

A GUIDE FOR FINANCIAL SERVICE PROVIDERS

Portfolio Quality Analysis (PQA)

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1 What is the Portfolio Quality Analysis (PQA) tool?

- The Portfolio Quality Analysis (PQA) tool is a **written analysis of the most important trends and issues regarding the total loan portfolio or any sub-segment** of interest (by product, customer characteristics, loan officer, etc.)
- As a core credit risk management tool, **the PQA's objective is to identify events that affect loan portfolio performance along with their causes and consequences**, allowing the recommendation of appropriate action plans. These causes and recommendations are jointly determined by both the risk team and the commercial team. The PQA provides management with objective updates on credit risk and enables them to implement appropriate actions and track their effectiveness.
- The PQA draws information from two underlying credit risk management tools:
 - **Portfolio Quality Report (PQR)** contains three reports (Trend report, Vintage report, Is-Was report), each with a number of charts, about past portfolio development.
 - **Forecast Report (FCR)** contains three reports (Productivity report, Quality report, Profitability report), each with a number of charts, about forecasted (future) portfolio development.

2 Using the tool

When to use the PQA tool

- All financial institutions exposed to credit risk and with a loan book older than six months can benefit from using the PQA tool.
- The PQA should be prepared on a regular basis (usually monthly, sometimes bi-weekly), and used as input for a discussion between the risk manager and senior management.
- Since the PQA builds on the PQR and FCR, it requires these two reports have been prepared for the institution for the period under consideration.
- The PQA covers multiple segments of the loan portfolio and the entire credit process: promotion, evaluation, approval, disbursement, collections, and renewal. Specific analysis can be applied for each segment based on business priorities. For example, a PQA can be focused only on a specific portfolio of loans for low-income clients.

Who uses the tool?

- **Senior management:** MD/CEO, Chief Commercial Officer, Chief Operations Officer, Chief Financial Officer, Chief Risk Officer and Heads of Departments.
- **Middle management:** Regional and branch managers (e.g. to use information at the branch and loan officer level).
- The **Chief Risk Officer (or Risk Manager)** is the owner of the PQA and uses it for regular and structured discussions with other senior managers.

2 Using the tool

What is required to implement the PQA tool?



Loan portfolio database
with information about each account



Standardized reports
prepared by a database analyst on a regular basis (e.g. monthly); these reports are prerequisites to generate the PQA for the period covered by the reports:

- Three portfolio quality reports (PQRs): Trend report, Vintage report, Is-was report; and/or
- Three forecast reports (FCRs): Productivity report, Quality report, Profitability report



A sufficiently trained and experienced portfolio risk analyst (under the supervision of the risk manager) is required to review the PQR and FCR and provide a quality analysis (in terms of accuracy, relevance, consistency, etc.) with insightful recommendations to senior management. Ideally, this should be done in collaboration with the commercial team.

3 Tool benefits

- The PQA benefits senior management because key information on loan portfolio development can be analyzed in collaboration between the risk team and the commercial team in a systematic, concise, and regular way, **saving management time and focusing their attention** on where their action is required.
- The analysis extracts and **highlights information about positive or negative developments** that have a strong impact on portfolio growth and quality and that might require a response from management, in particular:
 - Growth-related aspects such as loan officer productivity, average loan size, overall portfolio size, and disbursements.
 - Quality-related aspects such as the effectiveness of collections and their impact on the portfolio at risk (PAR) and information about developments of the delinquent portfolio (e.g. movements of delinquent loans to higher/lower number of days past due).
- Required **actions identified in the discussion of the PQA can be documented and tracked**, including:
 - Overdue collection activities focusing on a particular part of the portfolio (branches, regions, products, etc.) or specific delinquency categories like loans one-30 days past due.
 - Rules for individual loan officers concerning their particular activities. For example, based on individual PAR results, some loan officers might be allowed to only work on collection and renewals, but not new loans.

4 Key considerations

Tool variations

- The content of the PQA can vary according to the current situation of the institution and any areas of particular concern that the risk analyst or risk manager is emphasizing.
- As a consequence, each monthly PQA can have some different analyses, depending on what the risk analyst/ risk manager and/or management team consider to be the most important aspects to point out to senior management at that point in time.

Complementary tools

- The PQA can be used as input for a “Live PQA meeting” – during this meeting, the risk manager explains the findings to the other senior managers and can drill down into the underlying reports as required.
- During the “Live PQA meeting”, required actions can be agreed upon (in collaboration between commercial and risk, ideally based on suggestions already contained in the PQA). They can then be captured in a “PQA-based Action Plan”, and actions and results can be tracked regularly later on.

PORTFOLIO QUALITY REPORTS (PQR)

The Portfolio Quality Reports (PQR) tool is a credit risk management tool comprised of three, computer-generated reports:

1. Trend report
2. Vintage report
3. Is-Was report

Each report contains a number of standard charts showing the development of key indicators relating to the loan portfolio as described in the following sections.



5 PQR Results: Trend Report

OVERVIEW

The Trend report provides management with information regarding the performance of the portfolio using basic portfolio information such as number of clients, outstanding balances, new and renewal loans, portfolio at risk (PAR), portfolio growth, etc. and allows management to compare this information over a period of time (usually several months). The Trend report contains 10 tables and charts.

5 PQR Results: Trend Report

Table T1: Description

The table has two parts, Clients and Portfolio and Portfolio at Risk, which show the development of key indicators from last month (Apr-23) to the current month (May-23). The month-on-month (MoM) difference is shown in the last column; for clients and portfolios, increases are indicated by green arrows, and red arrows indicate decreases. For Portfolio at Risk, increases are indicated by red traffic lights and decreases by green traffic lights.

Table T1: Usage

This information can be used to get a high-level overview of the current month's performance as compared to the previous month, both in terms of growth (clients and portfolio amount) and portfolio quality indicators.

Management can use this to decide whether to put more emphasis on productivity or on quality improvements.

Table T1: Basic Information

BASIC INFORMATION			
	Last Month	As of	MoM
Clients and Portfolio	Apr-23	May-23	% Difference
Number of Clients	7,690	7,629	-1%
Outstanding Portfolio (Mill.)	2,161	2,170	0%
Number of Branches	6	6	0%
Number of Loan Officers	54	54	0%
Number of Disbursed Loans (TOTAL)	917	923	1%
-- Total Amount Disbursed (Mill)	543	433	-20%
-- Avg New Loans Per Loan Officer	3.4	3.8	11%
-- Avg Renewals Per Loan Officer	13.4	13.1	-2%
Avg Loan Out. Bal Per Client	281,038	284,387	1%
Portfolio-at-Risk (Par)	Apr-23	May-23	MoM
Portfolio at Risk - 0+ days			
-- Par 0+ (Mill.)	417.02	423.54	2%
-- Par 0+ (%)	19.30%	19.52%	1%
-- Number of clients over 0 days late	2070	2217	7%
Portfolio at Risk - 30+ days			
-- Par 30+ (Mill.)	288.20	300.83	4%
-- Par 30+ (%)	13.34%	13.87%	4%
-- Number of clients over 30 days late	1259	1410	12%
Portfolio at Risk - 180+ days			
-- Par 180+ (Mill.)	113.29	146.39	29%
-- Par 180+ (%)	5.24%	6.75%	29%
-- Number of clients over 180 days late	520	582	12%

5 PQR Results: Trend Report

Table T1: Interpretation

In the Clients and Portfolio part, most of the indicators have remained fairly stable, indicating that the portfolio is growing very slowly, while the number of clients is decreasing slowly. This is due to larger loans being disbursed on average. Therefore, despite a lower number of clients, the portfolio keeps increasing (the table shows an increasing average loan outstanding balance per client). For example, the number of clients has decreased slightly from 7,690 to 7,629 (-1%), which is indicated by a red arrow. The outstanding portfolio amount in local currency has increased from 2,161 to 2,179 million (+0%), indicated by a green arrow. The greatest change has been in the amount disbursed (-20% drop).

In the Portfolio at Risk part, most of the indicators have been deteriorating, indicated by red traffic lights. For example, Par 0+ (Mill.), the amount of portfolio at risk more than 0 days delinquent in millions of local currency, has increased from 417.02 to 423.54 (+2%), which is indicated by a red traffic light. While there is only a slight increase in the 0+ indicators, there is a strong increase in the 180+ indicators.

