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Credit Unions in Poland: Diagnostic and Proposals on Regulation and Supervision

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ABBREVIATIONS AND ACRONYMS

CU	Credit Union
CEO	Chief Executive Officer
CUNA	Credit Union National Association
FCU	Federal Credit Union
FICU	Federal Insured Credit Union
PFSA	Polish Financial Services Authority
GAAP	General Accepted Accounting Principles
GDP	Gross Domestic Product
IT	Information Technology
KAPER	Kapital (Capital), Aktywa (Asset Quality), Płynność (Liquidity), Efektywność (Effectiveness), Rentowność (Profitability)
NASCU	National Association of SKOKS
NBP	National Bank of Poland
NCUA	National Credit Union Administration – USA
NCUSIF	National Credit Union Share Insurance Fund - USA
PLL	Provision for Loan Loss
SCU	State Credit Union
SKOK	Spółdzielcze Kasy Oszczędnościowo Kredytowe – (CU in Polish)
WOCCU	World Council of Credit Unions

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EXECUTIVE SUMMARY

- 1. A new amendment to the Law on Credit Unions (CU) dated November 5, 2009, will pass CU supervision to the Polish Financial Services Authority (PFSA), the body that regulates other financial institutions in Poland.** Currently, CUs –also known as SKOKs by their Polish acronym– are regulated under the Credit Union Act of December 14, 1995. In Articles 33-35, the National Association of Credit Unions (NASCU) was given the responsibility to regulate and supervise the CUs. The new Law, however, is not yet operational as it is being reviewed by the Constitutional Court and there is no date set for the Court’s ruling. The law would come into force within sixty days of the Court’s decision confirming that the Law is in line with the Constitution.
- 2. As in most countries, SKOKs collectively represent only a small percentage of total financial sector’s assets.** In Poland, the percentage of total assets to GDP is small but has increased from below 0.5% in 2005 to 0.9% of GDP in 2009. Poland’s 61 CUs serve a large number of small depositors – estimated at more than 2.1 million as of mid-2010– from a country population of over 38 million. The first CU started in Poland in 1992 and the sector has experienced remarkable growth since then.
- 3. Despite the relatively small size of SKOK’s assets compared to GDP, the SKOKs need to be effectively regulated and supervised by the PFSA.** The current system of self-supervision seems no longer adequate given the size of the SKOK system, inherent conflict of interests between the apex supervisory credit union and member credit unions, and the rising systemic importance of SKOKs for the whole banking sector. Moreover, the fact that the global financial crisis has not stopped SKOKs from growing assets at the cost of lower capital and lower financial stability shows that the current supervision model seems to have outgrown its limits. The delegated supervision model enshrined in the new Law, with the PFSA acting as the main supervisor and NASCU playing a subordinate, but complimentary role, promises to provide more effective regulation and supervision and thus to enhance the stability of the SKOK system. Regulation and supervision promote confidence in the system, minimizing the risk for a financial institution to act as a source of contagion, while protecting individuals’ savings.
- 4. This report provides information on the Polish CU experience, analyzes the new regulatory and supervisory framework created by the new CU Law, and provides recommendations for its implementation.** Recommendations are accompanied by relevant experience from other countries. Main findings and policy recommendations in the different areas are summarized as follows.
- 5. The roles of NASCU and the PFSA in terms of regulation and supervision need to be clearly defined in the Law and relevant secondary regulation.** The proposed Law states that NASCU will control the activities of CUs, while the PFSA will be responsible for the supervision. However, the regulation would need to be more specific on the responsibilities and tasks assigned to each of these institutions.
- 6. The new Law should be supported by a detailed, inclusive set of regulations to establish prudential and non-prudential standards.** Secondary regulation would need to regulate specific technical issues not addressed by the Law. Most important regulations need to include: minimum standards for licensing CUs; capital adequacy; loss provisioning; and liquidity. In addition, areas such as asset liability management, investment, borrowing, savings and shares, credit, delinquency, accounting and audit and CU governance should be part of the regulations.
- 7. The SKOKs should have access to the state guaranteed deposit insurance.** If state guaranteed deposit insurance is an option, CUs should take advantage of this option. The current insurance is provided by a mutual company, but the amount of its resources is limited as compared to deposit insurance with the implicit guarantee of the state.

8. Minimum capital adequacy ratios for SKOKs should be established. Current SKOK's capital ratios are at around 3% and the new Law establishes a 5% minimum capital threshold. Both ratios are considerably below international standards, which prescribe a minimum 8% capital ratio. CU's should be encouraged to increase capital to at least 8% of total assets to enhance their individual and systemic stability. However, building institutional capital is a long-term process and SKOKs should be given adequate time to reach the required capital or solvency ratio. Currently, the only sources of capital are net income, donations and member shares. To increase capital, other sources of capital may be considered such as deferred (transferable, but not withdrawable) shares and/or subordinated debt.

9. The SKOKs should use the chart of accounts, accounting principles and reporting formats required for other financial institutions. SKOKs currently report under a general accounting system required for a wide array of non-financial businesses such as retail stores. This type of reporting is inadequate for a financial institution and needs to be changed. A transition period should be given to the SKOKs to make the required changes in their accounting systems.

10. SKOKs should be required to have an internal audit function. The internal auditing should be performed by an independent, qualified third party with appropriate auditing experience and educational background to meet predefined internal audit objectives.

11. The SKOKs' governance structure should be strengthened. In general, CU governance worldwide has been problematic due to their membership based structure. To improve CU's governance in Poland, government policies should aim at promoting the existence of: clear procedures, responsibilities and limits for employees, officials and governing bodies; minimum qualifications in terms of educational background and professional experience; well established fiduciary responsibilities and penalization of misconduct; as well as a comprehensive code of conduct to reduce the potential for wrongdoing and conflicts of interests. Establishing an internal dispute resolution system would also be useful.

12. The PFSA may consider focusing on the supervision of larger SKOKs and delegating some activities of the supervision of smaller SKOKs to NASCU. The PFSA may want to focus its efforts on the largest SKOKs (with assets greater than, for instance, PLN 150 million), SKOKs with sustainability threatening problems, and SKOKs with conflicts of interest in their governing bodies. Likewise, PFSA may want to consider performing on-site supervision of only the largest SKOKs, which will ensure that the majority of the assets are directly supervised by PFSA. The PFSA may delegate some on and off-site supervision responsibilities to NASCU for the smaller, less risky SKOKs.

13. The PFSA can control the quality of the delegated examinations through their regulation and close supervision of NASCU. NASCU has 18 experienced examiners (off and on-site) that could assist PFSA in implementing an effective supervision scheme. During supervision contacts at NASCU, PFSA could review a sample of the on-site examinations performed. In order to determine the correctness of the NASCU on-site examinations, the PFSA could visit the examined SKOKs to test the findings, recommendations and results. The intensity of the supervision should be linked to the risk profile of each CU. CUs that are large in asset size and membership should experience much more intrusive supervision than smaller CUs. Well managed large CUs should have less intrusive supervision than poorly managed large CUs.

14. Supervisors should possess effective means to deal with problem CUs and their management, including the power to have controlling officials and managers replaced or their powers restricted or the CU's license revoked. The specific measures should depend on the nature and seriousness of the difficulties at a CU and how cooperative CU management is.

15. The current open CU membership model seems to have worked well, as evidenced by the remarkably high growth rate in the membership. However, the open membership model has a

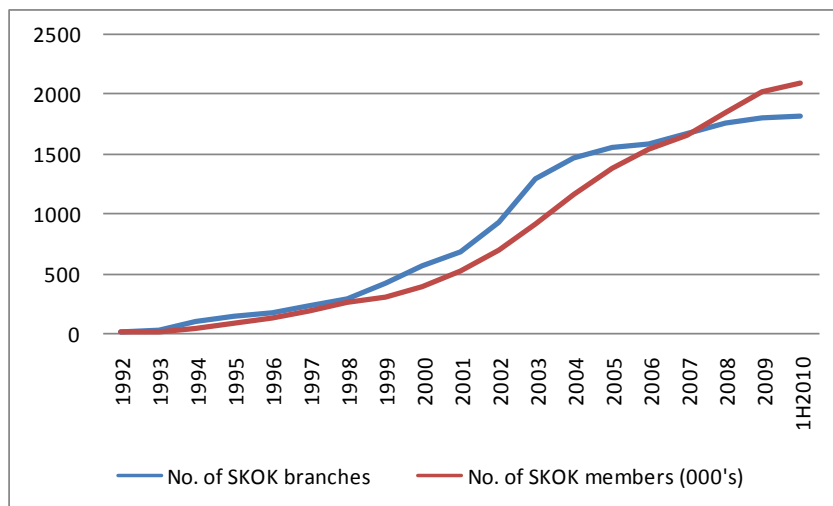
disadvantage that the largest SKOKs are increasingly competing with commercial banks in terms of geographical reach and clients' profile. Going forward, it would be important to ensure that the largest SKOKs face more stringent supervision requirements such as being directly supervised by the PFSA.

16. It is important that the PFSA engages with key stakeholders as it begins regulation of SKOKs to gain the sector's support to implement the changes. New regulations should be put out for comments to the CUs and their associations. Direct communication between the PFSA and the SKOKs should be developed.

1. INTRODUCTION

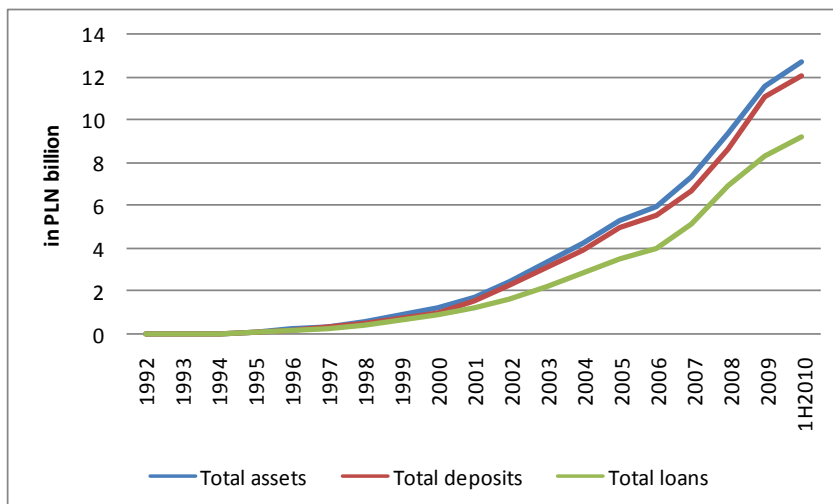
17. Poland's credit unions have grown at a remarkable rate since their inception in 1992. Within just 18 years, 61 SKOKs have been established throughout Poland, operating more than 1,800 branches located mostly in secondary cities and serving more than two million customers. In the first half of 2010, SKOKs customer base exceeded 2.1 million or almost 15 percent of Polish households (Figure 1). The largest credit union, SKOK Stefczyka, had 350 branches and 670,000 members, one third of the total. In the last five years SKOKs have been growing at an average rate above 20 percent per year. At end-June 2010, total assets reached PLN 12.7 billion (US\$4.2 billion), a 10% increase since end 2009. The assets were almost fully funded with members' deposits (Figure 2). Despite high growth, however, total SKOKs' assets represented only about 1.4 percent of total banking sector's assets.

