISK (PAR)

$$\frac{\text{Unpaid Principal Balance of all Loans with Late Payments+ Renegotiated Loans}}{\text{Gross Loan Portfolio}}$$

SLIDE 39

PAR by Age

Organization A

Total Portfolio-at-Risk	1-30 Days	31-60 Days	61-90 Days	Over 90 Days
14%	6%	4%	2%	2%

Organization B

Total Portfolio-at-Risk	1-30 Days	31-60 Days	61-90 Days	Over 90 Days
14%	1%	2%	4%	7%

Importance of classification of PAR by age?

Which MFI is better?

SLIDE 40

Sustainable Access to Finance for Microfinance (SAFE) Case

Sample portfolio statement (as of December 31, 2005)

1	2	3	4	5	6	7	8	9	10	11	12
Client	Disbursement Date	Term (months)	Loan Amount	Monthly Payment	Total Amount Paid	Amount Outstanding	Total Amount Past Due	*1 pmt* 1 to 30 Days	*2 pmts* 31 to 60 Days	*3 pmts* 61 to 90 Days	*>4 pmts* >90 Days
A	13-Dec-04	5	200	40	200	0					
B	23-Dec-04	4	175	44	175	0					
C	23-Dec-04	3	150	50	0	written off nonrecoverable in June 2005					
D	27-Jan-05	6	250	42	250	0					
E	13-Mar-05	3	100	33	100	0					
F	21-Jun-05	6	350	58	350	0					
G	11-Jul-05	6	200	33	167	33					
H	31-Jul-05	10	600	60	300	300					
I	20-Aug-05	6	175	29	117	58					
J	24-Sep-05	6	300	50	150	150					
K	23-Nov-05	7	500	71	71	429					
L	11-Jul-05	8	550	69	206	344	138	69	69		
M	21-Aug-05	6	350	58	0	350	232	58	58	58	58
N	30-Aug-05	5	300	60	120	180	120	60	60		
O	4-Oct-05	4	175	44	44	131	44	44			
P	1-Aug-05	4	220	55	110	110	110	55	55		
Q	13-Dec-05	4	200	50	0	200					
R	28-Dec-05	5	250	50	0	250					

SLIDE 41

Group exercise: PAR Calculations

1. PAR Calculation

a) more than 10 days past due?

b) more than 30 days past due?

c) more than 90 days past due?

SLIDE 42

PAR Calculations *(continued)*

2. Rate of PAR more than 30 days late:

3. If in Sept 2005, 10 new loans at total value of USD3,000 is granted

a) PAR?

b) If in Oct 2005, 10 new loans at total value of USD3,000 is granted, USD50 is paid each month but there are 5 loans with 30 days past due

PAR?

SLIDE 43

SECTION IV
EXPLAIN AND CALCULATE PROVISIONS FOR LOAN IMPAIRMENT AND WRITE OFFS

SLIDE 44

Loan Loss Definitions

An IMPAIRMENT LOSS ALLOWANCE:

Represents the amount of outstanding principal that is not expected to be recovered by a microfinance organization.
It is a negative asset on the balance sheet, reducing the gross loan portfolio.

PROVISION FOR LOAN IMPAIRMENT

The amount expensed on the income and expenses statement.

It increases the impairment loss allowance.

WRITE-OFFs

occur only as an accounting entry. They help clean the Balance Sheet and they do not mean that loan recovery should not continue to be pursued.
They decrease the impairment loss allowance *and* the gross loan portfolio.

Sources: Ledgerwood, 1996; SEEP Network 2005.

SLIDE 45

Rationale for Provision for Loan Impairment and Impairment Loss Allowance

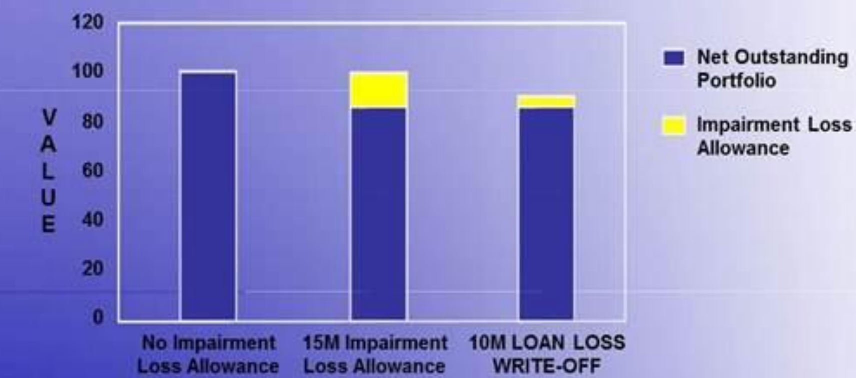
Maintaining loans on the books that are unlikely to be repaid overstates the size of the portfolio.

Sources: Stearns 1991; SEEP Network 2005.

SLIDE 46

Effect of Impairment Loss Allowance and Write-Offs on Balance Sheet

Value of the gross loan portfolio



SLIDE 47

Provisions to be allocated

Specific provisions:
The amount of money deducted based on classification of debts to reserve for risks by each debt category

General provisions:
The amount of money deducted to reserve for losses unidentified in the debts classification and specific provisioning process

SLIDE 48

Specific Provisions Ratios

Category 1 (Qualified debts): 0%

Category 2 (Debts to be noted): 2%

Category 3 (Debts below standards): 25%

Category 4 (Debts suspected of loss): 50%

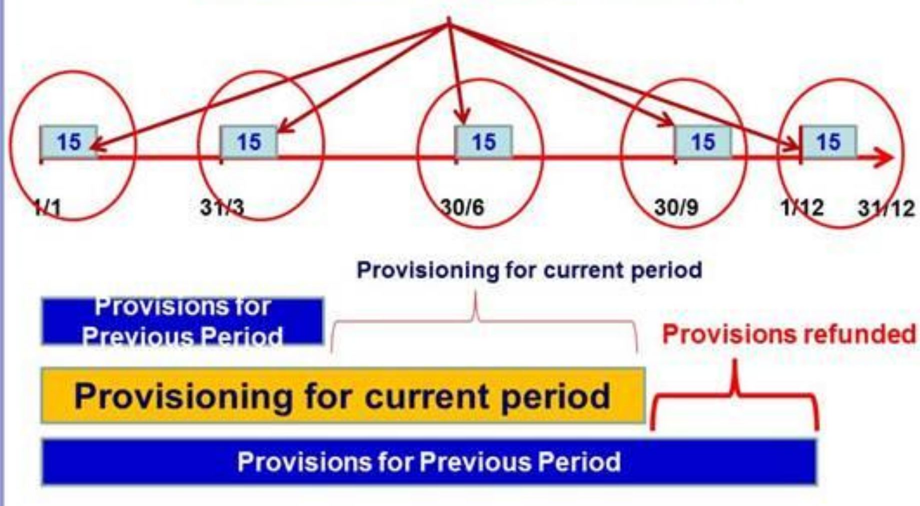
Category 5 (Debts vulnerable of loss): 100%