5 PQR Results: Trend Report

Chart T2: Description

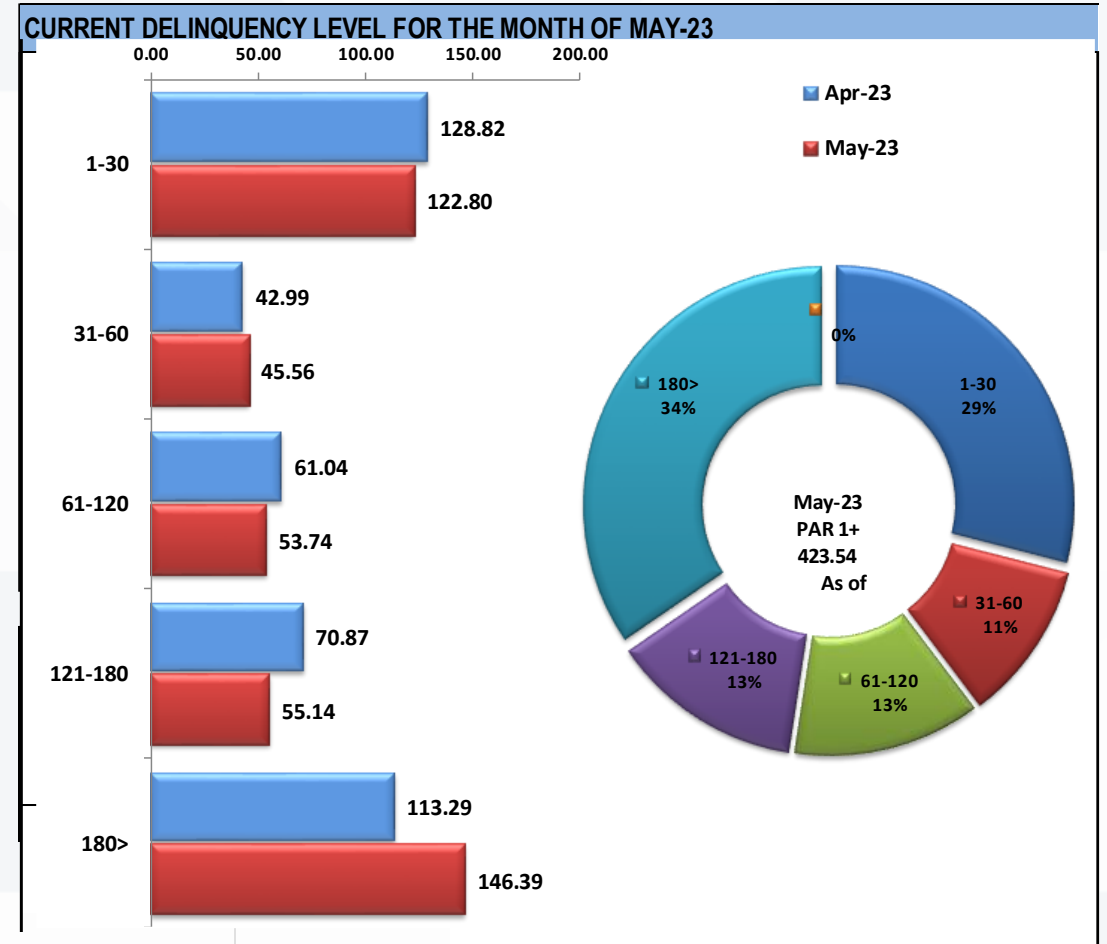
Two charts showing the distribution of the portfolio at risk (PAR) into various days-past-due categories:

- A bar chart (left-hand side) with the absolute amount of portfolio at risk in local currency for this month and last month in various categories such as 1-30, 31-60 days past due, etc.
- A pie chart (right-hand side) showing this month's portfolio at risk in various days-past-due categories as percentages.

Chart T2: Usage

This can be used to determine whether this month's collections efforts have been effective and where future collection efforts should be focused (i.e. on the categories with large amounts and/or on strongly rising amounts).

Chart T2: Delinquency Level per Category



5 PQR Results: Trend Report

Chart T2: Interpretation

The categories with the highest amounts of delinquent loans are the 1-30 category and 180+ category. The high amount in the 1-30 category (122.71 million) indicates that there is a significant amount of early delinquency, meaning that the institution's efforts to avoid clients becoming delinquent and making sure clients do not stay delinquent for more than a few days might not be very effective. On the other hand, the amount in 1-30 has been reducing slightly compared to last month, which is a sign that early delinquency is improving. Given the large amount and the importance of this category to "feed" later stages of delinquency, the institution should increase efforts to reduce early delinquency.

The high amount contained in the 180+ days category (146.39 million) shows that there is a legacy of delinquent loans from more than six months back which is still growing. The institution should make sure the practices which led to this large delinquency are not repeated and that suitable collections efforts for 180+ loans are in place.

5 PQR Results: Trend Report

Chart T3: Description

The blue bars show the outstanding portfolio balance amount in local currency (left axis). The red line with yellow squares shows the portfolio at risk more than 30 days in percentage (PAR 30+ (%), right axis).

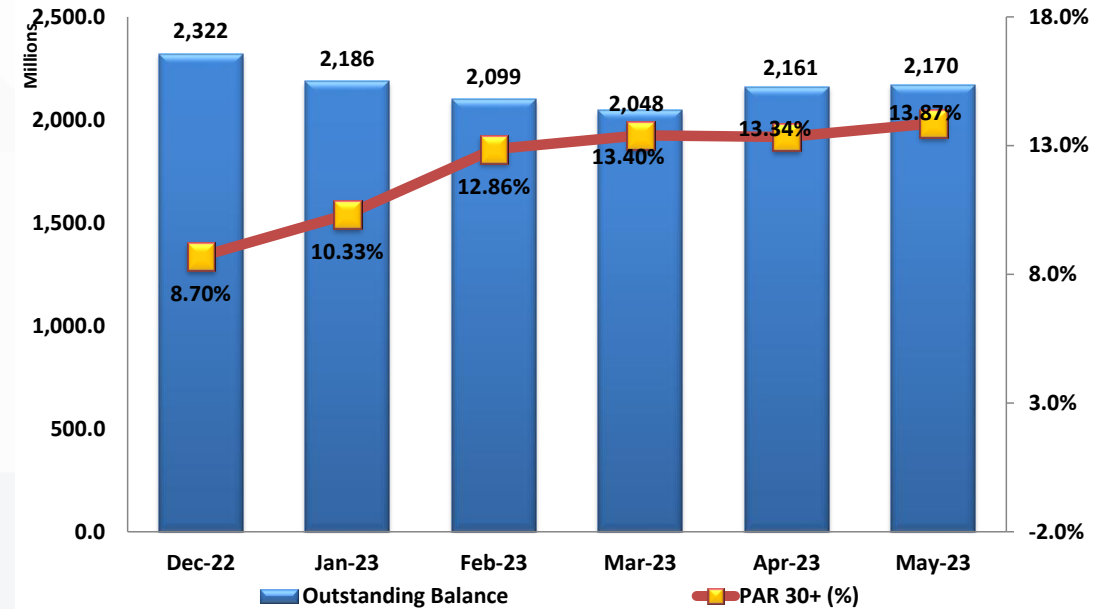
Chart T3: Usage

The chart can be used to track the development of the portfolio balance and the PAR 30+, two key indicators for growth and quality, over the past six months. It shows whether efforts to grow the portfolio or decrease PAR have been effective.

Chart T3: Interpretation

After falling from 2,322 million in Dec-22 to 2,048 million in Mar-23, the outstanding balance has risen to 2,170 million in May-23, indicating that the institution has managed to stop the declining portfolio trend and started growing again from Mar-23. PAR 30+ (%) has been rising from 8.70% in Dec-22 to 13.87% in May-23. The increase has been very strong while the portfolio was decreasing, but has been rising more slowly from Feb-23 onwards. The institution has managed to reduce the speed of increase of PAR 30+ and should now make efforts to reduce PAR 30+ again, since at 13.87%, PAR 30+ is still on the higher side.