Figure 1: Evolution of the SKOKs – number of branches and customers, 1992-1H2010



Source: Polish Statistical Office

Figure 2: SKOK's assets, deposits and loans, 1992-1H2010



Source: Polish Statistical Office

18. SKOKs play an important role in providing financial services to micro and small entrepreneurs and self-employed, mostly through basic deposits, loans and payment services, as well as insurance services through a specialized subsidiary. SKOKs target market are mostly low income individuals, micro and small entrepreneurs and self-employed, especially those that do not have accounts with other banks (estimated to account for about 20% of the population). The average size of a deposit amounts to only U\$1,900 (14.6 percent of GDP per capita) while that of the loan to US\$1,460 (11 percent of GDP per capita) per member. The smallest loans can amount to only PLN 100 (\$33). As is usual for microfinance providers, loans are usually provided with co-signers. They tend to rely less on collateral than the banks (except for car loans and mortgages). More than 50 percent of SKOK members are women. Poland's credit union movement has been applauded for its success in expanding its outreach among the poor to 2 million in just 18 years. It is a member of the World Council on Credit Unions, WOCCU, and provides technical assistance to credit unions in various countries in the region.

19. Growing size of the SKOKs and rising systemic importance prompted a change in the supervision model. Given the dynamic growth of SKOKs, their rising systemic importance, and concerns about SKOK's financial stability during the global financial crisis, heightened by the perceived potential conflict of interests between the NASCU and member credit unions, a new Law on Credit Unions was enacted in November 2009 to shift SKOKs supervision from NASCU, the sector's self-regulator, to the PFSA, the body that regulates all other financial institutions in Poland. The aim of the Law was to (i) increase financial sector's stability by strengthening prudential supervision over SKOKs and opening access to liquidity at the National Bank of Poland, (ii) enhance transparency as regards the financial situation of SKOKs in the environment of rising non-performing loans, and (iii) align SKOKs supervision with the EU regulatory and supervisory regime. While SKOK's combined assets represent only a small fraction of the total banking sector's assets, they nonetheless have almost two million members, mostly among the poorest, most economically vulnerable members of the society. Given that SKOK's customers do not seem to differentiate between self-regulated SKOKs and fully regulated banks, the Polish government believed that any turbulence in the SKOK's market during the global crisis, resulting from, for instance, concerns about solvency of individual SKOKs in the environment of rising non-performing loans, could have a substantial impact on the level of confidence in the whole banking sector. The new Law is also largely in line with the long-standing recommendations of the IMF and the World Bank, reflected in the past reviews of the Polish financial sector (Financial Sector Stability Assessments, FSAPs).

20. The new Law, however, is not yet operational. The late President Kaczynski sent the Law for review in the Constitutional Court to check whether it fully complies with the Constitution. There is no timetable as to when the Court will deliver its ruling. What is known, however, that the new law could become operational within sixty days of the Court's decision confirming that the Law is in line with the Constitution.

21. Nonetheless, the PFSA has already started preparations for expanding its supervision to SKOKs. Despite the PFSA's substantial experience in supervising the financial sector and impressive operational record, as evidenced by how well the Polish financial sector has coped with the global crisis, but given its lack of direct experience in supervising credit unions the PFSA has requested the World Bank's assistance in development of best practice supervisory procedures for SKOKs which would take into account the specific nature of credit unions' operations as self-assistance financial institutions with limited risk. The PFSA believed that the framework for supervising SKOK's should be different than that for universal banks, given the much smaller average size of SKOKs and their different scope of business aimed at providing financial services to poorer population. This report is based on the assumption that the new Law on Credit Unions will come into force in due time (although the recommendations of the report would also be useful to stakeholders even if the law does not pass).

2. CURRENT SITUATION OF CREDIT UNIONS IN POLAND¹

22. Credit unions (CU) collectively represent only a small fraction of total financial sector's assets in most countries. However, they play a very important role providing financial services to poor, low and middle income individuals. The global credit union sector holds aggregate assets of more than US\$1.1 trillion in the retail financial services market. Worldwide, cooperatives and financial institutions of all types serve an estimated 857 million people. Canada's CU sector assets are the largest in terms of GDP, over 17%; while in the US and Ireland, the size is considerably smaller, 6.4% and 8.8% of GDP, respectively. The average savings per member for the selected countries ranges from 717 USD in Kenya to over 10,000 USD in Australia. The average loan balance varies equally; from 656 USD in Kenya to over 17,000 USD in Canada (Table 2).

23. Although Poland's CU assets may be low by international comparisons, the SKOKs serve a large number of small depositors, estimated at more than 2.1 million. Compared to the experience of other countries, the growth of the Polish CU sector during its 18 years of existence has been rapid. It is interesting to note that Poland serves over 2 million members in just 61 CUs, while Ireland serves a somewhat larger number of members with 503 CUs, while the number of CUs in many other countries is often counted in thousands (in Africa, for instance). Polish CU sector is thus much more compact than in most CU sectors around the world, making supervision easier. SKOK members enjoy sophisticated regular banking services such as debit cards, current accounts and internet banking (e-SKOK). Since the end of 2008, the number of members using e-SKOK services has almost doubled, reaching 130,000 members (7% of total members). More than 35% of the members use Visa debit cards. Furthermore, the SKOK 24 ATM network is one of the country's largest networks with 747 machines around the country.

24. During the global crisis, SKOKs managed to weather the economic turmoil and no single institution went bankrupt. This result was due to the relative good performance of the Polish economy, which was the only EU and OECD economy that managed to escape the recession in 2009. Total assets of SKOKs stood at \$4.04 billion in 2009, representing an increase from 0.7% of GDP in 2008 to around 0.9% of GDP in 2009. The number of total members increased from 1.8 million in 2008 to more than 2.1 million in mid-2010.

25. However, the financial performance of SKOKs has deteriorated, with the whole sector reporting an unaudited PLN 14 million net loss in 2009. Despite the loss, 61 SKOKs experienced a positive annual growth in their total assets, loans and member savings, confirming that there is still a significant demand for SKOK services, especially among the poor. In 2010, fast growth continued, with assets reaching PLN 11.6 billion as of the end of March (approx. US\$ 3.6 billion), consumer credits totaling PLN 8.4 billion and deposits equal to PLN 10.8 billion (Figure 1).

26. SKOK reserves (membership shares, capital and reserves) grew modestly by only 3.8%. These figures compare to CUs in countries like Ireland, where total assets increased by 3%, and loans decreased by 7%. The UK on the other hand experienced an asset and reserve growth of 25%, while Canada experienced a decreased in total members (-7%) (See Table 1).

¹ The 2009 financial information on SKOKs in this section was provided by NASCU. While there are concerns about the quality of the available data, a complete picture of the financial situation of the SKOKs would only be possible after a full independent audit of the SKOK system. This goes beyond the scope of the report. The Polish Statistical Office (GUS) provides publicly available data on the financial situation of SKOKs, but these are published with a substantial delay and are available only at an aggregate level.

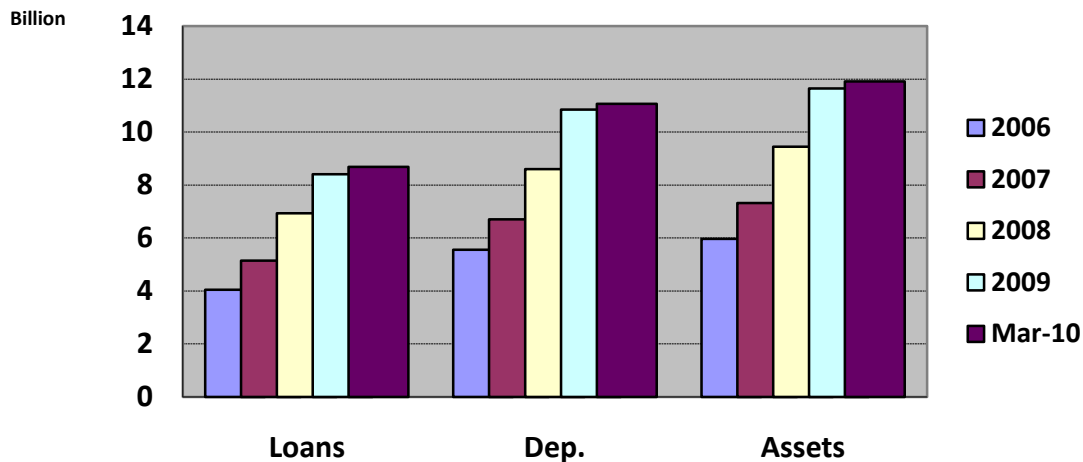
Table 1 – Growth Ratios for Selected Countries with Developed CU Sectors, 2008-09

	Asset Growth	Loan Growth	Savings Growth	Reserve Growth	Membership
Poland	26%	24%	29%	3.8%	9%
USA	9%	1.1%	10.5%	9.9%	1.5%
Canada	24%	23%	24%	19%	-.7%
Ireland	3%	-7%	3.7%	3%	-1%
United Kingdom	25%	14%	31%	25%	21%
Australia	35%	40%	36%	38%	-1%
Korea	39%	30%	43%	33%	5%

Source: WOCCU

27. In 2009, the net financial result for the 62 SKOKs declined from PLN 18.6 million as of 2008 to an unaudited result of PLN -14 million. Due to this loss, the unweighted average net profit/asset ratio for all SKOKs stood at -4.0%, compared to a previous average ratio of 0.5% in 2008. As of the end of March 2010, the net financial result amounted to PLN 56 million and the unweighted average net profit/asset ratio remained negative at -0.2% (Table 3). The largest part of the year to date net profit has been generated by the largest SKOK “SKOK Stefczyka”, responsible for 38% of total sector’s assets². The KAPER³ standard –comparable to international standards– for the profit to asset ratio stands at 2% (See Annex 1 for more detailed information).