SLIDE 49

Regular Debts Classification and Provisioning

Circular 15/2010/TT-NHNN

Debts Classification and Specific Provisioning



SLIDE 50

Regular Debts Classification and Provisioning

Circular 15/2010/TT-NHNN

General Provisioning

$$0,5\% \times \sum \left\{ \begin{array}{l} \text{Category 1 (Qualified debts)} \\ \text{Category 2 (Debts to be noted)} \\ \text{Category 3 (Debts below standards)} \\ \text{Category 4 (Debts suspected of loss)} \end{array} \right\}$$

Within three years from the effective date of Circular 15 (6/10), MFIs have to contribute sufficient general provisions

SLIDE 51

Calculating Credit Risks Provisions

Past due	Outstanding Amount	PAR (%)	Contribution ratio (%)	Risks Provisions ($)
Before + Past due <10 days	82.000		0	
Past due 10–30 days	8.750	8.75	2	175
Past due 31–90 days	5.000	5	25	1.250
Past due 90–180 days	2.500	2.5	50	1.250
Past due >180 days	1.750	1.75	100	1.750
Total	100.000	18		4.425

General reserves = 0,5% x Principal amount category 1- 4

= 0,5% x 98.250 = 491,25

SLIDE 52

Provision for Loan Impairment on Income Statement

Ref.	Institute	2003 (000)	2004 (000)
I1	Financial Revenue	6,342	10,082
I2	Financial Revenue from Loan Portfolio	6,342	10,082
I3	Interest on Loan Portfolio	6,342	10,082
I4	Fees and Commissions on Loan Portfolio		
I5	Financial Revenue from Investments		
I6	Other Operating Revenue		
I7	Financial Expense	292	823
I8	Financial Expense on Funding Liabilities	292	823
I9	Interest and Fee Expense on Deposits		
I10	Interest and Fee Expense on Borrowings	292	823
I11	Other Financial Expense		
I12	Net Financial Income	6,050	9,259
I13	Impairment Losses on Loans	262	430
I14	Provision for Loan Impairment	292	472
I15	Value of Loans Recovered	(30)	(42)

SLIDE 53

Provision for Loan Impairment on Income Statement

Ref.	Account Name	2003 (000)	2004 (000)
I16	Operating Expense	3,264	4562,
I17	Personnel Expense	2,116	3,009
I18	Administrative Expense	1,148	1,553
I19	Depreciation and Amortization Expense	234	387
I20	Other Administrative Expense	914	1,166
I21	Net Operating Income	2,524	4,267
I22	Net Nonoperating Income/(Expense)	117	312
I23	Nonoperating Revenue	117	312
I24	Nonoperating Expense		
I25	Net Income (Before Taxes and Donations)	2,641	4,579
I26	Taxes	20	31
I27	Net Income (After Taxes and Before Donations)	2,621	4,548
I28	Donations	320	350
I29	Donations for Loan Capital	249	316
I30	Donations for Operating Expense	71	34
I31	Net Income (After Taxes and Donations)	2,941	4,898

SLIDE 54

Provision for Loan Impairment on Balance Sheet

Ref.	Account Name	2003 (000)	2004 (000)
	ASSETS		
B1	Cash and Due from Banks	801	1,781
B2	Trade Investments		
B3	Net Loan Portfolio	24,012	43,024
B4	Gross Loan Portfolio	24,690	44,132
B5	Impairment Loss Allowance	(678)	(1,108)
B6	Interest Receivable on Loan Portfolio	288	425
B7	Accounts Receivable and Other Assets	26	10
B8	Other Investments		
B9	Ne t Fixe d Ass et	2,321	2,748
B10	Fixed Assets	2,936	3,750
B11	Accumulated Depreciation and Amortization	(615)	(1,002)
B12	TOTAL ASSETS	27,448	47,988

SLIDE 55

Provision for Loan Impairment on Balance Sheet

Ref.	Account Name	2003 (000)	2004 (000)
	LIABILITIES		
B13	Demand Deposits		
B14	Short-term Time Deposits		
B15	Short-term Borrowings	10,454	17,156
B16	Interest Payable on Funding Liabilities	25	62
B17	Accounts Payable and Other Short-term Liabilities	428	342
B18	Long-term Time Deposits		
B19	Long-term Borrowings	5,417	12797,
B20	Other Long-term Liabilities		
B21	TOTAL LIABILITIES	16,324	30,357

SLIDE 56

Provision for Loan Impairment on Balance Sheet

Ref.	Account Name	2003 (000)	2004 (000)
	EQUITY		
B22	Paid-In Capital		
B23	Donated Equity	2,934	3,284
B24	Prior Years	2,614	2,934
B25	Current Year	320	350
B26	Retained Earnings	8,189	12,737
B27	Prior Years	5,568	8,189
B28	Current Year	2,621	4548,
B29	Reserves	1	1,610
B30	Other Equity Accounts		
B31	Adjustments to Equity		
B32	**TOTAL EQUITY**	11,124	17,631
	TOTAL LIABILITIES + EQUITY	27,448	47,988

SLIDE 57

Income Statement

(With provision for loan impairment adjustment)

Ref.	Account Name	2003 (000)	2004 (000)
I1	Financial Revenue	6,342	10,082
I2	Financial Revenue from Loan Portfolio	6,342	10,082
I3	Interest on Loan Portfolio	6,342	10,082
I4	Fees and Commissions on Loan Portfolio		
I5	Financial Revenue from Investments		
I6	Other Operating Revenue		
I7	Financial Expense	292	823
I8	Financial Expense on Funding Liabilities	292	823
I9	Interest and Fee Expense on Deposits		
I10	Interest and Fee Expense on Borrowings	292	823
I11	Other Financial Expense		
I12	Net Financial Income	6,050	9,259
I13	Impairment Losses on Loans	262	[redacted]
I14	Provision for Loan Impairment	292	[redacted]
I15	Value of Loans Recovered	(30)	(42)

SLIDE 58

Income Statement

(With provision for loan impairment adjustment)

Ref.	Account Name	2003 (000)	2004 (000)
I16	Operating Expense	3,264	4562,
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I20	Other Administrative Expense	914	1,166
I21	Net Operating Income	2,524	[redacted]
I22	Net Nonoperating Income/(Expense)	117	312
I23	Nonoperating Revenue	117	312
I24	Nonoperating Expense		
I25	Net Income (Before Taxes and Donations)	2,641	[redacted]
I26	Taxes	20	31
I27	Net Income (After Taxes and Before Donations)	2,621	[redacted]
I28	Donations	320	350
I29	Do na tion s for Loa n Cap ita l	249	316
I30	Donations for Operating Expense	71	34
I31	Net Income (After Taxes and Donations)	2,941	[redacted]

SLIDE 59

Balance Sheet

(With impairment loss allowance)

Ref.	Account Name	2003 (000)	2004 (000)
	ASSETS		
B1	Cash and Due from Banks	801	1,781
B2	Trade Investments		
B3	Net Loan Portfolio	24,012	[redacted]
B4	Gross Loan Portfolio	24,690	44,132
B5	Impairment Loss Allowance	(678)	[redacted]
B6	Interest Receivable on Loan Portfolio	288	425
B7	Accounts Receivable and Other Assets	26	10
B8	Other Investments		
B9	Ne t Fixe d Ass et	2,321	2,748
B10	Fixed Assets	2,936	3,750
B11	Accumulated Depreciation and Amortization	(615)	(1,002)
B12	TOTAL ASSETS	27,448	[redacted]