Chart T3: Portfolio Outstanding and PAR30+ (%)



5 PQR Results: Trend Report

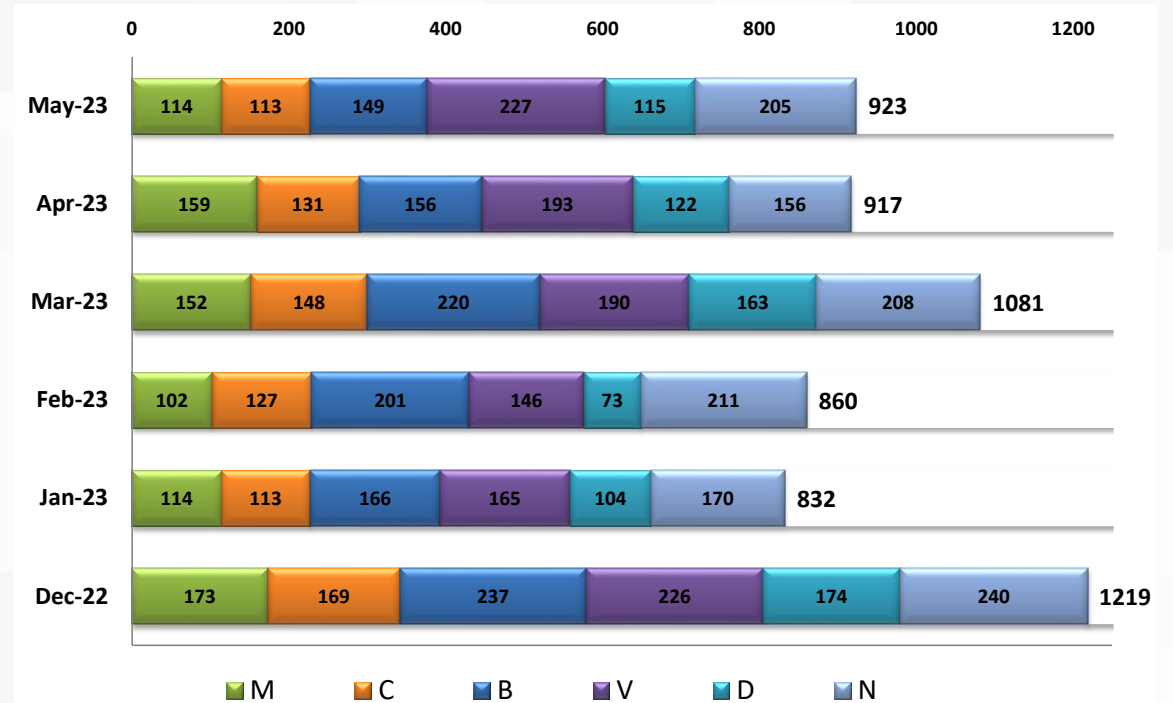
Chart T4: Description

The chart shows the number of loans disbursed per branch per month. The different branches (e.g. “M”, “C” etc.) are represented by different colors. The number of disbursed loans per branch per month is shown in the corresponding color. The number to the right of the bar is the total number of loans disbursed (sum of all branches).

Chart T4: Usage

The chart can be used as a kind of benchmark to compare the loan disbursement performance among different branches and over the past six months. This can also be used to determine seasonal changes, in particular if compared with last year’s results. Management can take actions to increase loan productivity in particular branches if the performance is too far below targets for the particular month.

Chart T4: Number of Loans Disbursed



5 PQR Results: Trend Report

Chart T4: Interpretation

This month's number of disbursements (923) has been slightly higher than last month's (917), but less than two months back (1,081). This might be due to a seasonal effect (e.g. high/low economic season, festivals, holidays, etc.) or loan officers being absent in different branches. Branches "V" and "N" have disbursed the largest number of loans, 227 and 205, respectively. Branches "V" and "N" have also been able to increase the number of loan disbursements compared to last month, while all other branches show lower figures than last month. Management should find out the reasons for the performance difference between the branches and make sure all branches have the required skills and resources to meet loan disbursements targets.

5 PQR Results: Trend Report

Chart T5: Description

The chart shows the development of the following indicators for portfolio at risk (PAR) over the past six months:

- PAR more than 0 days past due (green line),
- PAR more than 30 days past due (blue line),
- Lagged PAR more than 30 days past due (red line). Lagged PAR adjusts the PAR value for portfolio growth during this month.

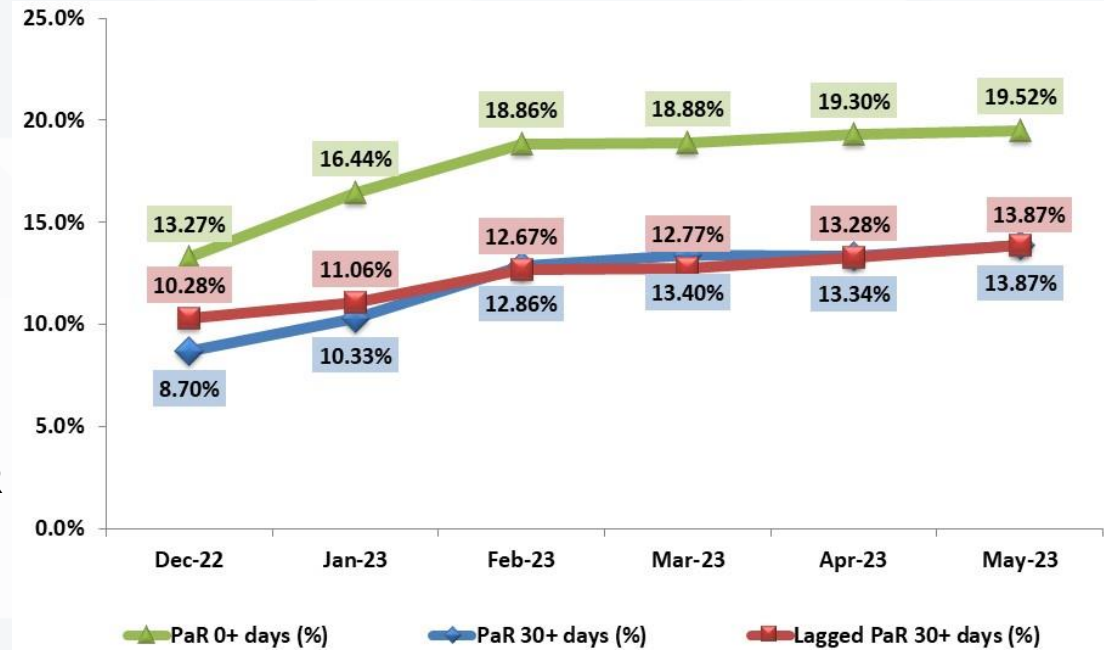
Chart T5: Usage

The chart can be used to analyze the PAR trend over time (is it rising or falling, is the trend increasing?); the difference between PAR 0+ and PAR 30+; and the difference between PAR and lagged PAR. It can also be used to gauge whether efforts to increase portfolio quality have been effective.

Chart T5: Interpretation

PAR 0+ has been rising fast from Dec-22 to Feb-23, and has risen slowly since then. PAR 30+ is around 5-6 percentage points lower and shows a similar trend. This trend is closely related to the development of the portfolio balance, see portfolio growth chart above (PAR was rising fast from Dec-22 to Feb-23 when portfolio was shrinking). Lagged PAR 30+ has come very close to PAR 30+ from Feb-23 onwards, reflecting the fact that portfolio growth is slow and that the adjustment for growth in lagged PAR 30+ does not significantly change PAR 30+.

Chart T5: Portfolio at Risk (PAR) Trend



5 PQR Results: Trend Report

Chart T6: Description

The chart shows PaR 30+ (%) separately for loans in their 1st, 2nd, 3rd cycle.