Figure 3: Asset, Loan and Deposit Growth of Poland’s SKOKs, 2006-2010(PLN billion)



Source: Polish Statistical Office

28. **The ratio of non-performing loans (NPLs) to total loans has been increasing, while provisions to NPLs have decreased.** Inadequate loan loss provisioning, and high loan delinquency have been identified in the past two years.⁴ Total delinquent loans have increased from PLN 1.1

² In 2009, SKOK Stefczyka started a capital building program, made some organizational changes and started a sales incentive program for employees. Profits for the rest of 2010 are not expected to increase as SKOK Stefczyka will build the provision for loan loss account.

³ KAPER is a set of financial ratios facilitating management and supervision of SKOKs. The system was developed using a previously existing CAMEL supervisory system and the PEARLS system of monitoring and financial standing recommended by WOCCU. PEARLS is an acronym for a collection of ratios that assesses: Protection, financial structure Efficiency, quality of Assets, rates of Return, Liquidity and Signs of growth. See Annex 1 for more information on KAPER ratios and standards.

⁴ This has happened despite the fact that the Polish SKOKs have full access to credit data provided by the BIK, the largest credit bureau in Poland.

billion to PLN 1.9 billion from 2008 to 2009, during the same time provisions for loan loss account have increased from PLN 326 million to PLN 431 million. The NPL ratio (> 30 days) has trended upward since 2008 and went from 11.7% in 2009 to 12.7% in March 2010 (Table 4). This ratio is considered high by international standards. The KAPER standard is 5% and aligned with international standards. The average provisions to NPLs ratio has been declining from 148% in 2008, 79% in 2009 and 63% in March 2010. As NPLs increase and provisions to NPLS decrease, the risk is whether current provisions are sufficient to cover all potential losses.

29. Going forward, to improve the financial soundness of SKOKs, the growth in reserves needs to outpace the growth of assets. The World Council of Credit Unions⁵ (WOCCU) provides two standards to be considered: i) the growth in assets should be greater than the inflation rate, and ii) the institutional capital should grow at the same rate or greater than the assets depending on whether the goal is to maintain the capital ratio or to increase it.

Table 2 – Net Profit / Asset Ratio and Net Financial Results for all SKOKs

Total Assets (PLN)	Number of SKOKs	2008 Net Profit / Asset Ratio	2009 Net Profit / Asset Ratio	2009 Net Financial Result	31/3/2010 Net Profit / Asset Ratio	31/3/2010 Net Financial Result
Over 90 million in asset	20	0.4%	0.1%	-11,264,226	0.1%	55,480,536
20-89.9 million	23	0.5%	0.5%	4,075,904	0.3%	2,550,905
19.9-10 million	8	-0.2%	0.3%	226,618	-1.5%	-1,421,944
9.9-5 million	7	0.7%	-5.6%	-3,693,280	0.01%	-71,672
Less than 5 million	3	0.9%	-15.1%	-3,538,545	0.01%	-2,959
Total/Unweighted average	61	0.5%	-4.0%	-14,193,528	-0.2%	56,534,867

Source: NASCU

30. SKOKs do not appear to have a strict loan write off policy. NASCU does not track loan write offs and it seems that loans are kept on the books and are fully provisioned for rather than being written off. This procedure will lead to higher overall delinquency ratios compared to international peers, as CUs in other countries are either required to write non-performing loans off or CU management chooses to write the loans off more quickly.

Table 3- Breakdown of Loan Delinquency Average Ratios by Asset Size

Total Assets (PLN)	2008 Delinquent Loans / Total Loans	2009 Delinquent Loans / Total Loans	2009 Delinquent Loans	31/3/2010 Delinquent Loans / Total Loans	2010 Delinquent Loans
Over 90 million in asset	11.8%	16.8%	1,774,268,769	18.0%	1,980,688,365
20-89.9 million	8.0%	9.9%	150,944,347	11.0%	150,695,494
19.9-10 million	10.3%	8.1%	7,586,720	8.6%	9,983,944
9.9-5 million	4.3%	13.4%	8,816,852	14.1%	9,783,543
Less than 5 million	5.7%	10.3%	1,640,663	12.0%	945,948
Total/Unweighted average	8.0%	11.7%	1,943,257,352	12.7%	2,152,097,293

Source: NASCU

⁵ World Council of Credit Unions (WOCCU) is the leading trade association and development organization for the international credit union movement, representing more than 49,000 cooperative owned not-for-profit credit unions in 96 countries.

Table 4– Relevant CU Statistics for 2008-2009

Country	Creation 1 st CU	CUs	Members	Penetration %*	Savings (USD)	Average Savings per Member (USD)	Loans (USD)	Average Loan per Member (USD)	Reserves (USD)	Assets (USD)	Country Population	GDP (USD)	Total Assets / GDP
Poland	1992												
2008		62	1,856,247	6.7	2,920,399,888	1,573	2,349,126,550	1,265	274,720,356	3,193,028,576	38.1 million	527 billion	.61
2009		62	2,026,120	7.4	3,765,873,070	1,858	2,921,459,734	1,441	285,212,624	4,042,441,061	NA	423 billion	.97
Great Britain	1960												
2008		473	652,163	1.6	691,504,110	1,060	658,504,110	1,009	112,886,419	856,778,974	61.2 million	2.6 trillion	.03
2009		453	788,257	2.0	903,471,857	1,146	751,488,816	953	141,583,575	1,072,321,685	NA	2.22 trillion	.05
Ireland	1954												
2008		508	2,979,500	74.8	16,658,916,517	5,592	9,966,206,714	3,345	2,853,103,170	19,466,966,827	4.44 million	281 billion	6.93
2009		503	2,955,000	75.4	17,274,395,138	5,845	9,243,492,719	3,128	2,938,309,827	20,052,172,916	NA	226 billion	8.87
United States	1909												
2008		7,969	89,918,538	43.7	691,766,259,339	7,693	574,752,188,218	6,391	89,061,105,616	825,812,776,839	312 million	14.2 trillion	5.82
2009		7,708	91,156,643	44.3	763,341,482,435	8,374	580,454,197,994	6,367	87,820,878,727	896,823,977,926	NA	14 trillion	6.41
Canada	1900												
2008		1,008	10,897,904	47.3	159,103,659,783	14,601	153,522,796,974	14,088	11,158,561,439	185,046,002,862	33 million	1.40 trillion	13.22
2009		945	10,818,031	47.0	197,826,729,323	18,286	189,052,625,559	17,476	13,254,696,838	229,693,740,409	NA	1.33 trillion	17.27
Australia	1960												
2008		122	3,500,000	24.2	26,872,182,839	7,677	24,413,443,684	6,975	2,615,430,279	31,349,959,619	21 million	1.01 trillion	3.10
2009		111	3,470,000	24.0	36,671,519,287	10,568	34,241,338,966	9,867	3,597,488,546	42,172,247,180	NA	920 billion	4.58
Kenya	1909												
2008		3990	3,682,272	17.1	2,269,620,502	616	1,978,861,572	537	123,257,319	2,474,039,494	38.8 million	35 billion	7.07
2009		3996	3,835,250	17.8	2,750,754,034	717	2,517,445,869	656	179,328,367	3,289,351,841	NA	30 billion	10.96
Brazil	1902												
2008		886	3,326,131	2.5	8,064,035,263	2,424	8,408,562,285	2,528	2,445,125,062	12,829,020,004	192 million	1.612 trillion	.80
2009		855	3,468,191	2.6	11,554,102,882	3,331	12,134,150,015	3,498	3,810,616,738	19,404,767,016	NA	1.5 trillion	1.29
Mexico	1940												
2008		132	2,682,161	3.7	1,979,236,800	738	1,692,369,592	631	Not Available	2,389,271,494	109 million	1.08 trillion	.22
2009		54	2,588,357	3.6	2,353,779,770	909	2,117,172,898	818	193,227,454	2,760,388,682	NA	1.01 trillion	.27

Source: WOCCU 2008 and 2009 Statistical Reports.

Note: The CU associations submit the aggregate information for CUs in their local currency and WOCCU converts the information to US dollars for comparability purposes.

*Penetration rate is calculated by dividing the total number of reported credit union members by the economically active population.

31. The ratio of institutional capital to total assets is low by international standards. The institutional capital includes membership shares, due unpaid shares, reserve fund, and net income. Due to the (unaudited) net loss in 2009 and the significant growth in total assets, the institutional capital to total assets ratio has declined. By the end of 2008, the capital ratio stood around 5.9%; it declined to 1.5% in 2009, and increased to 3.1% in the first quarter of 2010 (Table 5). The KAPER standard is 4%, well below international standards. For example, WOCCU's standard for institutional capital (undivided earnings and regular reserves only) is a minimum of 10% of total assets. In the United States, the ratio must be above 7%, otherwise the CU may face supervisory actions under what is known as "prompt corrective action". In the UK, the capital to assets requirement is at least 8% for version 2 CUs, which are the most similar to Polish SKOKs⁶. In Ireland, regulatory reserves must be kept at 10%. In Canada, regulatory capital must be more than 5% of total assets for all CUs with less than \$50 million in assets and 4% for all CUs > \$50 million in assets or for any CUs that make at least one commercial loan.