SLIDE 60

Balance Sheet

(With impairment loss allowance)

Ref.	Account Name	2003 (000)	2004 (000)
	LIABILITIES		
B13	Demand Deposits		
B14	Short-term Time Deposits		
B15	Short-term Borrowings	10,454	17,156
B16	Interest Payable on Funding Liabilities	25	62
B17	Accounts Payable and Other Short-term Liabilities	428	342
B18	Long-term Time Deposits		
B19	Long-term Borrowings	5,417	12797,
B20	Other Long-term Liabilities		
B21	TOTAL LIABILITIES	16,324	30,357

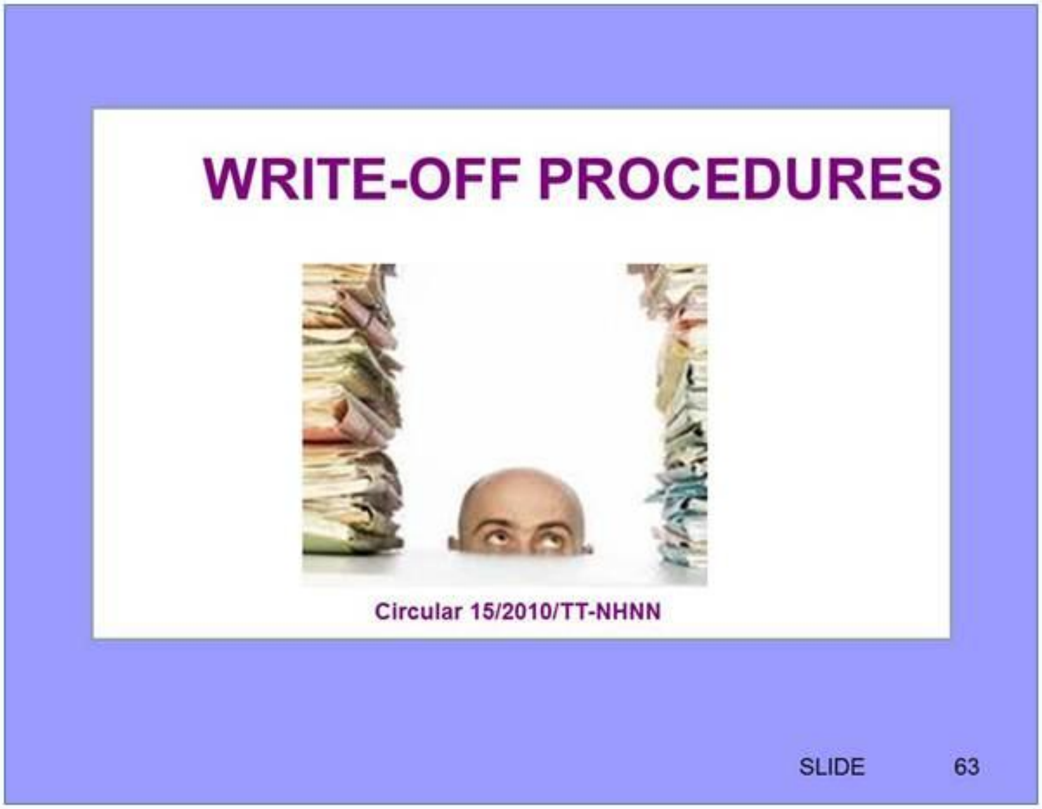
SLIDE 61

Balance Sheet

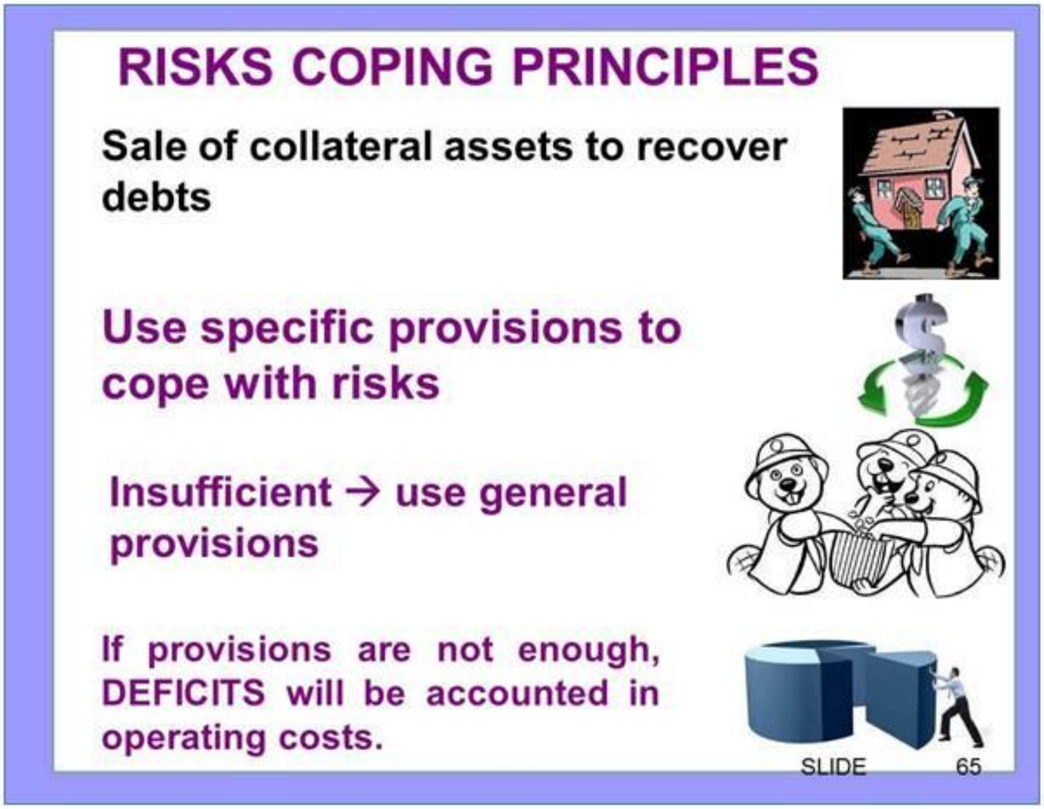
(With impairment loss allowance)