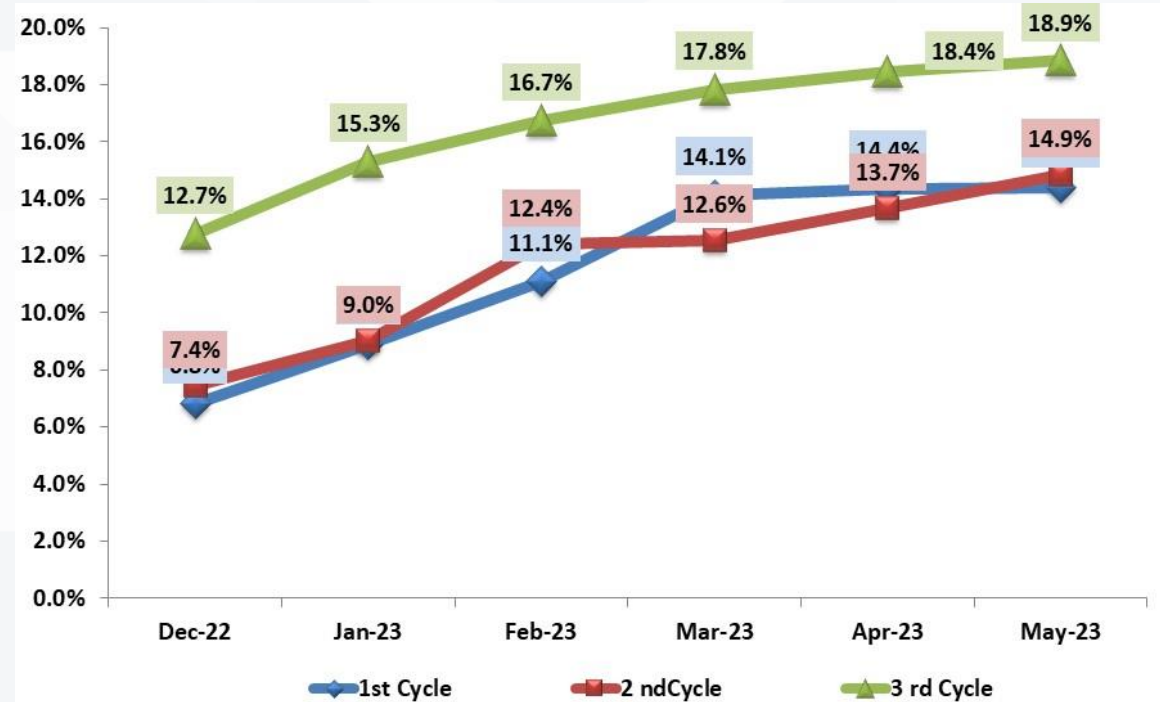
Chart T6: Usage

The chart can be used to determine which loan cycles perform better, and on what cycle efforts to improve portfolio quality should be focused.

Chart T6: Interpretation

3rd cycle loans perform significantly worse than 1st and 2nd cycle loans, the latter showing very similar PAR. The fact that 3rd cycle loans are performing badly should be cause for concern; management should analyze the reasons and put in place measures to improve the repeat loan performance. One reason might be that loan increases for repeat loans from the third cycle are too high, and the borrowers' repayment capacity is no longer sufficient.

Chart T6: PAR30+ % of Loan Cycle



5 PQR Results: Trend Report

Chart T7: Active vs. Closed Clients

The chart shows the number of active clients (blue line) and the number of closed clients (red line), i.e. clients which paid off their loan and did not renew (in other words, closed the account).

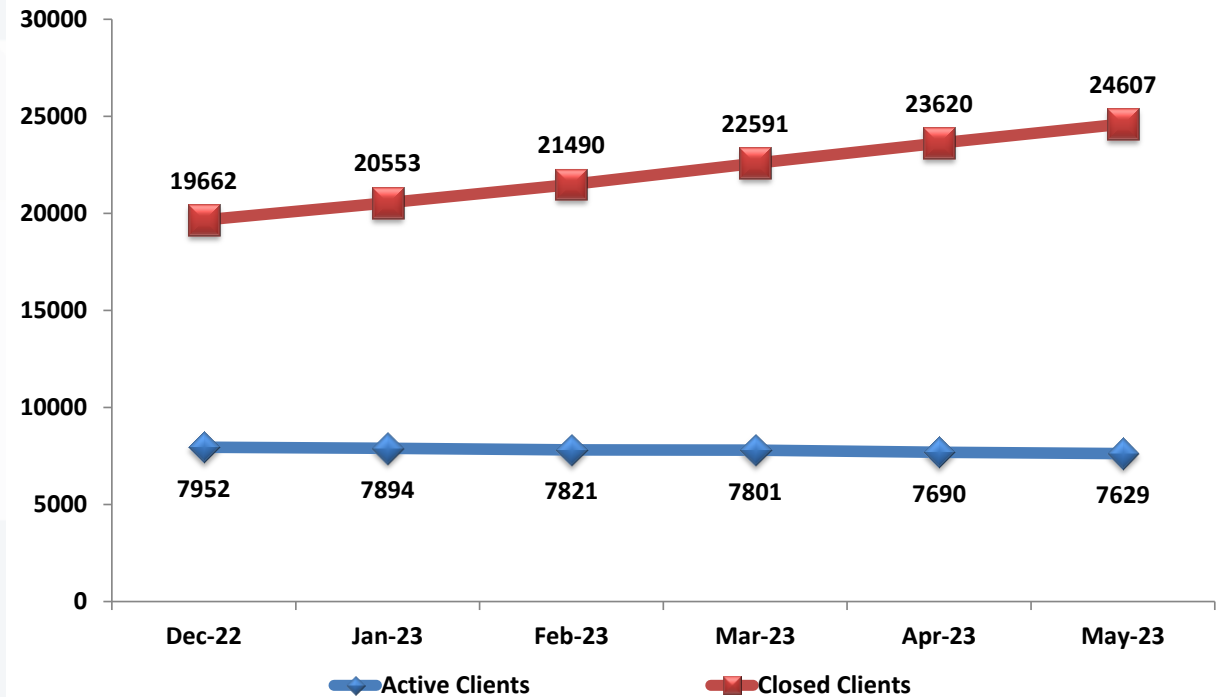
Chart T7: Usage

The chart can be used to gauge how effective the institution is in keeping existing clients, and how large the pool of closed clients becomes.

Chart T7: Interpretation

As already observed in the previous chart, the number of active clients is decreasing. The number of closed clients is increasing strongly, indicating that every month, the institution loses active clients which do not renew their loans. By May-23, the pool of closed clients has grown to 24,607, which is more than three times the number of active clients (7,629). This is an indication that the institution puts in place measures to improve the renewal rate such as ensuring that renewal clients are identified and contacted in a standardized and effective manner and providing preferential services for renewal clients.

Chart T7: Active vs. Closed Clients



6 PQR Results: Vintage Report

OVERVIEW

The six charts of the Vintage report evaluate the quality of the portfolio disbursed in a particular month. Vintage in this context means the age of a part of the portfolio per the month in which it was disbursed. All the charts in the vintage report use either the vintage of the loans as the x-axis (e.g., January, February etc.), or they use the number of months after disbursement (e.g. 1, 2, 3 etc.) which is also called “months-on-book” (MOB). The Vintage report can be used to evaluate the trends in productivity and delinquency based on age or seasonality of the portfolio.

6 PQR Results: Vintage Report

Chart V1: Description

This chart shows the trend of monthly disbursements both in terms of number of accounts (red bars, right axis) and amount disbursed (grey bars, left axis) for a period of 13 months. This helps compare performance between different months and would highlight any seasonal trends. The latest month (May-23) can be compared with the same month one year back.

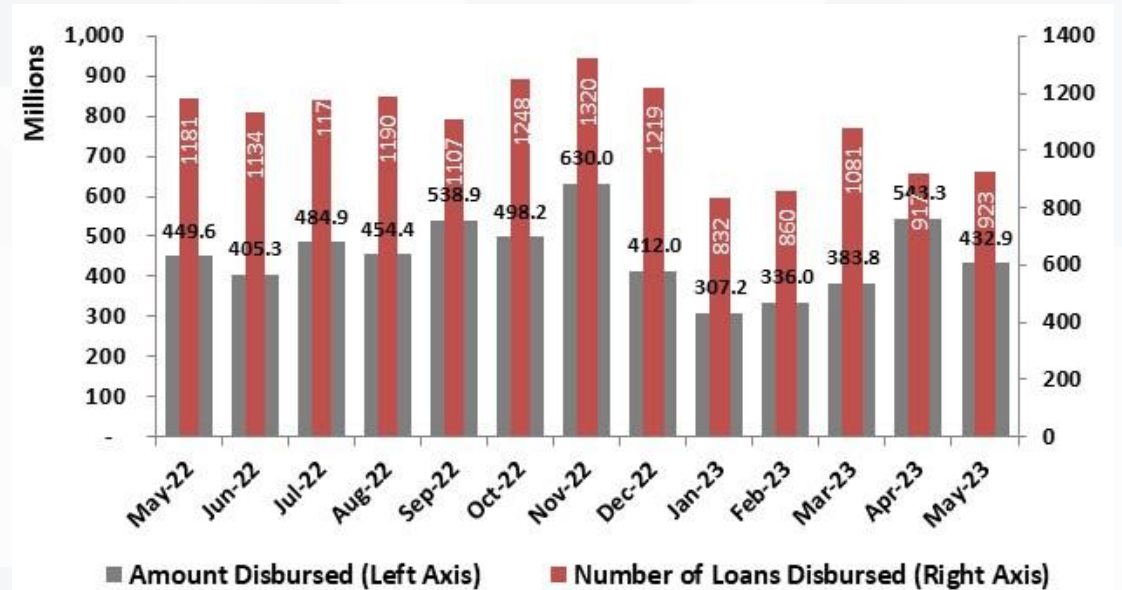
Chart V1: Usage

The chart can be used to compare the month-on-month development of disbursements and detect any seasonal trends. Also, it can be used as a reference point for other vintage analyses in order to see which months had particularly high/low disbursements and to relate this to other indicators like PAR for a particular vintage.