Table 5 - Breakdown of the Institutional Capital / Total Assets, by Asset Size

Total Assets (PLN)	2008	2009	Q1 2010
Over 90 million in asset	2.9%	2.4%	2.5%
20-89.9 million	4.4%	4.4%	4.6%
19.9-10 million	3.5%	5.7%	.1%
9.9-5 million	8.8%	.1%	.2%
Less than 5 million	10.0%	-5.2%	8.1%
Unweighted average	5.9%	1.5%	3.1%

Source: NASCU

32. With few exceptions, SKOKs' liquidity ratios are adequate and aligned with international standards. The financial margin to assets ratio in 2009 was on average 8.1%; which is adequate for the KAPER standard of 5%. The fixed asset to total asset ratio was low (1.4%) and manageable. The KAPER standard is 4%. Non-performing assets for SKOKs include cash, current accounts, shares in the stabilization fund, intangible assets and the provision for loan loss. This ratio was 11.8% as of the end of March 2010. This ratio compares unfavorably to the KAPER ratio of 6% and the WOCCU standard of maximum 5%. On the other hand, the average liquidity reserve for all SKOKs has been above the 10% requirement for more than five years, and stood at 17% in Q1 2010. As for other countries, in the UK liquid assets are required to be at least 10% of all uncommitted shares and deposits with a remaining maturity of 3 months. In Canada, class 1 CUs must hold 7% of deposits and borrowings as liquid assets and class 2 CUs need to maintain liquidity levels that are sufficient for the cash flow. Finally, the loans to deposits ratio for Q1 2010 remained stable at 78%. This figure compares well with the KAPER standard of 80% (Table 6).

Table 6 - Summary of Selected SKOK Ratios as compared to KAPER Standards

Average Ratios for All SKOKs	Dec. 2009	KAPER Standard
Net Profit / Assets	-4.0%	2.0%
Average Financial Margin/Assets	8.1%	5.0%
Operating Expense / Assets	10.3%	5.0%
Institutional Capital / Assets	1.5%	4.0%
Fixed Assets / Assets	1.4%	4.0%

⁶ In the UK, CUs are designated Version 1 or 2 CUs. The main distinctions between the versions are version 1 CUs are restricted in the amount of money lent and the length of the repayment period. These CUs are also restricted on investment and borrowing opportunities. Version 2 CUs are able to provide larger loans over longer periods and are able to borrow and invest over longer periods. They are also able to offer variable dividend savings accounts and declare a dividend more often than annually.

Non-Performing Assets / Assets	11.8%	6.0%
Ratio of Liquid Reserves	17.1%	10.0%
Loans / Deposits	78%	80%
Income Gaining Assets / Cost Bearing Liabilities	89.3%	85% minimum, Recommended > 100%

Source: NASCU

2.1 CURRENT REGULATION AND SUPERVISION OF CREDIT UNIONS IN POLAND⁷

33. Polish SKOKs have been operating under self-regulation. Currently, the SKOKs are regulated by the Credit Union Act of December 14, 1995, which gives the responsibility to the National Association of Credit Unions (NASCU) to regulate and supervise SKOKs (Articles 33-34 of the Act). Currently, NASCU performs as a regulatory and supervisory (including control functions) entity, a co-operative auditing association, and as a financial stabilization, investment, and central finance/settlement facility (See Annex 2).

34. NASCU functions not only as the internal finance center, but also as a link between the SKOKs and banking systems. NASCU pursues financial activities, accumulation of SKOK deposits, granting SKOK credits, investing free resources and organizing financial settlements. In this respect, it functions as a wholesaler, accumulating dispersed funds of different SKOKs. SKOKs maintain reserves at NASCU in the form of liquid reserves, stabilization funds, capital reserves and depositing resources that are not being used. NASCU raises additional funds for liquidity maintenance and for development of credit action by means of co-operation with banks, which includes transaction of credits and issuing commercial term investment bills (KWIT). NASCU also provides settlement services to SKOKs (involving the use of payment cards and ATM cards).

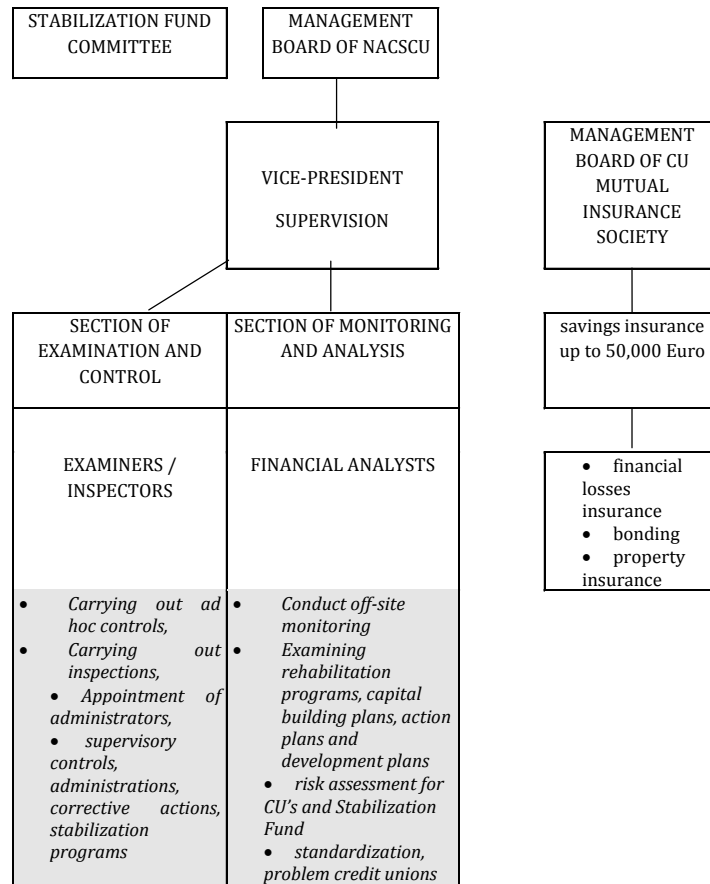
35. The new Credit Union Act intends to shift SKOKs supervision to the Polish Financial Services Authority (PFSA). Under the new Act, dated November 5, 2009, CU supervision is shifted to the PFSA, the body that provides regulation to other financial institutions in Poland. This Act was sent to the Constitutional Court by the late president Kaczyński, as there were concerns that it may violate the Constitution. Since no decision has been made by the Constitutional Court as of November 2010, NASCU remains the supervisory authority.

36. The credit union infrastructure has been built during the last 18 years, and currently supports the operation of 61 SKOKs⁸. The organizational structure supports the business of 61 SKOKs that range widely in asset size from PLN 6 million to PLN 3 billion. Within the NASCU structure, SKOKs have a 2 tier protection scheme, the stabilization fund and the insurance fund. Stabilization fund activities and compliance with NASCU regulation are performed by 2 groups of employees that fall under the Vice President of Supervision and are made up of 10 examiners and 8 off-site analysts, all of whom are full-time employees. There are 20 additional staff members with examination certificates in the legal, accounting, and IT departments; their expertise is used as needed in control and administration of SKOKs.

⁷ Information for this section on NASCU was provided by Mr. Wiktor Kaminski, VP of NASCU. More detailed information would be needed in order to provide a comprehensive assessment on NASCU's activities on supervision and regulation.

⁸ There were 62 SKOKs in 2009 and 61 in 2010.

Figure 4: General NASCU Structure of Savings Protection for SKOKs



2.1.1. NASCU REGULATION

37. NASCU has established prudential and non-prudential regulatory measures to ensure adequate operation and stability of the SKOK system. These measures aim at providing guidelines on acceptable risk levels for SKOKs, focusing on the safety of the savings placed with SKOKs, and ensuring that SKOKs comply with the applicable law. Regulations address a wide array of areas, such as: i) qualifications for members of Supervisory and Management Boards and their mandatory training; ii) qualifications for other SKOK employees; iii) limitations of competitive activities established by Cooperative Law; iv) reporting obligations; v) financial standards and acceptable risks in terms of capital, quality of assets and other financial parameters; vi) vindication of claims and assignment of receivables; vii) money laundering; viii) the use of uniform software; and ix) standards for the provision of services -general rules on which services are offered in SKOKs.

2.1.2. NASCU OFF-SITE SUPERVISION (MONITORING)

38. NASCU monitors SKOKs activity through SKOKs monthly and annual reports. NASCU off-site supervision requires SKOKs to provide monthly reports by the 25th day following each month (see Annex 2 for more information on NASCU Off-Site Reporting). These reports include general and basic credit statistics and more detailed accounting information on balance sheets and income

statements. At the end of each quarter, a SKOK must also send to NASCU their employment record and the statement concerning the location of all branches and sub-branches. On an annual basis, SKOKs provide balance sheet and income statement as of 31 December along with the control balance sheet including all accounts, analytic and zero accounts; and the minutes of the General Meeting with copies of all approved resolutions. SKOKs also provide periodical information on the price for all products and services. As a result of this information a comprehensive report for each SKOK and the SKOK system as a whole is produced based on the KAPER ratio system. Unlike the CAMEL system used by supervisors worldwide, no ratings are provided for each KAPER ratio to evaluate the risk associated with each area. The KAPER system only establishes a ratio standard. The lack of a rating makes the KAPER system more like a management tool for CU managers and less like an evaluation tool used by supervisors. In order to make the tool more useful there should be ratings for each ratio, for each of the 5 KAPER areas and one overall rating for the SKOK.

39. In cases where standards of acceptable risk are not met; NASCU actions may go from a simple *ad hoc* inspection in the SKOK to the suspension of the management board. From the report produced by the Data Monitoring Officer, the Head of Monitoring Section checks the general compliance of each SKOK and the SKOK system overall with the regulation, the basic accounting and bookkeeping rules, as well as analysis of the KAPER ratios. Specifically, the acceptable levels of capital, profitability, liquidity, overdue loans, as well as reserves are reviewed. The NASCU Management Board receives monthly reports, including basic financial data of credit unions, as well as other information that they request. Specified actions that may be requested by the NASCU Management Board may include performing an ad hoc inspection; carrying out explanatory proceedings; conducting a full scope inspection; and in extreme cases, suspending the SKOK Management Board.

BOX 2.1 NASCU ANNUAL AUDIT REQUIREMENTS

The Accounting Law (Sept 24/1994) establishes that SKOKs are subject to an annual audit if at least two of following conditions are fulfilled:

- Average employment for the year was at least 50 persons;
- Total assets at the end of the year were = or > than 2.5 million EUR; or
- Net revenues from sales of goods and products, and financial operations for the year amounted to at least 5 million EUR.

Although NASCU provides SKOKs with a list of recommended auditors, each SKOK is free to choose a qualified independent auditor to perform the audit.