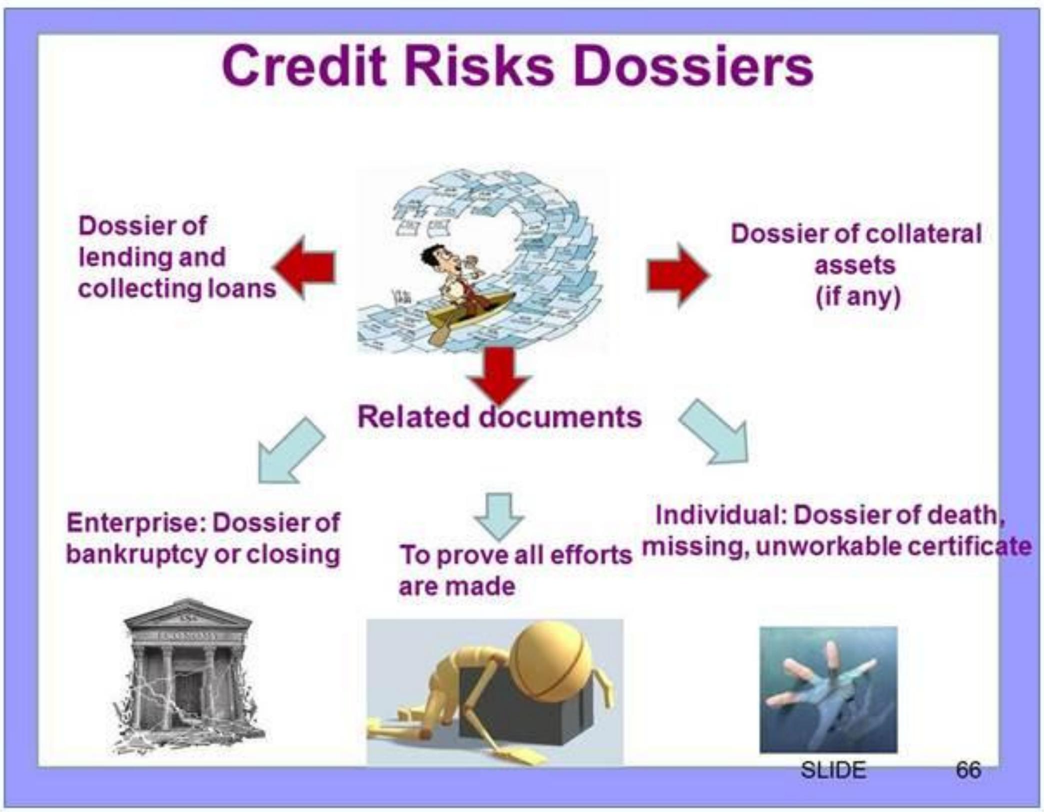
Ref.	Account Name	2003 (000)	2004 (000)
	EQUITY		
B22	Paid-In Capital		
B23	Donated Equity	2,934	3,284
B24	Prior Years	2,614	2,934
B25	Current Year	320	350
B26	Retained Earnings	8,189	12,660
B27	Prior Years	5,568	8,189
B28	Current Year	2,621	4471
B29	Reserves	1	1,610
B30	Other Equity Accounts		
B31	Adjustments to Equity		
B32	TOTAL EQUITY	11,124	17,554
	TOTAL LIABILITIES + EQUITY	27,448	47,911

SLIDE 62


WRITE-OFF PROCEDURES
Circular 15/2010/TT-NHNN
SLIDE 63


ESTABLISH RISKS COPING COMMITTEE
Review, assess debt classification and provisioning
Monitor the recovery of loans written off
Board Chairman, Chief Controller, Chief Accountant
RISKS TREATMENT COMMITTEE
Decide the use of provisions to cope with credit risks
Decide plan and time for recovery of written off loans
SLIDE 64


RISKS COPING PRINCIPLES
Sale of collateral assets to recover debts
Use specific provisions to cope with risks
Insufficient → use general provisions
If provisions are not enough, DEFICITS will be accounted in operating costs.
SLIDE 65


Credit Risks Dossiers
Dossier of lending and collecting loans
Dossier of collateral assets (if any)
Related documents
Enterprise: Dossier of bankruptcy or closing
To prove all efforts are made
Individual: Dossier of death, missing, unworkable certificate
SLIDE 66

Balance Sheet

(After write-off)

Ref.	Account Name	2003 (000)	2004 (000)
	ASSETS		
B1	Cash and Due from Banks	801	1,781
B2	Trade Investments		
B3	Net Loan Portfolio	24,012	42,947
B4	Gross Loan Portfolio	24,690	44,132
B5	Impairment Loss Allowance	(678)	(1,100)
B6	Interest Receivable on Loan Portfolio	288	425
B7	Accounts Receivable and Other Assets	26	10
B8	Other Investments		
B9	Ne t Fixe d Ass et	2,321	2,748
B10	Fixed Assets	2,936	3,750
B11	Accumulated Depreciation and Amortization	(615)	(1,002)
B12	TOTAL ASSETS	27,448	47,911

SLIDE 67

Balance Sheet

(After write-off)

Ref.	Account Name	2003 (000)	2004 (000)
	LIABILITIES		
B13	Demand Deposits		
B14	Short-term Time Deposits		
B15	Short-term Borrowings	10,454	17,156
B16	Interest Payable on Funding Liabilities	25	62
B17	Accounts Payable and Other Short-term Liabilities	428	342
B18	Long-term Time Deposits		
B19	Long-term Borrowings	5,417	12797,
B20	Other Long-term Liabilities		
B21	TOTAL LIABILITIES	16,324	30,357

SLIDE 68

Balance Sheet

(After write off)

Ref.	Account Name	2003 (000)	2004 (000)
	EQUITY		
B22	Paid-In Capital		
B23	Donated Equity	2,934	3,284
B24	Prior Years	2,614	2,934
B25	Current Year	320	350
B26	Retained Earnings	8,189	12,660
B27	Prior Years	5,568	8,189
B28	Current Year	2,621	4471,
B29	Reserves	1	1,610
B30	Other Equity Accounts		
B31	Adjustments to Equity		
B32	TOTAL EQUITY	11,124	17,554
	TOTAL LIABILITIES + EQUITY	27,448	47,911

SLIDE 69

Sanctions Against Violations

Increase reserve ratio

Limit loans

Limit network expansion and scope of activities

Suspend operations

SLIDE 70

Section V
Delinquency Control

SLIDE 71

Preventing delinquency

KEY ISSUES

1) *Image of the MFI*
2) *Value the access of credit*
3) *Screening*
4) *Capacity to pay based on actual*
5) *Incentives to pay, disincentives not to pay*
6) *Incentive on staff if effective*
7) *Provide field staff with information on their portfolio*
8) *Provide management with information to monitor delinquency*
9) *Design a clear process for late payment*
10) *Defining acceptable level of delinquency*

SLIDE 72

International Experiences

- Play video clips on delinquency collection process by individual and group loans