Chart V1: Interpretation

Jan-23 and Feb-23 are low months both for number and amount of disbursed loans. In terms of loan amount, Jan-23 to Mar-23 were the three lowest months; this might be a seasonal effect. Nov-22 is the month with the highest number and amount of disbursed loans; Oct-22 to Dec-22 had the highest number of disbursements. May-23 has a lower number of disbursements compared to May-22, but a higher disbursed amount.

Chart V1: Loan Amount and Number of Loans Disbursed



6 PQR Results: Vintage Report

Chart V2: Description

The chart shows the disbursed amount (in millions of local currency, right axis) and portfolio retention rate of each vintage (i.e. portfolio disbursed in a particular month) at two, four, six and eight months after disbursement (left axis). It tracks the outstanding amount remaining over the total disbursement in the particular month.

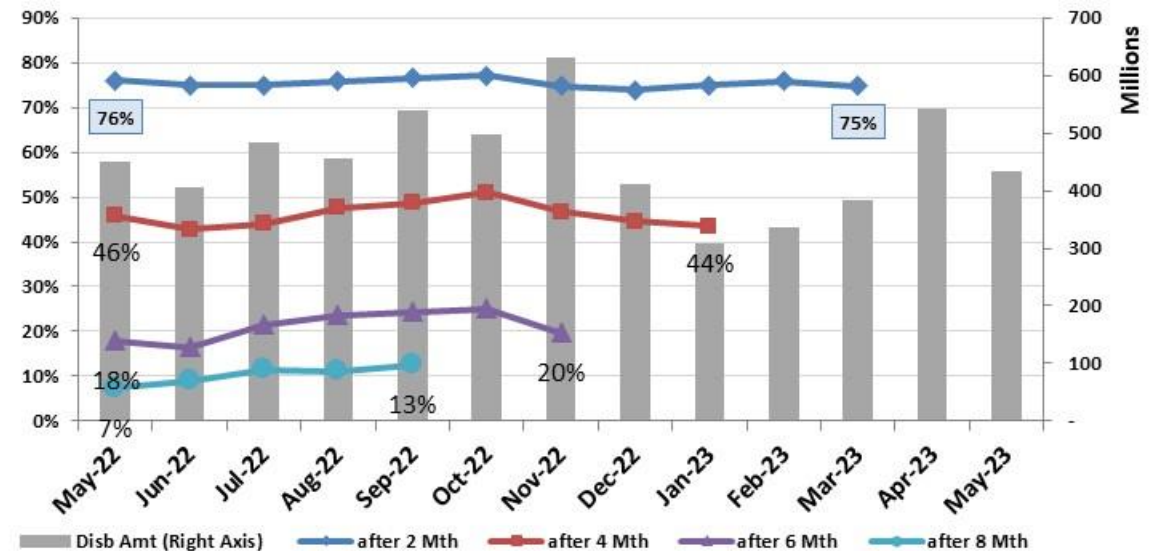
Chart V2: Usage

The chart can be used to detect if loans disbursed in particular months are being repaid more quickly or more slowly as compared with loans in other months. It allows the identification of any changes in portfolio behavior leading to higher or lower retention than in other months. If the retention rate in a portfolio is higher than the usual trend, it could mean that the portfolio quality for that month is not as good as the other months. Unless the loan tenures were increased or the amount of pre-payments reduced, a higher retention means less prompt repayment and hence higher overdue payments..

Chart V2: Interpretation

The two month retention rate is very stable at around 75% (meaning that two months after disbursement, 75% of the disbursed amount is still outstanding). There has been a rise in the four and six month retention rate in portfolio sourced in Oct-22. The rise might indicate longer tenures of the disbursed loans, less pre-payments, or a delayed repayment. Management should look into portfolio quality issues for portfolio sourced in Oct-22 if there was no change in tenures. The decrease observed in the 4 months and 6 months retention rates after October may indicate that recent loans disbursed are having higher repayment ratios.

Chart V2: Portfolio Retention rate



6 PQR Results: Vintage Report

Chart V3: Description

The chart shows the average amount disbursed per client (left axis, in local currency) and the default percentage (right axis, in percent of number of loans disbursed) of the first payment due (FPD – first payment default) for different vintages (loans disbursed in different months). The FPD (1 Mth) is the percentage of the number of clients that missed their first payment out of the total number of clients that were disbursed during the month. For example if 100 clients were disbursed in Jan-23 and 4 clients missed their first payment, then the FPD (1 Mth) for the Jan-23 vintage would be 4/100 or 4%. The FPD (2 Mth) measures the percentage of clients that have missed their first 2 payments out of the total number of clients disbursed in this month.

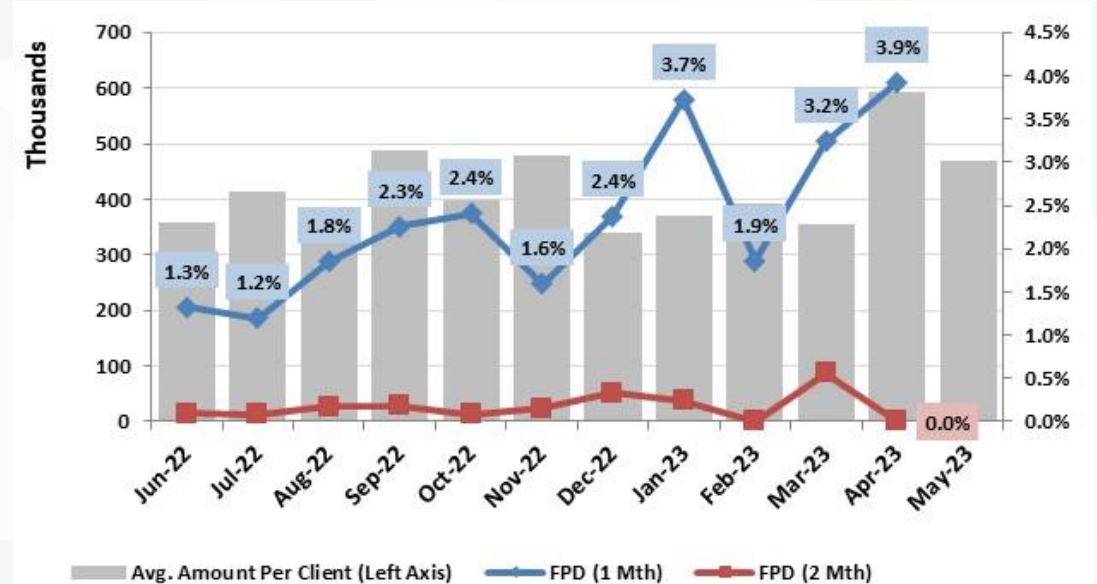
Chart V3: Usage

This chart can be used for an early indication of fraud, lack of willingness to pay or deviation from credit methodology in a particular month.

Chart V3: Interpretation

In the 12 month period, the percentage of clients that missed their first installment was highest in the months of January, March and April (3.7%, 3.2% and 3.9%, respectively). The high rate of first payment defaults in these months should be investigated. The overall trend is rising which is also reason for concern. Management should make sure controls for willingness to pay evaluation and against fraud are in place.

Chart V3: First Payment Default (FPD)



6 PQR Results: Vintage Report

Chart V4: Description

The chart shows the PAR 0+ percentage of the portfolio as a function of the number of months after disbursement (months on book, MOB) for the portfolio of different vintage (portfolio disbursed in different months, as shown in lines of different color).