In 2009, 28 out of 62 SKOKs were required to conduct an audit. In addition to the existing Law, NASCU released Resolution No. 1 (Oct. 6/2003) to establish further conditions in which SKOKs should perform an audit with the same scope as the one required by the Law. Among other conditions, the Resolution states that SKOKs should:

- i) Put themselves to inspection of annual financial statements if in the fiscal year, for which financial statements were prepared at least 2 of the following apply: a) a CU has at least 5 branches including the head office; b) the number of members of the CU exceeds 5000 persons; c) total year-end assets exceeded PLN 20 million. In 2009, 28 SKOKs met this requirement.
- ii) Arrange an expert evaluation of annual financial statements if at least 2 of the following apply: a) a CU has at least 3 branches; b) the number of members of the CU exceeds 300; c) total year-end assets exceeded PLN 8 million. This evaluation should be delivered by an expert auditor, although it is not a formal auditors' report. In 2009, 6 SKOKs were required to have an expert evaluation of their financial statements.
- iii) An audit or expert evaluation is obligatory for SKOKs that: a) developed a rehabilitation program; b) completed implementation of a rehabilitation program, or c) are at the point of merging and will be the SKOKs to take over.

2.1.3. ON-SITE SUPERVISION (CONTROL)

40. **Regular on-site inspections are conducted for SKOKs that do not conform to NASCU standards or those that have not been examined in the past three years.** The list of inspections for the upcoming year is due by 31 December of the current year. As SKOKs send their annual financial statements, the list may be changed by NASCU. Examiners also perform follow-up or ad hoc exams which are not full scope in nature, but focus on issues that were previously identified. Between full scope and follow-up exams, examiners are normally in the SKOKs every 1-2 years. Full scope inspections include the entire operation of a SKOK, i.e. governance issues, internal controls, and accounting; while ad hoc inspections include only specified areas⁹. Based on the results of the examination, a protocol with post-control recommendations is drawn up and signed by the SKOK management board. These recommendations include a schedule for eliminating deficiencies.

2.1.4. STABILIZATION PROGRAM

41. **The financial basis of the stabilization program is made up of capital and liquid reserves of SKOKs, budget funds, the NASCU Stabilization Fund, as well as budget funds and appropriate reserves of the CU Mutual Insurance Society.** NASCU manages the stabilization fund, which is constituted –according to the Law– by no less than 1% of SKOKs assets. This is also in line with international standards for credit unions that establish that the fund level should not be lower than 1% of assets and should normally not exceed 1.25% of assets. SKOK payments to the fund are made on a monthly basis.

42. **According to the NASCU by-laws, SKOKs are obliged to pay a regular contribution of 0.4% of annual revenue for stabilization dues.** In 2009, this amounted to PLN 5.9 million. The entire amount finances supervisory activities of NASCU. NASCU earns income from the Central Finance Facility investments in bank deposits, treasury bonds and bills, open-end investment funds and debt securities. This revenue constitutes the main source of financing for the budget. NASCU also maintains financial resources for the purpose of mutual crediting for SKOKs experiencing problems with liquidity. In an exceptional situation, a SKOK having liquidity problems can obtain a loan based on its credits and investments. According to NASCU provisions, the balance of obligations of the NASCU and a SKOK can reach as much as 40% of SKOK assets. This allows SKOKs to meet the needs of their members when there are overwhelming increases in loan demand and savings withdrawals.

Table 7 – Structure of the Stabilization Fund (March 2010)

Transferred Net Profit NASCU	262 835 735,66	Liquid – Invested in T-bonds, Money Market Fund and Open-end Investment Fund
Shares from SKOKs	120 662 255,77	Illiquid
Total	383 497 991,43	
Number of SKOKs with stabilization fund loans	7	
Amount of Stabilization Fund Loans	74,625,000 PLN	Illiquid
Balance of Stabilization Fund Loans	72,930,395 PLN	Illiquid

⁹ Rules of conducting a full scope or ad hoc examination, its manner of preparation by examiners, work methodology, analytical tools and other control activities are described in the NASCU “Examiner’s Guide”.

3. PRINCIPLES OF CREDIT UNION REGULATION AND SUPERVISION

43. **Despite their small size in percentage of GDP, it is important that CUs are effectively regulated and supervised.** Effective regulation and supervision of financial institutions provides for stability in a country's financial system. It enhances confidence in the system, minimizes the risk of financial institution acting as a source of contagion to sound institutions, and protects savings of individuals. CU regulation and supervision comes in many forms and is based on legislation.

44. **A strong supervisory framework is built upon a secure legislative foundation that is prudential, proportional and predictable.** Prudential legislation establishes financial standards to which a CU must adhere to protect the health of the institution and safeguard member deposits. Proportional legislation recognizes the risks that a CU presents to depositors and to the financial system as a whole, while establishing appropriate rules to mitigate those risks. Predictable legislation provides the clarity and certainty that a credit union needs to plan and invest for the future.

BOX. 3.1 SUPERVISION OF CREDIT UNIONS: GENERAL GUIDELINES

Credit Union supervision includes objectives, principles and methods similar to those of banking supervision. As addressed by the BASEL Committee in the "Core Principles of Effective Banking Supervision", supervision should have clear objectives and responsibilities; the supervisor should be independent, apply transparent processes, have sound governance, adequate resources and be accountable for their actions and discharge of their duties. In order to achieve successful supervision in the CU sector, general guidelines need to consider:

- Permissible activities of licensed CUs must be clearly defined;
- The licensing authority must have the power to set criteria and reject applications for CUs that do not meet the standards;
- The supervisor must have the authority to approve all mergers, liquidations, or changes in organizational structure;
- Minimum capital adequacy requirements have to reflect the risks that the CU undertakes and the components of capital have to be defined in terms of its ability to absorb losses;
- Supervisors need to certify that CUs have a comprehensive risk management process (including Board and senior management oversight) to identify, evaluate, monitor and control, or mitigate all material risks;
- Supervisors must be satisfied with CUs policies, procedures and processes to assess, identify, measure, monitor and control credit, liquidity, operational and interest rate risks;
- Supervisors must require CUs to maintain adequate reserves
- Supervisors must be satisfied with CUs processes to manage concentrations within portfolios and prudential measures to limit exposure to single members or related parties;
- CU internal controls must be adequate for the size and complexity of their business, they should have clear arrangements for delegating authority and responsibility, separation of the functions that involve committing the CU, paying away its funds, accounting for assets and liabilities, safeguarding the CU's assets and appropriate internal audit and compliance functions to test adherence to applicable laws and regulations;
- Adequate accounting records must be kept in accordance with widely accepted accounting policies and practices. An acceptable level of disclosure should be provided;
- Supervision should consist of a group of examiners designated specifically to CU supervision with a means of collecting, reviewing and analyzing prudential reports and have the capacity to verify these reports; and
- Supervisors must have an adequate range of supervisory tools to bring about timely corrective actions which should include the ability to revoke a CU license

3.1. DEVELOPMENT OF CU SUPERVISION

45. **The type of supervision for CUs is largely dependent on the phase of development and the dynamic of the CU sector in each particular country.** In early stages, credit union regulation tends to focus on basic functions such as licensing and registration. As the sector matures, more complex standards for prudential behavior tend to emerge, i.e. capital, liquidity and other risk management requirements.

46. **Following the establishment of prudential standards, a risk assessment process is typically established by the supervisor to ensure compliance with regulatory requirements** (financial and regulatory reporting and on-site examinations). Once these mechanisms are in place, a risk-based supervision framework is introduced to measure and assess risk on an institution by institution basis.

47. **Mature CU systems implement enforcement measures to mitigate risks for depositors, including the operation of deposit guarantee schemes.** After the introduction of a risk based supervision framework, further steps include introducing enforcement measures to mitigate risk for depositors through required prompt corrective action. Finally, in a mature system, a deposit guarantee system is introduced to provide explicit guarantee to depositors that their funds are partly or fully protected.

BOX 3.2 APPROACHES TO CU SUPERVISION¹⁰

While several models of CU supervision have emerged, WOCCU maintains that the ministry or agency that regulates financial institutions should supervise CUs through a specialized unit trained in their structure, methodology, processes and risk. Different models of CU supervision are described below:

- **Direct Supervision**

Direct supervision by a prudential government regulator with the statutory responsibility of regulating CUs ensures uniform standards of competition in the market, eliminates the chance of regulatory arbitrage and promotes greater consumer confidence. The greatest deterrent to implementing this framework is the actual and perceived cost in countries that have hundreds or thousands of CUs to supervise with scarce public resources. Countries that use this model include: Australia, Ireland, UK and the United States.

- **Direct Supervision of the Largest CUs**

This type of direct supervision extends the technical expertise in central banks to CUs and focuses the resources on the largest institutions that could present systemic problems if they fail. In some countries, the financial sector regulator directly supervises only the country's largest credit unions, based on asset size or deposit base. This model is now utilized in Bolivia, Chile, Colombia, Ecuador and El Salvador. In Bolivia, Ecuador and El Salvador, smaller CUs receive limited non-prudential oversight from another government agency not responsible for banking matters. This framework requires fewer resources from the supervising agency but divides the CU sector into two, with differing compliance and regulatory requirements. The effect of this framework has been confusion among depositors.

- **Self Supervision**

Self supervision is a model typical of CU sectors in an early stage of development. Frequently, the CU association performs the supervision. This model has the advantages of allowing for closer feedback between the CU and its supervisor compared to direct supervision and of providing the association an income stream. It also has the benefit of getting CUs used to a reporting process and may allow them to apply basic standards of best practice. However, the conflict of interest is significant. The national association generally has been created by the CUs with its principal objective being the promotion of CUs. The CUs generally pay a fee to support the association and frequently the association's board is made up of CU officials and managers. It is generally impossible to provide effective, independent supervision to an institution under this sort of scenario. Historical evidence is clear, self regulation and supervision has been tried many times, usually in developing countries where supervisory resources are limited, and has virtually never been effective in protecting the soundness of the regulated institution.¹¹

- **Delegated Supervision**

In the delegated supervision approach, the government financial supervisor delegates direct supervision to an outside body, while monitoring and controlling that body's work. This approach is currently used in Albania and Korea. Overall, this approach has worked well where the government financial supervisor closely monitored the quality of the delegated supervisor's work. However, it is not clear that this model reduces total supervision costs. The potential implementation of such an approach needs to consider important elements, such as i) who will pay for the substantial cost of the delegated supervision and the government's supervisory oversight of it; ii) is there a realistic fallback option available if the delegated supervisor proves unreliable and its delegated authority need to be withdrawn; and iii) which body will have the authority and ability to clean up the situation by intervention, liquidation, or merger if the supervised institution fails.