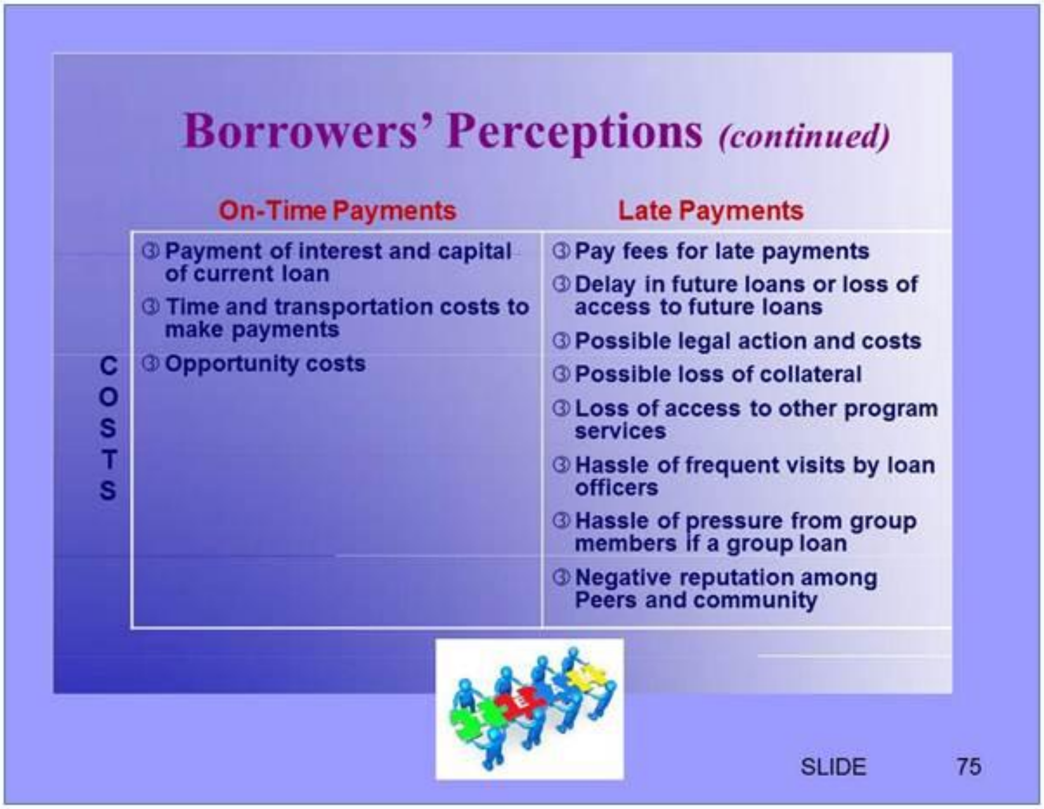
SLIDE 73

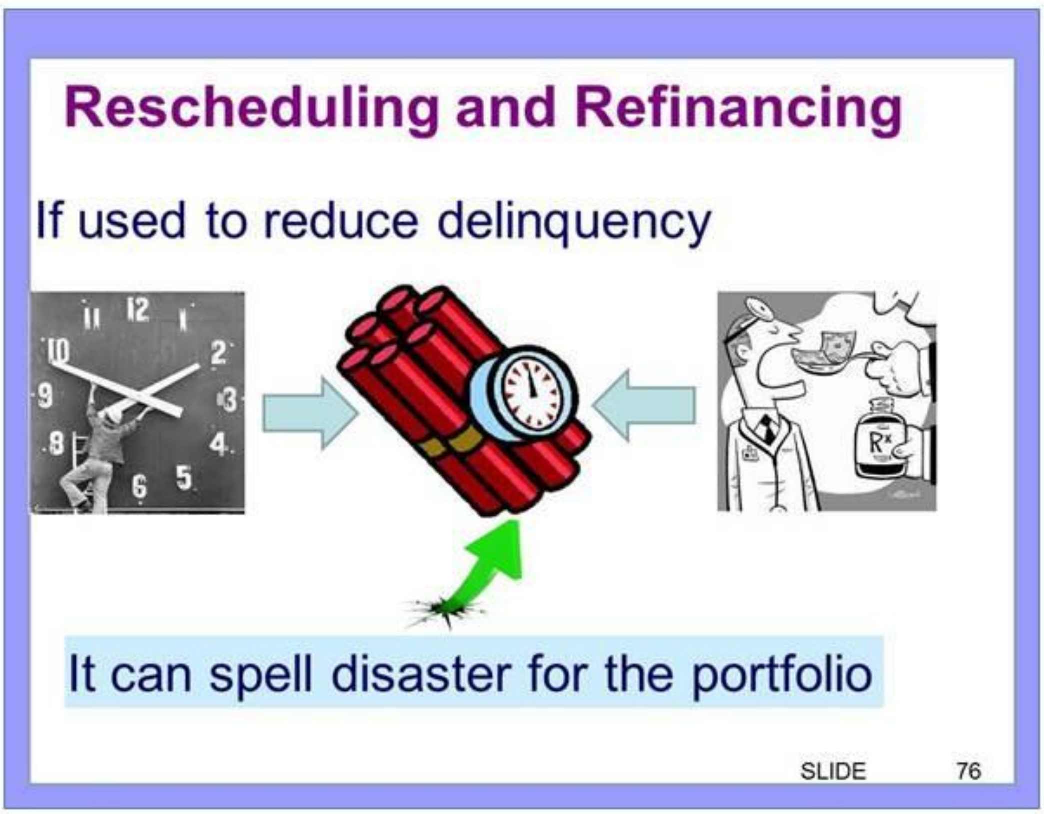
Borrowers' Perceptions

BENEFITS

On-Time Payments	Late Payments
Probability of immediate, larger follow-up loans	Lower expenses if interest payments are not made
Positive reputation among peers and MFI	Maintain capital (or portion) from loan business or used for other purposes
Access to other services like trainings, savings	Fewer or no trips to financial institution to make payments (lower transaction costs)
Award prizes for timely repayment	Lower transaction costs of attending group meetings and other activities of the lending institution
Lower interest on second or third loans	Possibility of not having to repay at all, if there is a low cost to default
nterest rebate	

SLIDE 74


Borrowers' Perceptions (continued)
On-Time Payments
Late Payments
COSTS
Payment of interest and capital of current loan
Time and transportation costs to make payments
Opportunity costs
Pay fees for late payments
Delay in future loans or loss of access to future loans
Possible legal action and costs
Possible loss of collateral
Loss of access to other program services
Hassle of frequent visits by loan officers
Hassle of pressure from group members if a group loan
Negative reputation among Peers and community
SLIDE 75


Rescheduling and Refinancing
If used to reduce delinquency
It can spell disaster for the portfolio
SLIDE 76

Uncontrollable Factors In Delinquency Management

Natural Disasters

Earthquakes, fires, floods, and drought wreak havoc on economies and the activities of micro-entrepreneurs.

Changes in Government Policy

A crackdown on street vendors, or a new tax, may alter clients' revenues and businesses.

Individual Crisis

Illness or death, fire, or theft can throw the household into a dire economic situation.

State of Local, National and World Economies

Even MF Clients are affected by the above factors.

SLIDE 77

Questions on Information Systems

THINK | DISCUSS

- How does the quality of an institution's information systems affect its delinquency rates?
- What are the specific data needs of field officers and program managers?
- How might these data be used to control delinquency?
- What would it take to bring your MFI's information systems to where they can supply needed data?