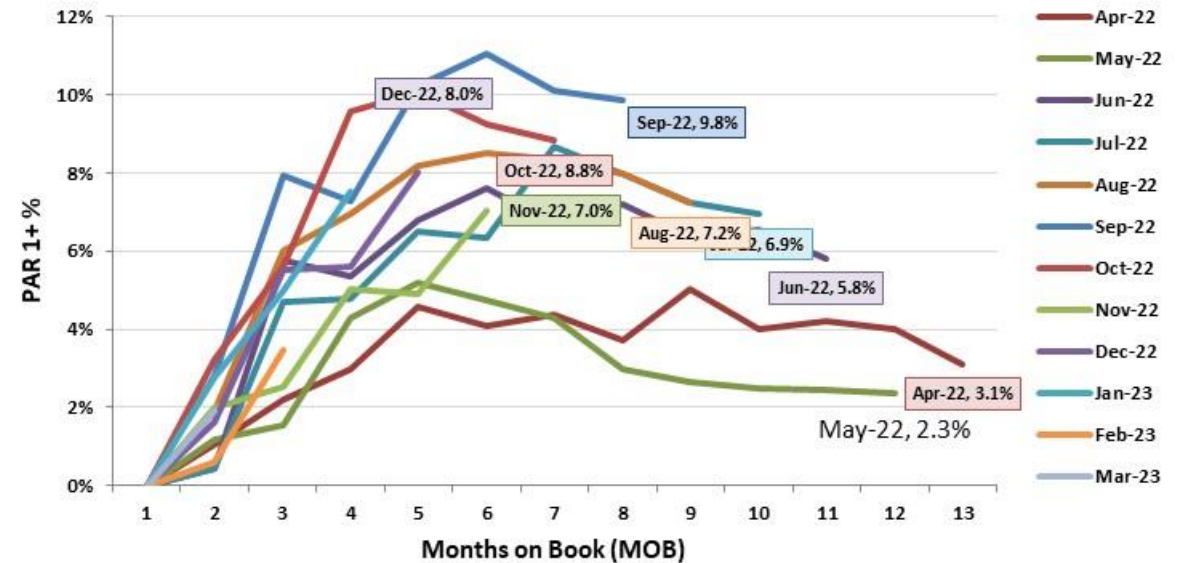
Chart V4: Usage

The chart can be used to monitor the portfolio disbursed in different months and compare its quality (PAR 0+) with the portfolio of the other vintages. It can serve as an early warning indicator for the portfolio of a particular month going bad. Since PAR 0+ includes the early stages of delinquency, it can be used to monitor the effectiveness of early delinquency management efforts.

Chart V4: Interpretation

The Apr-22 and May-22 vintage show much better PAR 0+ performance than the Sep-22 or Dec-22 vintage. In this graph, the flatter the line, the better the performance. For example, the Jan-23 vintage, which is a recent vintage, is more similar to Dec-22 and shows a deteriorating performance already after a few months on book. This same analysis can be done for different PAR categories (PAR 15+, 30+, etc.)

Chart V4: PAR 0+ by Portfolio Vintage at Different Month-on-Book (MOB)



6 PQR Results: Vintage Report

Chart V5: Description

This chart shows the disbursed amount (grey bars, right-hand scale) and PAR30+% for each vintage after 3 months-on-book (blue line, left-hand scale) and 6 months-on-book (red line, left-hand scale).

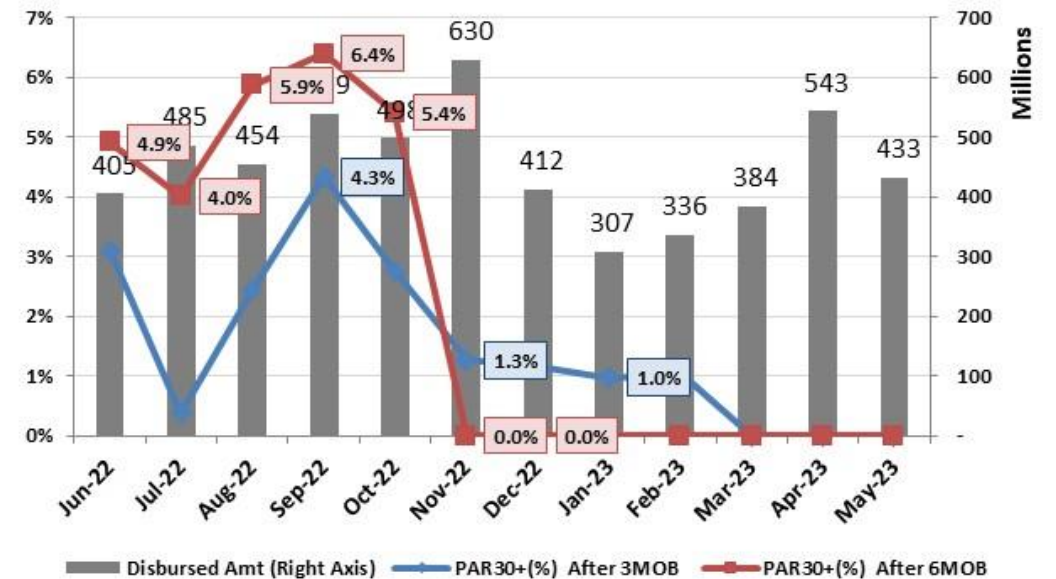
Chart V5: Usage

The chart can be used to compare the performance of each vintage after 3 and 6 months.

Chart V5: Interpretation

The Aug-22, Sep-22, Oct-22 and Jun-22 vintages show the worst PAR 30+% after 3 and 6 months-on-book. Management should try to understand what the factors were leading to these vintages performing worse than others. A positive development is that PAR 30+ after 3 MOB has recently been improving since the Sep-22 vintage, standing at about 1% for the Jan-23 vintage (the latest one for which 3 MOB figures are available).

Chart V5: PAR 30+ After 3 Months-On-Book and 6 Months-On-Book



7 PQR Results: Is-Was Report

OVERVIEW

The Is-Was report contains three tables that compare this month's performance (the "Is") with last month's performance (the "Was"). Two tables relate to branch performance and one table to loan officer (LO) performance. The branch Is-Was comparison can be used to compare the portfolio quality and collections performance between branches, the LO Is-Was comparison can be used to do the same between LOs.

7 PQR Results: Is-Was Report

Table IW1: Branch Current Status and Variation Compared to Last Month

Branch	As of May-23										Variation vs. Apr-23							
	Active Clients	Active Portfolio	Par 1-30		Par 30+		0+%	New clients		Renewals		Active Clients	Active Portfolio	Par 1-30		Par 30+		Par 0+
			Unit ('000)	#	Unit ('000)	#		Unit ('000)	#	Unit ('000)	#			Unit ('000)	#	Unit ('000)	#	Unit ('000)
M	928	569,832	17,520	61	49,797	170	⚠ 11.8%	2,950.0	9	142,377.5	105	(22)	25,063	455.7	(3)	329.6	13	785.2
C	1,047	455,800	16,554	72	90,293	208	✘ 23.4%	9,370.0	23	63,760.0	90	(18)	(17,163)	(9,732.8)	(23)	2,882.2	21	(6,850.7)
N	1,646	319,398	24,930	187	46,889	344	✘ 22.5%	7,840.0	50	50,050.0	155	(32)	(1,981)	(8,949.7)	(44)	4,884.3	56	(4,065.4)
V	1,567	310,573	22,752	160	50,241	264	✘ 23.5%	10,450.0	63	46,220.0	164	22	3,221	6,785.1	26	1,621.6	28	8,406.7
B	1,399	273,293	17,770	180	15,763	193	⚠ 12.3%	16,715.0	38	47,655.0	111	(8)	9,294	768.6	17	2,537.1	15	3,305.7
D	1,042	240,693	23,182	147	47,844	231	✘ 29.5%	5,400.0	23	30,065.0	92	(3)	(10,025)	4,559.3	23	376.4	18	4,935.7
Grand Total	7,629	2,169,588	122,708	807	300,827	1,410	⚠ 19.5%	52,725.0	206	380,127.5	717	(61)	8,408	(6,113.9)	(4)	12,631.1	151	6,517.3

Table IW1: Description

This table shows portfolio information on the observation date, i.e. May-23 (the “Is”), such as total active clients, active portfolio, PAR 1-30 etc. Furthermore, it compares the current performance with the previous month’s performance (the “Was”) by giving variations in terms of active clients, PAR 1-30 in number and amount, and PAR 30+ in number and amount.

Table IW1: Usage

The table can be used to compare and benchmark the branches regarding portfolio quality.

Table IW1: Interpretation

PAR 0+% at 19.5% is quite high. Four branches have PAR 0+ above 20%, indicated by the red crosses. Only 2 branches (M and B) have PAR 0+ in the 10% range. The variation compared to Apr-23 shows that while PAR 1-30 has been decreasing overall, PAR 30+ has been increasing. Branch N has shown the strongest increase in PAR 30+, followed by C and B. Management should make sure the branches with highest PAR or with portfolio quality decreasing more than others increase their efforts to reduce delinquency.