¹⁰ WOCCU Technical Guide - Credit Union Regulation and Supervision.

¹¹ CGAP Microfinance Consensus Guidelines – Guiding Principles on Regulation and Supervision, page 28.

3.2. CU REGULATION

48. While there is no consensus regarding the ideal structure of financial regulation around the world, the trend toward a more consolidated regulatory structure is evident. Globally, the common characteristic of all single regulatory structures is prudential supervision of all financial firms. The organizational structure and details of this supervision may vary.

49. The benefits of a single regulator include a consolidated view in a financial marketplace that has become more complex, and the provision of a consistent regulatory framework. Further benefits include economies of scale as regulators frequently conduct a variety of overlapping activities; and economies of scope as a single regulator may be able to deliver a greater scope of services such as prudential and non-prudential standards setting for the entire financial services industry, more comprehensive supervision of individual firms, development of a high-powered staff and ability to address financial services-wide risk issues. A single regulator would be accountable for its actions and would provide a consistent regulatory framework. This consistency could eliminate “turf wars” between competing regulatory bodies and create a level playing field of rules and regulations. The single regulator may also be more flexible in dealing with the emergence of new innovations in the marketplace.

50. If supervision is to be performed by one regulatory body it cannot be a “one size fits all” approach.¹² The disadvantages of a single regulator include unclear objectives, and an agency that is too large to be effective. Consolidated supervision is frequently cited as favoring larger entities and focusing on the oversight of complex financial institutions; while smaller institutions like CUs can be subjected to the more rigorous bank type examinations, ideas, and attitudes.

51. While higher regulatory standards may strengthen overall performance of the CU sector, it may increase the burden for smaller CUs. Higher standards of governance and regulatory planning in Australia have improved the professionalism and strength of the CU sector. However, the increased regulatory compliance burden has contributed to a steady trend of mergers. Since 2000, the 111 CUs have been subject to a more consistent prudential regulatory regime under the Australian Prudential Regulation Authority. Prudential standards applying to all authorized deposit taking institutions have been harmonized and there is no special treatment of any entity. Positive public perceptions about the prudential standings of CUs have been confirmed as the sector maintained depositor confidence during the economic crisis of 2008 and 2009.

¹² Filene Institute – Evaluating the Single Financial Services Regulator Question, 2009.

BOX 3.3 EVIDENCE ON BANKRUPTCY OF CREDIT UNIONS

Most recent CU failures worldwide have been due to non-performing loans and weak management, relying on a reactive management style instead of being proactive. Unfortunately, there are no recent studies available that look at CU failures since the onset of the economic crisis in late 2008. However, based on the information collected through personal interviews, most recent CU failures have been due to non-performing loans and weak management. The latter refers to management that was unable to make difficult decisions such as closing a branch, laying off employees, hiring a new CEO, or reducing operating expenses. Surprisingly, few failures have been due to fraud. CU failures due to fraud are more prevalent in small CUs than in large CUs.

According to previous studies, the main macroeconomic conditions associated with the failure of CUs were increasing interest rates due to inflation and unemployment¹³. There were numerous microeconomic conditions that were associated with CU failures that included: structure of a CU's balance sheet, that is types of securities, loans and savings; structure of a CU's income statement including interest spread, borrower dominated versus saver dominated CU, level of noninterest expense and provision for loan loss; and the regulatory environment such as field of membership requirements, range of powers and the CU activities permitted. The studies found that the change in macroeconomic conditions seem to explain a large fraction of the overall level of CUs failures over time, while microeconomic conditions of individual CUs seem to explain which ones actually failed.

The highest failure rates from 1981-2004 were in very small CUs.¹⁴The reasons for failure in smaller CUs included: management teams with less financial and accounting experience, poor record keeping, a smaller ability to prevent and detect fraud, less well diversified portfolios (smaller number of borrowers, many of which represent a large percent of the CU assets), weak lending and collection practices, refinancing delinquent loans and less extensive regulatory examinations. Small and very small CUs held 2.39% and .07% respectively of total CU assets as of 2004; as of 1980 these CUs held 25% of total assets. The large decrease is due both to CU failures and mergers. Conversely very large CUs (>\$100 million in assets) had increased from one-third of CU assets to more than three-quarters of CU assets during the same period. During these two decades, the financial strength of the small CUs suffered as did their decline in market share.

Surviving CUs from 1995-2004 were also found to have distinct financial characteristics which included: average net worth (institutional capital) ratio of 10.4%; majority of investments with maturities of < 3 years; average Loans to Assets ratio of 64% - with 1.07% in business loans, 9.7% in unsecured loans, 19% in 1st mortgages and 27.5% in other real estate loans; average Return on Assets of 1.04%; non-interest expenses of 2.95% of total assets; delinquent loans (> 60 days) to Total Loans ratio of .43%; and average Net Loan Charge-offs to Average Loans ratio of .30%.

3.3. THE ROLE OF DEPOSIT INSURANCE¹⁵

52. CU member's deposits in Poland are currently protected by a two tier system. The first level is the stabilization fund administered by NASCU. The fund is used to assist CUs with problems if they can be rehabilitated. If this is not an option, the fund should be used for their merger or liquidation. The second level of protection is the mutual insurance company fund – TUV SKOK. The fund insures CU member deposits up to 50,000 Euros in cases when the stabilization fund cannot provide adequate coverage¹⁶.

¹³ Determinants of Credit Union and Commercial Bank Failures: Similarities and Differences 1981-2005, James A. Wilcox, 2007; and Failure and Insurance Losses of Federally Insured Credit Unions: 1971-2004, James A. Wilcox, 2005.

¹⁴ The breakdown was as follows in CUS with: < \$1 million in assets – 966 CUs or 1.24% of these CUs failed annually; \$1 - \$10 million in assets – 583 CUs or .42% failed annually; \$10 - \$100 million in assets – 140 CUs or .17% failed annually; and > \$100 million in assets – 7 failed or .05% annually.

¹⁵ Core Principles for Effective Deposit Insurance Systems, Basel Committee on Banking Supervision, June 2009.

¹⁶ As of the end of 2008, TUV SKOK's equity position amounted to approximately PLN 150 million relative to more than PLN 10 billion of insured deposits.

53. According to the new Law, PFSA has full regulatory and supervisory powers over CUs, yet has no power or decision making authority over either fund. The lack of clear authority may cause problems between PFSA and NASCU in the future. The question then is whether CUs should also have access to state guaranteed deposit insurance as banks currently do. The current insurance is provided by a mutual company, but the amount of available resources is limited as compared to deposit insurance with the implicit guarantee of the state. If state guaranteed deposit insurance is an option, it certainly seems CUs should take advantage of this option, provided however that the new model of CU supervision performs adequately, the SKOKs capital position is strengthened and the new state deposit guarantee system follows international standards (as discussed below).

54. Since the economic crisis, explicit deposit insurance has become the preferred choice. An effective deposit insurance system should be based on a number of external elements or preconditions. These preconditions, although mostly outside the direct jurisdiction of the deposit insurance system, have a direct impact on the system. These preconditions include:

- a. An ongoing assessment of the economy and financial institutions system;
- b. Sound governance of agencies comprising the financial system safety net;
- c. Strong prudential regulation and supervision; and
- d. A well developed legal framework and accounting and disclosure regime.

Table 8 - Changes to Coverage during the Financial Crisis

Country	Changes Made
Ireland	In September 2008, the Deposit Guarantee Scheme was extended to CUs and the limit was increased to 100% of each member's savings up to a maximum of 100,000 Euros.
USA	Coverage was raised from US \$100,000 to \$250,000 per member in banks and CUs for 1 year.
UK	In reaction to deposits leaving the UK for Ireland, insurance was increased from £ 35,000 to 50,000.
Germany	Announced an unlimited savings guarantee.
EU	Increased its minimum from 20,000 to 50,000 Euros and it will increase to 100,000 Euros after 1 year.
Poland	Increased insurance for deposits in CUs from 22,500 to 50,000 Euros.
Australia	Neither Australian banks nor CUs had deposit protection prior to the crisis. In October 2008, the government introduced what they called a savings guarantee, not deposit insurance. The guarantee was for up to AUD \$1 million with no associated premium for the banks or CUs. The guarantee was for 1 year. The government is now trying to figure out how to make this more traditional deposit insurance. * To not lose deposits to Australia, New Zealand made the exact same changes the same day that Australia made the changes.

Source: WOCCU

55. The principles from the Basel Committee on Banking Supervision and the International Association of Deposit Insurers should be considered if the government were to implement deposit insurance with state guarantee. The Basel Committee and the International Association of Deposit Insurers put together 18 core principles for a deposit insurance (only 16 are applicable to the Polish CU scenario –as the other two principles include cross border issues and changing from a government blanket guarantee to a limited coverage deposit system system. Provided such a system is carefully designed to limit moral hazard, it can contribute to public confidence and thus limit contagion from CUs in distress. These principles should be considered if a deposit insurance system is to be established for CUs with a state guarantee.

BOX 3.4 MAIN PRINCIPLES OF DEPOSIT INSURANCE

1. Setting Objectives: The policy focus should be on depositors who are generally in no position to make an informed assessment on the risk of failure of their CU (e.g. retail and small business depositors). The deposit insurance system should be designed to mitigate moral hazard with features such as: limits on the amount insured; excluding certain categories of depositors from coverage; and implementing differential or risk adjusted premium systems.

2. Mandates, Powers and Governance: It is critical that the mandate selected for a deposit insurer be clear and consistent between the public policy objectives and the powers and responsibilities given to the deposit insurer. The mandate may range from a narrow so called “paybox” system largely confined to paying the claims of depositors after a CU has been closed to those with broader powers and responsibilities such as loss or risk-minimization. The deposit insurer should be operationally independent, transparent, accountable, and insulated from undue political and industry influence.