SLIDE 78

Sample Portfolio Report

For the period January-December 2005

1. Outreach	Number		
New clients	885		
(New groups formed)	177		
Client drop-outs	219		
Total clients	2,942		
(Total groups)	698		
Number of women clients	2,863		
Nu m be ro f bran ch	5		
2. Loan Portfolio	Number	Amount ($)	
Loans outstanding			
Total gross loan portfolio	3,110	287,430	
Number of active clients	2,942		
Average amount outstanding per client		98	
Loans written off	6	548	
Disbursements			
Total loans disbursed	2,658	491,730	
Average loan size disbursed		185	
Loans disbursed to first-time borrowers	885	132,750	

SLIDE 79

Sample Portfolio Report *(continued)*

	Number		
Other data			
Average loan term (months)	6		
Average number of credit officers	16		
3 Portfolio Aging	Number	Amount ($)	Portfolio-at-Risk (%)
On-time loans	2,750	269,354	
1-30 days past due	200	8,750	3.0
31-60 days past due	75	5,076	1.8
61-90 days past due	60	2,500	0.9
91-120 days past due	15	1,100	0.4
120-180+ days past due	10	650	0.2
Total	3,110	287,430	6.3

The MFI's write-off policy will affect how far the aging is extended. The Impairment loss allowance information is not included in this report. It is included in the balance sheet. However, this portfolio information will directly contribute to the calculation of the allowance.

SLIDE 80

Section VI

FORMULATING DELINQUENCY MANAGEMENT PLAN

SLIDE 81

Delinquency Prevention

Program's Philosophy

Methodology

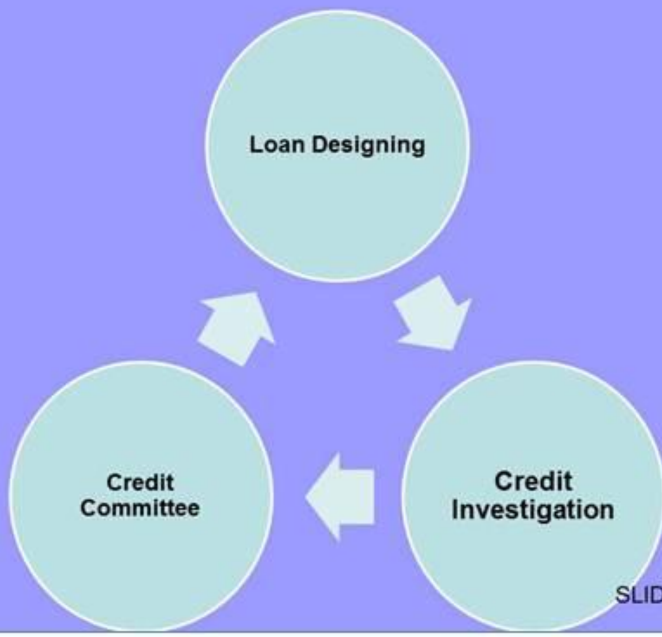
- Borrower selection
- Loan size and terms
- Incentives

Information Systems

- Reliable, accurate, and timely data
- Relevant detail for level of use (Board of Directors, Management, Staff)
- Cost effective

SLIDE 82

Preventing delinquency

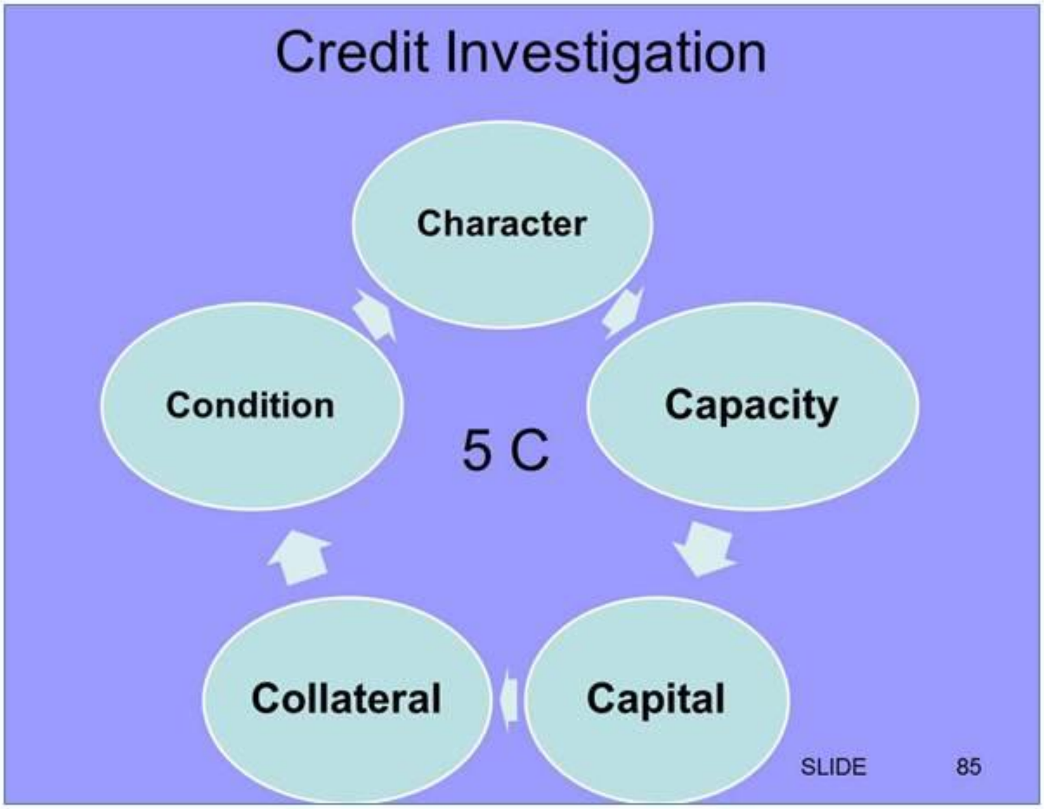


SLIDE 83

Loan Designing

- Borrowing Condition
- Interest and Fee
- Term
- Payment Schedule
- Installment Size
- Loan Security

SLIDE 84



"5 C" for Client Investigation

(1) Character)	Indication of willingness to repay the loan and ability to run a business
(2) Capacity	Cash flow of a company or family can accommodate the repayment or not
(3) Capital	Assets and Liabilities of the company/ family
(4) Collateral	The property that the debtor will deliver when he can't repay or personal guarantee of a reliable person
(5) Condition	Business plan in which level of competition and market for the products/services as well as economic and legal environment are studied

SLIDE 86

Credit Committee

- Credit Decision
- Separation in Investigation
- Setup Credit Ceiling

SLIDE 87

Credit Committee

- Having a board who makes decisions on loans is an effective measure to reduce credit risks and fraud risks. If only one individual has the right to decide who can borrow, loan conditions and write-off or reschedule of loans, he will quickly abuse his power. Although loan officers can be part of the Committee, there should be at least 1 individual of higher rank involved in this committee.

SLIDE 88

The end
Q&A

SLIDE 89

Thank you!