7 PQR Results: Is-Was Report

Table IW2: Branch Delinquency Flow

Branch	Flow from Current to 1-30			Recovered from 1-30			Flow from 1-30 to 30+			Recovered from 31-60		
	#	Unit ('000)	%	#	Unit ('000)	%	#	Unit ('000)	%	#	Unit ('000)	%
M	37	16,185	3.4%	22	9,869	57.8%	18	2,460	14.4%	2	81	0.9%
C	31	9,551	2.7%	26	4,492	17.1%	28	10,983	41.8%	4	1,011	6.6%
N	87	14,598	5.9%	53	9,971	29.4%	78	8,115	24.0%	5	918	14.9%
V	91	17,861	7.4%	29	1,508	9.4%	36	6,568	41.1%	7	123	1.9%
B	85	11,525	4.9%	35	3,581	21.1%	35	3,526	20.7%	5	178	3.0%
D	74	13,938	7.5%	26	3,040	16.3%	26	3,278	17.6%	1	634	12.0%
Grand Total	405	83,659	4.8%	191	32,460	25.2%	221	34,930	27.1%	24	2,946	6.5%

Table IW2: Description

The table shows the delinquency movements (“flows”) by branch between the different days-past-due categories. Days-past-due (DPD) categories (also referred to as “delinquency buckets”) are loans that are “Current”, “1-30 DPD”, “31-60 DPD”. Movements between categories occur if loans that were current in one month fall delinquent in the next month (this is called “Flow from Current to 1-30”), or if late payments for loans that are in the 1-30 DPD category in one month are recovered, so that these loans are again current in the next month (this is called “Recovered from 1-30”). As opposed to the “net flow rates” used in the trend reports, these flow rates are “gross”, meaning only balances truly flowing from one bucket to another.

Table IW2: Usage

The table can be used to compare and benchmark the branches regarding collection performance, which is reflected in the delinquency flows.

7 PQR Results: Is-Was Report

Table IW2: Interpretation

The overall flow from Current into 1-30 stands at 4.8%. The best branch this month has been C with 2.7%, the worst have been V and D with 7.4% and 7.5%, respectively. In terms of recovery from 1-30 to Current, M and N have shown the best performance, recovering 57.8% and 29.4% of the amount, respectively. Similarly for the flow from 1-30 to 30+, overall the flow rate has been 27.1% (meaning that of the amount in 1-30 days late, 27.1% have been flowing into the 30+ days late category). The best branch was M with only 14.4%, the worst branches C and V with 41.8% and 41.1%, respectively. In terms of recoveries from 31-60 days, only 6.5% has been recovered this month. The best-performing branch has been N, with 14.9% recovered from 31-60.

A branch that should be put under closer scrutiny is branch V. The flow from Current to 1-30 is high compared to other branches, the recovery from 1-30 is lowest as compared to all other branches, and the flow from 1-30 to 30+ again is the highest. This is a branch where management should really look into collections and early delinquency issues as it has one of the highest percentages of clients that go into early delinquency, i.e. flow from Current to 1-30, but it also has the highest flow from 1-30 to 31-60. This indicates that the branch is unable to control early delinquency effectively. The reasons could be a lack of collections focus or weak processes. It is also one of the branches that is growing in terms of active clients, which could indicate that they focus on growth and not quality, but this would become an issue once the growth slows down.

FORECAST REPORTS (FCR)

The Forecast Reports (FCR) tool is a credit risk management tool. It is a computer-generated report containing a standard set of charts displaying key information about the past and projected future development of a financial institution's loan portfolio. It can be used to:

1. Analyze the portfolio performance in the past (trend analysis).
2. Project the expected portfolio performance into the future, based on trends seen in the recent past.
3. Simulate the effect of changes in portfolio performance trends and thus help in planning and decision-making.

The FCR is a “sister” report to the portfolio quality reports (PQR). While the PQR shows past portfolio performance, the FCR draws on the same information to project the expected development of the portfolio into the future.

The FCR tool contains forecasts about the expected development of the portfolio in three areas: 1) Productivity, 2) Quality, and 3) Profitability.



8 FCR Results: Productivity

OVERVIEW

This section of the forecast report provides information about productivity (number of new loan and renewal loan disbursements, portfolio balance and active clients) for the past 6-12 months and near future (up to 12-18 months). Usually nine months are shown for the past and for the future. It allows the user to view the past trend and the projected productivity (based on the past trend). The productivity section contains two graphs: 1) New and Renewal Loan Productivity Forecast and 2) Portfolio and Active Client Growth Forecast.

8 FCR Results: Productivity

Chart P1: Description

This graph shows the past and future (forecasted) loan officer productivity in terms of new and renewal loans disbursed per month.

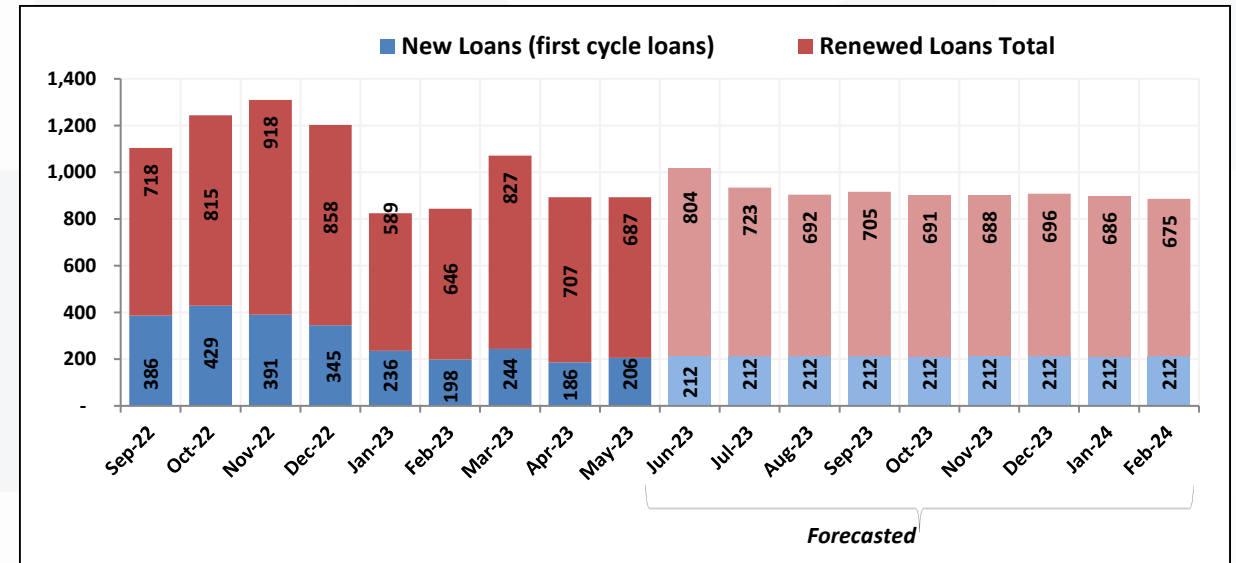
Chart P1: Usage

It can be used to analyze past trends and to anticipate the future development based on past trends.

Chart P1: Interpretation

The number of new loan disbursements has been slightly above 200 per month for the past few months. The number of renewal loan disbursements has been between 600 and 800. Based on past trends, the number of new loan disbursements is projected to be around 212, and the number of renewal loan disbursements is estimated to be around 700.

Chart P1: New and Renewal Loan Productivity Forecast



8 FCR Results: Productivity

Chart P2: Description

This graph shows the past and future growth of the number of active clients (red line, left hand scale) and portfolio balance (bars, right hand scale).