3. Relationships with Other Safety-net Participants: Management needs of a deposit insurer may vary according to its mandate and powers. When a single organization performs all of the safety-net functions, the smooth resolution of potential tensions is dependent on clarity of mandates and an adequate accountability regime among the relevant departments

4. Membership and Coverage: Membership in the deposit insurance system should be compulsory for all financial institutions accepting deposits from those deemed most in need of protection. This is of particular importance where the deposit insurance system may be directed to include non-traditional financial institutions such as micro-lending or credit institutions that may not be under the same form of regulation. It should be determined whether eligible CUs will be given membership automatically or whether they should be required to apply for entry. The criteria should be clear and transparent. The concept of insurable deposit should be clearly defined and the level of coverage should be limited. A reasonable amount of coverage should be offered that covers the majority of people, not necessarily the majority of money.

5. Funding: A deposit insurance system should have the necessary funding mechanisms¹⁷ available to ensure prompt reimbursement of depositors claims including a means of obtaining supplementary back-up funding for liquidity purposes when required. Primary responsibility for paying the cost of deposit insurance should be borne by CUs since they and their members directly benefit from having an effective deposit insurance system.

6. Public Awareness: Public awareness of the existence of deposit insurance and how it works, including the level and scope of coverage and how the claims process operates, plays a significant role in supporting a sound system.

7. Selected Legal Issues: The deposit insurer and the employees should be protected against lawsuits for their decisions and actions taken in good faith while discharging their mandates. However, individuals must be required to follow appropriate conflict of interest rules and codes of conduct to ensure they remain accountable. A deposit insurer should be provided with the power to seek legal redress against those parties in a CU failure.

¹⁷ Funding mechanisms include: ex-ante, ex-post and hybrid. Ex-ante funding requires accumulation and maintenance of a fund to cover deposit insurance claims and related expenses prior to failure occurring. It is principally funded by its members through contributions, insurance premiums and other means. In ex-post funding systems, funds to cover deposit insurance claims are only collected from member CUs when a CU fails and the need to cover claims develops. In order to be effective ex-post systems require virtually immediate access to back-up funding since they have little or no funding of their own. Many ex-ante systems incorporate elements of ex-post systems (e.g. the ability to increase premiums, charge additional levies and receive the proceeds of liquidations) and thus can be considered as hybrid systems.

8. Failure Resolution: The deposit insurer should be part of a framework within the financial system safety net that provides for the early detection and timely intervention and resolution of troubled CUs. The determination and recognition of when a CU is or is expected to be in serious financial difficulty should be done early and based on well defined criteria. Criteria normally include concerns over a CU's ability to meet capital requirements; low levels of accessible liquidity; deterioration in the quality or value of assets; and a finding that the CU is operated in an unsafe and imprudent manner.

The resolution process should be effective and should: facilitate the ability of the deposit insurer to meet its obligations including reimbursement of depositors promptly and accurately and on an equitable basis; minimize resolution costs and disruption of markets; maximize recoveries on assets; and reinforce discipline through legal actions in cases of negligence or other wrongdoings.

9. Reimbursing Depositors: Depositors should have a legal right to reimbursement up to the coverage limit and should know when and under what conditions the deposit insurer will start the payment process. The deposit insurer should share in the proceeds of the recoveries arising from the failure of its member CUs. The management of the assets of the failed CU and the recovery process should be guided by commercial considerations and their economic merits.

Box. 3.5 EVOLUTION OF DEPOSIT INSURANCE IN THE US AND IRELAND

The evolution of deposit insurance varies around the world as to the path countries take to provide some sort of insurance for CU member deposits.

The Experience in the United States¹⁸

In the US this process has been well documented and researched. Federal deposit insurance did not follow any traumatic event, as for the banks and the Great Depression. The introduction of federal insurance followed years of experimentation with non-federal insurance and debate among CUs and within the federal government. The CUs and the Credit Union National Association (CUNA) opposed federal insurance. Among the objections, CUs cited the threat of federalization of the dual chartering system and/or the implication that mandated insurance meant CUs were potentially unsafe.

In the 1950s, state CU leagues sponsored stabilization programs to help troubled CUs but no insurance was included. In 1955, the 1st private plan to insure CU savings was launched. In 1961, the 1st state sponsored plan was started. Finally CUs acquiesced to what they perceived as market pressure (there was a steady decline in savings in the 1960s) and accepted federal deposit insurance in the 1970s.

In the Federal Credit Union Act, all federal credit unions (FCUs) had to apply for federal insurance immediately. FCUs that did not meet insurability requirements had 1 year to improve or face closure. The level of insurance was capped at \$20,000 like other deposit insurance funds. This cap was increased to \$40,000 in 1974. State Credit Unions (SCU) could join state insurance programs, private insurance, or the federal program. By 1983, only 3 states did not require insurance for SCUs. Due to the Savings and Loan failures in 1985 and a state savings bank failure, by 1991 most CUs had switched to federal insurance. Because of this migration to federal insurance, the private insurance funds were closed and member CUs were paid a liquidating dividend. There is currently only one private insurer for CUs remaining in the USA.

In 1971, the National Credit Union Share Insurance Fund (NCUSIF) was set up as a revolving fund in the US Treasury. Unlike FDIC, NCUSIF did not receive any start-up funds from the Treasury. NCUSIF was financed by premiums charged to FICUs and interest earned on funds accumulated. The initial premium was 1/12th of 1% of total shares. If NCUSIF expenses exceeded its income, an additional premium could be levied that should not exceed the size of the regular premium. The NCUSIF also had a line of credit with the US Treasury.

Mounting losses in the 1980's led NCUA to implement structural changes. NCUSIF switched from relying on premiums to a capitalization system based on FICU deposits. However, from 1980-1982 insurance losses continued to climb. NCUA had to levy additional premiums. Because of the large cash outlays, NCUA turned to non-cash methods to deal with problem CUs such as allowing CUs to operate with low or negative net worth with guaranty accounts and the sale of CU assets with full asset guarantees.

Finally in 1984 the Federal Credit Union Act introduced the capitalization plan that is still in force. FICUs deposited 1% of their insured savings in the NCUSIF. NCUSIF could still assess annual premiums of 1/12th of 1% of total savings. With this system, capitalization has greatly reduced the cost imposed on FICUs. Over the next 2 decades, FICU insurance costs were reduced by over \$2 billion. However, now the effect of the financial crisis has been felt on the NCUSIF and CUs are having to write down their capitalization deposits due to NCUSIF losses and have been required to recapitalize the fund once again.

The Case of Ireland

Ireland had a stabilization fund for over 30 years that was administered by the Irish League of CUs. In 2008, the Government announced its intention to extend the Deposit Guarantee Scheme to CUs. The league has not yet decided what to do with the 100 million Euros that they have in the stabilization fund. There have been discussions about allowing lower premiums than banks because the stabilization fund would serve as additional protection or that the fund could serve as supplemental insurance to insure large deposits above 100,000 Euros. The Central Bank supports the concept of a stabilization scheme. However, if a stabilization scheme is approved by the Bank it should be operated in an independent and transparently funded fashion, be clear as to the rules under which support could be accessed by CUs and be regulated by the Central Bank.

¹⁸ Failure and Insurance Losses of Federally Insured Credit Unions: 1971-2004, James A. Wilcox, 2005.

4. THE NEW LAW ON CREDIT UNIONS AND RECOMMENDATIONS FOR ITS IMPLEMENTATION

56. **Self-regulation through NASCU has worked in the Polish CU sector so far.** The rapid growth of the sector in the past 18 years, the increased level of sophistication in the general CU infrastructure, and the fact that the SKOK system has so far weathered the global crisis¹⁹, are clear examples.

57. **However, as mentioned earlier, the principal disadvantage of a self-regulatory system related to the inherent conflict of interests may outweigh any advantage.** National associations have generally been created by the CUs with their principal objective being the promotion of CUs. The CUs generally pay a fee to support the association and frequently the association's board is made up of CU officials and managers. The international experience has shown that it is hard to provide effective, independent supervision to an institution under these circumstances.

58. **Given the growing importance of SKOKs in terms of the size of assets under management and the large number of members, it is necessary for the Polish authorities to start regulate and supervise the system to protect its soundness.** The current system of self-supervision seems no longer adequate given the size of the SKOK system, inherent conflict of interests between the apex supervisory credit union and member credit unions, and the rising systemic importance of SKOKs for the whole banking sector. Moreover, that fact that the global financial crisis has not stopped SKOKs from growing assets at the cost of lower capital and lower financial stability shows that the current supervision model seems to have outgrown its limits. The delegated supervision model enshrined in the new Law, with the PFSA acting as the main supervisor and NASCU playing a subordinate, but complimentary role, promises to provide more effective regulation and supervision and thus to enhance the stability of the SKOK system and give SKOK members additional confidence in the system.

59. **The Law in Poland establishes non-prudential and prudential CU standards, putting the sector at the intermediary stage of development.** In the past, NASCU has performed both off and on-site monitoring. With the new law, these tasks will soon be assumed by the PFSA. The PFSA has already discussed applying risk based supervision to CUs based on the risk posed by each individual CU.

60. **The new law on SKOKs, grants supervision to PFSA but states that NASCU will continue to provide "monitoring or control" in the SKOKs.** The way supervision is going to be coordinated with NASCU is still unclear, along with other areas within the law that are open to interpretation.

4.1. GENERAL RECOMMENDATIONS

61. **The law that regulates CUs should ensure an appropriate set of financial management disciplines, create avenues for building and distributing capital, establish governance controls and set up a prudential supervisory framework.** The regulation should also provide the regulatory authority with the powers to implement and enforce regulatory requirements.

62. **Secondary regulations should set forth the application and enforcement of the Law by the definition of specific measures not addressed in the general Law.** Regulations of CUs are likely to differ from those of other financial institutions. Thus, specific regulation should address issues on: areas of permissible activities, licensing criteria, minimum start-up capital

¹⁹ There are concerns about the quality of financial data reported by SKOKs and the auditing standards. However, these issues go beyond the scope of the report.

requirements, definitions of capital and capital adequacy, credit granting procedures, provisioning for losses, and management of liquidity constraints.