SLIDE 90

HANDOUTS

Handout 3
SBV Circular No. 15

STATE BANK OF VIETNAM	SOCIALIST REPUBLIC OF VIETNAM
---------	***Independence – Freedom – Happiness***

No. 15/2010/TT-NHNN Hanoi, June 6, 2010

CIRCULAR

ON DEBT CLASSIFICATION, PROVISIONING,
AND THE USE OF PROVISIONS TO MANAGE THE CREDIT RISKS OF
SMALL FINANCIAL INSTITUTIONS

Pursuant to the December 12, 1997 Vietnam State Bank Law and the June 17, 2003 Law Amending and Supplementing a Number of Articles of the Vietnam State Bank Law;

Pursuant to the December 12, 1997 Credit Institutions Law and the June 15, 2004 Law Amending and Supplementing a Number of Articles of the Credit Institutions Law;

Pursuant to the Government's Decree No. 96/ 2008/ND-CP of August 26, 2008, defining the functions, tasks, powers and organizational structure of the State Bank of Vietnam;

Pursuant to No. 28/2005/ND-CP dated March 9, 2005, on organization and operation of small-sized financial institutions in Vietnam and Decree No. 165/2007/ND-CP dated November 15, 2007, amending, supplementing and annulling a number of articles of Decree No. 28/2005/ND-CP;

Below The State Bank of Vietnam (below referred to as the State Bank) stipulates debt classification, provisioning, and the use of provision to manage credit risks of small financial institution:

Chapter 1

GENERAL PROVISIONS

Article 1. Governing scope and subjects of application

1. Small financial institutions (SFI) operating in Vietnam (below referred to as SFI) have to classify their debts, provision and use the provision to manage credit risks in conformity with this Circular.

2. Provisioning and the use of provision is carried out in compliance with regulations on finance for SFI.

Article 2. Interpretation of terms

In this Circular, the terms below are construed as follows:

1. *Provisioning* is to classify debts into tiers as stipulated in Paragraph 1, Article 1 of this Circular.
2. *Overdue debt* is a debt where a part or the entire of its principal and/or interest has become overdue.
3. *Bad debts* (NPL) are debts, which have been classified as those in Groups 3, 4 and 5 stipulated in Paragraph 1, Article 4 of this Circular
4. *Debts with restructured repayment term* are debts, the repayment term of which a small financial institution accepts to restructure or reschedule for customers because the credit institution assesses that the capability of customers to duly pay the principals or interests as stated in the credit contract deteriorates, but there are sufficient grounds for the credit institution to assess that customers are capable to fully pay the principals and interests under the restructured repayment term.
5. *Credit risks* (hereinafter referred to as risks) of small financial institution are potential losses that may arise in the banking activities of the credit institutions due to the failure of their customers to perform or their not being able to perform their obligations in accordance with their commitments.
6. *Risk provisions* are an amount to be made available to provide for potential losses that may arise due to failure of credit institutions customers to perform their committed obligations. Risk provisions are determined by outstanding loan principals and charged to the operational expenditure of credit institutions. Risk provisions consist of specific provisions and general provisions.
7. *Specific provisions* are an amount to be made available on the basis of the classification of specific debts in groups to provide against potential losses that may arise for each group.
8. *General provisions* are an amount to be made available to provide against losses that have not yet been determinable during process of specific debts classification and provisioning and for cases where the financial difficulty of credit institutions occurs due to their deteriorating debts quality.
9. *Use of provisions* is an act by which a credit institution uses the risk provisions to compensate for debts, which have been lost.
10. *Security asset* is asset that customer use to secure their committed obligations to the small financial institution in conformity with applicable regulations on guaranteed transaction.
11. *Customer* is an organization or an individual that has credit relations with the credit institution.

Article 3. Period of classifying debts and provisioning

1. Each quarter at least, within the first 15 working days of the following month of the quarter, credit institutions shall carry out the classification of principal debts and set up risk provisions for the period ending by the last day of the previous quarter (month).

For the IV quarter, credit institutions shall, within the first 15 working days of December, perform the debts classification and set up risk provisions for the period ending by 30 November.

2. For the loan funded, trusted by the third party that the third party is responsible for managing risks, the small financial institution do not provision but have to classify debts in conformity with regulation stipulated in Article 4 of this Circular in order to reflect accurately the financial situation, payment ability of customer, supporting the debts management.

Chapter 2

DETAILED PROVISIONS

Article 4. Classification of debts and setting up of general provisions

1. Based on the financial situation of customer and/or payment schedule of the principal and interests, small financial institutions shall classify debts into five (05) groups as follows:

a. Group 1 (standard debts) includes:

- normal/current debts;

- debts which are overdue for a period of less than 10 days.

b. Group 2 (especially intentional debts) includes:

- debts which are overdue for a period of 10 to 29 days;

-debts with restructured (first time) repayment term.

c. Group 3 (sub-standard debts) includes:

- debts which are overdue for a period of 30 to 89 days;

- debts with restructured repayment term, which are overdue for a period of less than 30 days under the restructured (first time) repayment period;

- other debts which are exempted or reduced interest due to the customer cannot pay interest as the credit contract.

d. Group 4 (doubtful debts) includes:

- debts, which are overdue for a period of 90 to 180 days;

- debts with restructured repayment term, which are overdue for a period of 30 to 89 days under the restructured (first time) repayment period;

- debts with restructured (second time) repayment term.

dd. Group 5 (potentially irrecoverable debts) includes:

- debts, which are overdue for a period of more than 180 days;

- debts with restructured repayment term, which are overdue for a period of more than 90 days under the restructured (first time) repayment period;

- debts, which are overdue for a period under the restructured (second time) payment period;

- debts with restructured (third time, or more) repayment term, no matter how still current (not overdue) or overdue.

2. The specific provisioning ratio for groups of debt as provided for in Paragraph 1 of this Article shall be as follows:

a. Group 1 (standard debts): 0%;

b. Group 2 (especially intentional debts): 2%

c. Group 3 (sub-standard debts): 25%

d. Group 4 (doubtful debts): 50%

dd. Group 5 (potentially irrecoverable debts): 100%.

3. The value of security assets (C) is discounted the principal before calculating the specific provision, includes:

a. 100% value of the compulsory saving account, voluntary deposit account in the small financial institution;

- The face value of Government Bonds, Treasury Bills and all kinds of valuable papers that are guaranteed by the Government.

4. Amount of specific provisions required to set up shall be calculated under the following formula (detailed instruction in Appendix A of this Circular):

R = (A-C)} x r

Of which: R: amount of specific provisions required to set up

A: Value of debts

C: Value of security assets

r: ratio of specific provisioning

In case of the value of security assets (C) are greater than the value of debt (A); the debt is not subject to setting up the specific provision.

Article 5. General provisions

1. Small financial institutions shall make the general provisioning and maintain a general provisions equal to 0.5% of the total value of debts from Group 1 to Group 4 stipulated in Paragraph 1, Article 4 of this Circular.

2. Within a maximum period of three (03) years from the effective date of this Circular , small financial institutions must make full provisioning for the general provisions in accordance with provisions in Paragraph 1 of this Article.

Article 6. Use of provisions

1. Credit institutions shall be entitled to use provisions to deal with the credit risks for debts in following cases:

a. Customers are small financial customers who died, are missing or permanently injured with inability of income.

b. Customers are not small financial customers: organizations, enterprises which are dissolved, go bankrupt in accordance with provisions of applicable laws; individuals who die or are missing.

c. Debts belonging to Group 5 in accordance with Paragraph 1 Article 4 of this Circular.