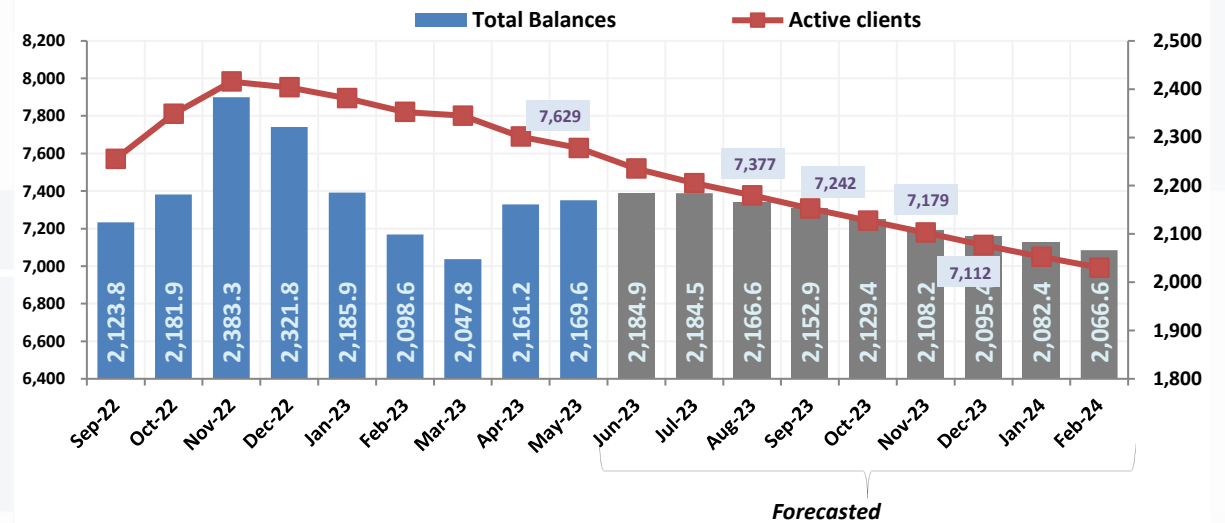
Chart P2: Usage

The chart can be used to detect past trends and to anticipate future development based on past trends.

Chart P2: Interpretation

The number of active clients has been decreasing since Nov-22 and is forecast to reduce further over the next months. The portfolio balance has been rising since Mar-23. However, for the future, the portfolio balance is projected to reduce after Jun-23. This projected decrease in portfolio shows what will happen if the current trend continues. Management will have to take action to increase the number and amount of disbursements to keep this future shrinking of the portfolio from happening.

Chart P2: Portfolio and Active Client Growth Forecast



9 FCR Results: Quality

OVERVIEW

This section provides information about the portfolio quality in the past and the projected quality of the portfolio based on past trends. It allows the user to view the breakdown of the portfolio in different delinquency buckets (e.g. “1-30 days past due” etc.).

9 FCR Results: Quality

Chart Q1: Description

This graph shows the past trend and the forecasted future development in the amount of portfolio in various days-past-due buckets.

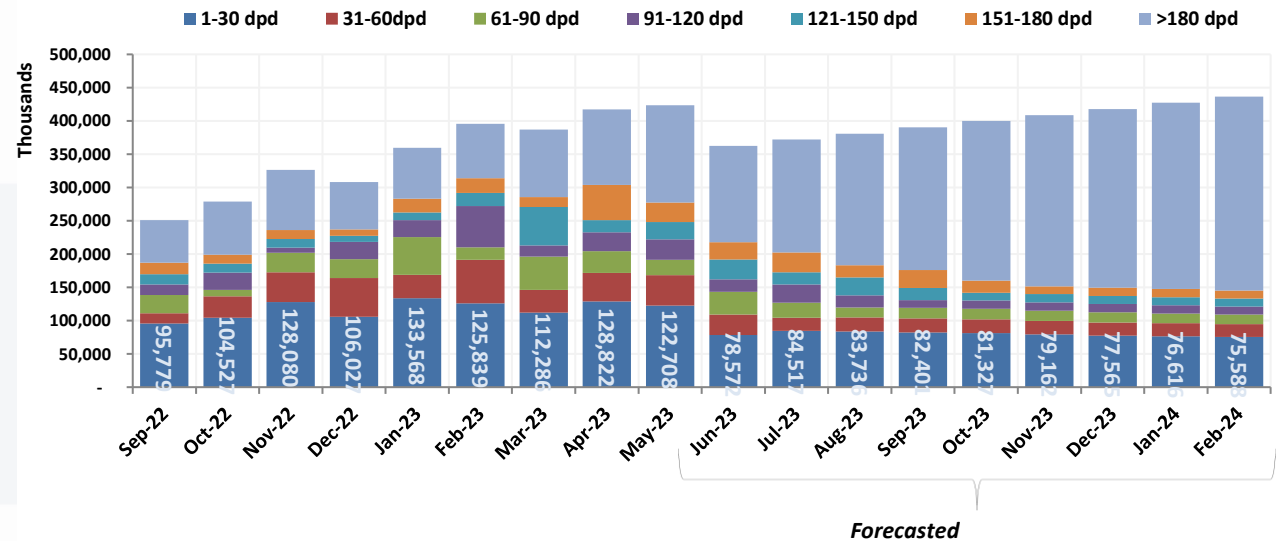
Chart Q1: Usage

The chart can be used to analyze past trends and to anticipate the future development in the distribution of the portfolio by delinquency buckets.

Chart Q1: Interpretation

Up to May-23, the total amount of delinquent portfolio has been rising, with the amount in 180 days past due strongly rising. The forecast after Jun-23 also shows a rising delinquency amount, with the 180 days past due bucket becoming larger. Given the forecast of a decreasing portfolio, this will lead to strongly rising PAR 30+ % (also see next graph). Management needs to take corrective actions to keep this from happening in the future.

Chart Q1: Delinquent Portfolio by Delinquency Bucket



10 FCR Results: Profitability

OVERVIEW

This section of the FCR allows the user to see the past trend and expected future development with regards to net financial income. This can be used for planning and monitoring expected revenues against targets and also making necessary adjustments as required.

10 FCR Results: Profitability

Chart PR1: Description

This graph shows the past trend and the forecasted future development in the net financial income (red line, left axis) and PAR 30+% (blue line, right axis). Net financial income here is defined as interest and fee income minus cost of funds minus provisioning cost.

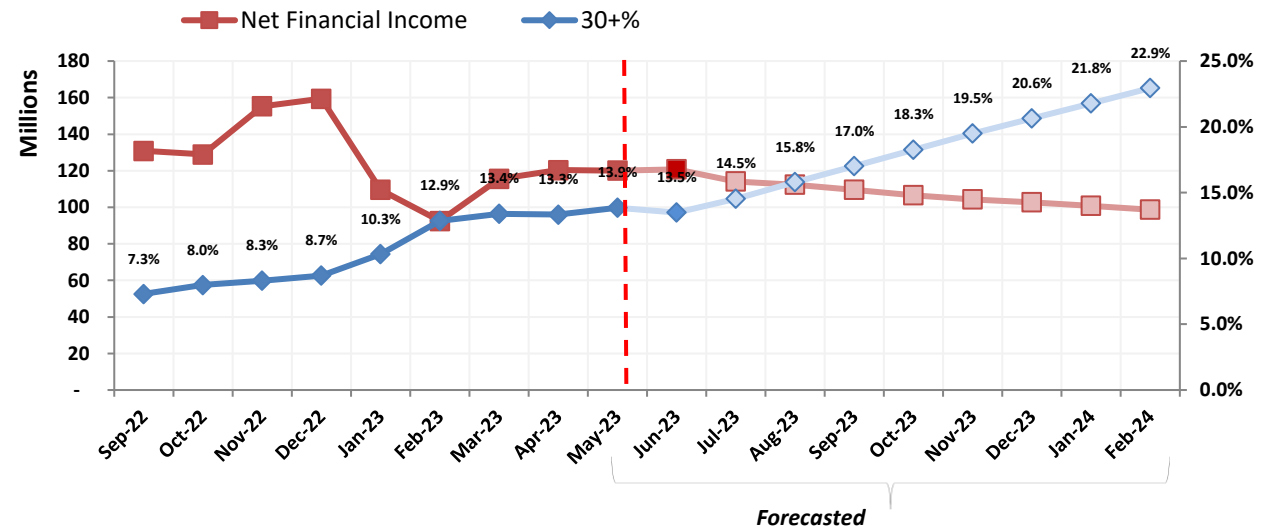
Chart PR1: Usage

The chart can be used to analyze past trends and to anticipate the future development in the net financial income and PAR 30+%.

Chart PR1: Interpretation

PAR 30+% has been rising continuously in the past and is projected to rise further in the future based on the past trend. Financial income has shown a strong drop after Dec-22 but has stabilized since Mar-23. However, in the future, net financial income is expected to fall. These are both negative trends which management should address.

Chart PR1: Net Financial Income and PAR 30+ %



The Portfolio Quality Analysis (PQA) tool guide is one of a four-part series including guides on Detailed Risk and Controls Assessment (DRACA), Branch Transaction Risk Reports, and Credit Scoring.

Learn how to implement these tools and how we can help manage operational risks.

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