2. Small financial institutions shall be entitled to use provisions to deal with credit risks once a quarter. The use of provisions to deal with credit risks shall be made on the basis of following principles:

a. To use specific provisions which are stipulated in Paragraph 1, Article 4 of this Circular to deal with credit risks for that debt.

b. To dispose of the security assets for debt recovery: The small financial institution must promptly put on sale the security assets according to the agreement with customers and in accordance with provisions of applicable laws on debt recovery.

c. In case where the disposal of asset is not sufficient to cover the credit risks of the debt, the general provisions can be used for the full settlement.

3. In case where the provisions are not sufficient to deal with the entire credit risks of debts to be dealt with, the small financial institutions shall directly charge the deficient amount to the operation expenses.

In case where the provisions, which have been made, remain larger than that to be made, the small financial institution must return the excessive provisions in accordance with provisions of applicable laws on finance regime applicable to small financial institutions.

4. The use of provisions to write off the credit risks by the small financial institution is not a form of the debt forgiveness for customer. The small financial institution and related individuals shall not be permitted to inform customer of the settlement of the credit risks in any form.

5. After provisions have been used to deal with the credit risks, the small financial institution shall transfer the accounting of the debts, the credit risk of which have been dealt with, from the

on-balance sheet accounts to the off-balance sheet accounts for continuous following up and taking measures for the debt recovery. For the amount of debt recovery after put into off-balance sheet, the small financial institutions must enter into the profit account in the fiscal year.

6. After 5 years from the use of provisions to deal with the credit risks, the small financial institution shall be entitled to release settled debts from the off-balance sheet.

Article 7. Risks Settlement Committee

1. Small financial institutions must set up a Risks Settlement Committee, which is headed by the Chairman of the Board of Directors or a person who is delegated by the Chairman, and consists of members, who are the Head of Controllers Committee, the Chief of Accounting Division, the Chief of Credit Division, and other members, which are decided upon by the Chairman of the Board of Directors.

2. The duties of the Risks Settlement Committee:

a. To monitor and review the debts classification, setting up of provisions against credit risks, which have been performed by the General Director (Director).

b. To decide on the writing off of the use of provisions to deal with credit risks.

c. To decide on the writing off of the debt recovery for the debts that have been dealt with, in which the time and applicable measures for the debt recovery must be identified.

d. To monitor the debt recovery of debts those have been dealt with provisions to manage the credit risks.

Article 8. File used for risk settlement

1. The file that is used as basis for the risk settlement shall include:

- the file of lending and debt recovery;

- the file of security assets and;

- other related documents.

2. For cases, which are stipulated in Clause a and b, Paragraph 1, Article 6 of this Circular, in addition to the file stated in Paragraph 1 of this Article, following documents must be available:

a. In respect of customers being organizations, enterprises:

- A copy of Courts decision on the bankruptcy or the decision on the dissolution of the competent State Agency in accordance with provisions of applicable laws;

- A copy of the report on the enforcement of the decision on bankruptcy, report on the completion of the enforcement of the decision on the bankruptcy made by the enforcement agency; written documents concerning the settlement of debts of the dissolved organizations, enterprises.

b. In respect of customers being individuals:

- A copy of Death Certificate, Missing Certificate, and Papers certificated permanent injured leading to inability of work, which is granted by the competent agency.

3. For cases, which are stipulated in Clause c, Paragraph 1, Article 6 of this Circular, in addition to the file stated in Paragraph 1 of this Article, following documents must be available:

- File, documents that is basics for debt classification in Group 5;

- File, documents prove that the small financial institution has tried its best but the debts are still not recovered.

Article 9. Accounting, Reporting

1. Provisions and specific provisions shall be charged to the operation expenditure of the small financial institution.

2. General provisions and specific provisions shall be charged to the Risk Provisions account. Small financial institutions shall perform the accounting for the provisioning, the use of provisions and the recovered amounts after the provisions have been used to deal with the credit risks in accordance with the stipulation of the Ministry of Finance.

3. Small financial institutions shall perform the report on the debts classification, the provisioning and use of provisions to deal with the credit risks in accordance with the statistic reporting regime applicable to small financial institutions, issued by the State Bank.

4. Prior to the 15th of the second month of each quarter, small financial institutions shall submit reports on the debts classification, the provisioning and use of provisions to deal with credit risks to the Ministry of Finance and Department of Tax in provinces, cities where the credit institutions locate their head offices under Forms No. 1 and 2 (attached).

Section 6.

Article 10. Examination And Dealing With Violation

1. The State Bank (Banking Supervisory Authority) shall be responsible for examining the implementation of the debt classification, provisioning and use of credit risk provisions in the banking activity of small financial institutions.

2. In case where a credit institution violates this Circular, it shall, depending on the nature and act of violation, be dealt with as follows:

- To be subject to administrative punishment

- To be subject to the increased ratio of provisioning corresponding to the risk level of debts;

- To be subject to the limitation of credit extension, the expansion of the operation network and operation scope;

- To be suspended from the operation in case of serious violation.

Chapter 3

IMPLEMENTING PROVISIONS

Article 11. 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 Governments management, Chairman of the Board of Directors and General Directors (Directors) of small 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.

FOR THE STATE BANK GOVERNOR
DEPUTY GOVERNOR

Tran Minh Tuan

Form No. 1

SMALL FINANCIAL INSTITUTION --------------	SOCIALIST REPUBLIC OF VIETNAM Independence - Freedom - Happiness -------------------------------

REPORT

ON THE DEBTS CLASSIFICATION, PROVISIONING TO DEAL WITH CREDIT RISKS IN THE BANKING ACTIVITIES

Quarter ....year 20

Unit: million Dong

Norms	Value of debts	Specific provisions	General provisions
Debts in Group 1: In which, debts/loans funded, trusted by the third party that the third party is responsible for managing risks			
Debts in Group 2: In which, debts/loans funded, trusted by the third party that the third party is responsible for managing risks			
Debts in Group 3: In which, debts/loans funded, trusted by the third party that the third party is responsible for managing risks			
Debts in Group 4: In which, debts/loans funded, trusted by the third party that the third party is responsible for managing risks			
Debts in Group 5: In which, debts/loans funded, trusted by the third party that the third party is responsible for managing risks			
Total			
Ratio NPLs / Total debts			

..............., date...................

REPORT DRAWER (Clearly state full name)	CONTROLLER (Clearly state full name)	GENERAL DIRECTOR (DIRECTOR) OF CI (Clearly state full name)

Form No. 2

SMALL FINACIAL INSTITUTION

SOCIALIST REPUBLIC OF VIETNAM
Independence - Freedom - Happiness

REPORT

ON THE USE OF PROVISIONS TO DEAL WITH CREDIT RISKS IN THE BANKING ACTIVITY

Quarter........ year 200....

Unit: million Dong

Norms	Amount
1. Total amounts of provisions that have been set up	
2. The use of provisions to deal with credit risks in the quarter	
3. Remaining provisions after dealing with credit risks	
4. Recovered amount from the debts that have been dealt with in the quarter:	
5. Total amounts that have been used for credit risk settlement but not yet been recovered by the reporting date (accumulated):	
6. Total of provision to be made in the quarter	

..............., date...................

REPORT DRAWER	CONTROLLER	GENERAL DIRECTOR (DIRECTOR) OF CI
(Clearly state full name)	(Clearly state full name)	(Clearly state full name)