63. CUs most important regulations should include considerations on licensing, capital adequacy, liquidity and loss provisioning. The economic crisis has proven the importance of capital adequacy, liquidity and provisioning in financial institutions. Table 2 in this report showed a decrease over time of the number of CUs in all the markets analyzed. If CUs do not have adequate capital, provisioning and liquidity, they would not be able to endure their own operational and financial problems and will be unable to withstand upheavals and negative market trends. This is further evidenced by the changes to banking regulation and supervision, proposed recently by the Basel Committee (Box 4.1).

BOX 4.1 BASEL COMMITTEE: NEW REGULATORY MEASURES

- ***Raising the quality, consistency and transparency of the capital base:*** The committee's goal is to ensure that banks move to a higher capital standard that promotes long- term stability and sustainable growth, creating a banking system that will be in better position to absorb losses. In terms of the quality of capital, the Committee proposes that Tier 1 capital be defined as common shares and retained earnings. Innovative hybrid capital instruments will be phased out and Tier 3 capital instruments eliminated. The committee further proposes to enhance capital base transparency by requiring institutions to disclose the capital elements in specific reported accounts.
- ***Provisioning changes:*** The Committee is promoting more forward-looking provisioning based on expected losses, which captures actual losses more transparently and is less procyclical than the current "incurred loss" provisioning model.
- ***Supplementing the risk-based capital requirement with a leverage ratio:*** This will help contain the build-up of excessive leverage in the banking system and introduce additional safeguards.

Source: WOCCU, Regulatory Update – March 2010

64. The SKOKs should use the chart of accounts, accounting principles and reporting formats required for other financial institutions. Regulation should establish the minimum requirements for CU accounting and auditing so that these functions are standardized. SKOKs currently report under a general system required for a wide array of businesses such as retail businesses. However, this type of reporting is inadequate for a financial institution and needs to be changed. A transition period should be given to the CUs to make this change in their accounting system.

65. Internal audits should be part of a sound system management. CUs should have an internal audit function. The internal auditing shall be performed by an independent, qualified third party with appropriate auditing experience and background to meet the internal audit objectives

66. The SKOKs' governance structure should be strengthened. In general, CU governance worldwide has been problematic due to their membership based structure. To improve CU's governance in Poland, government policies should aim at promoting the existence of: clear procedures, responsibilities and limits for employees, officials and governing bodies; minimum qualifications in terms of educational background and professional experience; well established fiduciary responsibilities and penalization of misconduct; as well as a comprehensive code of conduct to reduce the potential for wrongdoing and conflicts of interests. Establishing an internal dispute resolution system would also be useful.

67. The limited number of SKOKs in Poland will make it easier to implement PFSA supervision.²⁰ Usually, government regulators hesitate to provide supervision to CUs, because there are normally a large number of CUs with a small number of members and total assets are small in comparison to total assets in the banking system or as percentage of total GDP. The PFSA in Poland, however, has numerous advantages over most government supervisors when taking over the supervision of SKOKs. By performing supervision in just one SKOK (SKOK Stefczyka), 38% of the sector's assets will be reviewed and supervised, which would be logistically much less complicated and less costly than supervision of a lot of small CUs.

68. Supervision should be risk-based in its approach, yet balanced and proportionate depending on the identified risks. That is, the intensity of the supervision will be linked to the risk profile of each CU. CUs that are large in asset size and membership will experience much more intrusive supervision than smaller CUs. Well managed large CUs will have less intrusive supervision than poorly managed large CUs. Supervision should ensure that the biggest and riskiest CUs manage themselves much better than smaller CUs and that management is held more accountable for their actions.

69. Delegating parts of the on and off-site supervision process to NASCU may be a good starting point for the implementation of PFSA supervision. It will be important, however, to clearly define the circumstances and processes of on and off-site supervision that are going to be delegated to NASCU. This delegation will help offset supervision costs as NASCU has 18 experienced examiners (off and on-site). If trained in PFSA supervision techniques, these examiners would be able to assist PFSA in all stages of off and on-site supervision (See Annex 6 for more detailed information).

70. The PFSA may want to choose to perform on-site supervision of only the largest SKOKs and those that due to special circumstances may require close supervision by the authorities. The PFSA has numerous choices with regards to on-site supervision. PFSA may want to delegate some of the on-site examinations of the lower risk SKOKs to NASCU. This will depend on the findings and results of the initial on-site evaluation exams. Since the range in SKOK asset sizes is so great, after the initial on-site evaluation examination, the PFSA may want to choose to perform on-site supervision of only the largest SKOKs (with assets greater than PLN 150 million) and SKOKs with serious problems that may threaten the future of the SKOK. (See Annex 7 for more detailed information).

71. The PFSA may always be entitled to control the quality of the delegated examinations through their regulation and supervision of NASCU. It may be more cost-effective for the PFSA to perform the on-site exams in the largest SKOKs and those with serious financial problems and to delegate the remainder of the on-site examinations to NASCU. The PFSA could review a sample of the on-site examinations that NASCU performs. The Korean case may be a good example as the regulator has successfully implemented this approach. It is important to note that in delegating the on-site examinations to NASCU, PFSA is not delegating their right to regulate, supervise and perform examinations in the SKOKs.

72. The best for on-site examinations is to have on-site examiners that are dedicated to SKOKs exclusively. This scheme will allow for examiners to be trained specifically for SKOK examinations and SKOKs will receive the attention they deserve. Frequently, if an examiner is assigned on-site examinations at several different types of financial institutions, the CUs are often neglected because they generally have a smaller amount of assets and pose less risk to the financial system. An examiner that is not dedicated to SKOKs will also frequently put SKOKs through bank type examinations. This situation has not worked well for CUs in the past.

²⁰ As of the first quarter of 2010, there were 61 SKOKs. One SKOK has assets that represent more than one third of the total SKOK system assets. There are 20 SKOKs with more than PLN 90 million in assets; 23 with assets between PLN 20 – 89.9 million; 8 with assets between PLN 10 – 19.9 million, 7 with assets between PLN 5 – 9.9 million and 3 with assets less than PLN 4.9 million.

73. **Special attention should be given to off-site monitoring reports as they constitute the primary source of information for directing the regulator’s risk-based approach to CU’s supervision.** These reports should be supported by an on-line reporting system and include data checks or validation to improve the accuracy of the information.

4.2. COMMENTS TO THE NEW LAW ON CU

74. The following comments are made on the current Articles of the New Law that would need further clarification and discussion by the authorities to ensure the successful implementation of a new regulatory framework for CUs in Poland.

75. **Article 7, addressing the creation of SKOKs, needs to be clarified and limited through further regulation.** Additional regulation would need to address issues on: i) the use of standard by-laws by new SKOKs to encourage a more standardized institution; ii) minimum amount of start-up capital (membership shares); iii) minimum number of members; iv) requirement for a business plan demonstrating that the proposed SKOK is viable; and v) requirement to submit the names and resumes of the proposed officials in order to determine that these individuals are qualified to hold the positions. These requirements and minimums do not necessarily have to be part of the law but they should be covered in the regulation.

76. **Article 24, establishing a solvency ratio of 5%, needs to be complemented in the regulation with a clearly defined method of calculation.** Independently of the specific final number, it is very important for the authorities to include in the regulation clear definitions and a detailed method of calculation for this type of measures. Furthermore, SKOKs would have to be given reasonable time to meet the standard, as increasing capital is a long-term process. Unlike banks, CUs do not have alternative forms of capital, and institutional capital is limited to past profits, allocated reserves, and member shares if they cannot be withdrawn. In some countries a portion of subordinated debt may be considered capital if it meets certain requirements (e.g. maturity more than 5 years).

77. **Articles 24 and 54 provide for the inclusion of membership shares as part of the institutional capital.** Usually only funds in which no party other than the CU has legal rights to should be included as capital. Membership shares are currently withdrawable upon termination of membership, but only at the end of the year after it is determined that net income is sufficient. In order to use these funds as capital, a threshold should be established. With the threshold, the CU is not the legal owner of the funds but has control over the funds. This should be the only way for membership shares to be considered part of institutional capital.

78. **Article 34 should be given further discussion.** Provisions on the number of loans that can be guaranteed are normally found in secondary regulation or in the CU policy itself. It is unusual to find this type of definitions on the Law. However, it is safer or more conservative to allow a member to guarantee only one loan. If members are allowed to guarantee two additional loans besides their own, repayment could be very difficult under critical circumstances.

79. **Articles 44(3), 66, 67, 70(1) and 70(2).** Article 44 states that NASCU conducts “inspections” of its member SKOKs. Article 66 states that NASCU “activities are undertaken within the framework of **controlling the activity** of SKOKs”. The list of activities performed by NASCU in this article is very similar to the list of activities performed by PFSA in the following article. Article 67 states that PFSA “activities undertaken within the framework of **supervision over operation** of the CUs”. The current wording of the articles is confusing as they assign similar tasks to both bodies (PFSA and NASCU). The lack of clarity is likely to cause problems between the two parties in the future.

80. **More clarification on the division of responsibilities and tasks should be given in the regulation, as current articles do not indicate if PFSA may delegate some or all of their supervision responsibilities to NASCU.** Article 70 (1) infers that NASCU will make inspections and report irregularities to PFSA, while item (2) of this article infers that NASCU would be

responsible for the follow-up on inspection recommendations. The article is confusing as the reporting scheme is not implied in previous articles.

81. Article 69 (3) states that inspections are conducted after providing written notification. It would be important to include a clause that allows for an inspector to conduct a surprise inspection if warranted, that is, the inspector believes there are fraudulent activities.

82. Article 83 of the Law refers to the possibility of the NBP granting a loan to NASCU in case of a threat to a CU's liquidity. This would allow supporting the stabilization fund managed by NASCU on the condition of providing adequate security. The article does not state, however, if NBP can require NASCU to submit any requested reports.

83. Additional provisions on a number of issues not addressed yet by the Law need to be further developed to make the new regulatory and supervisory framework operational. The following issues are not yet covered by the Law:

- a. Applicable definitions of words and phrases used in the Law;
- b. Permissible activities for SKOKs;
- c. Duties and responsibilities of the supervisory and management boards;
- d. Requirements for provisions or reserves for problem assets;
- e. Discussion on conflicts of interest or the requirement for "arms length" transactions;
- f. Liquidity requirements beyond 10% of savings and loan fund;
- g. Methods or indicators used to identify, measure, monitor and control interest rate risk;
- h. Need for an internal auditing function in SKOKs;
- i. Accounting standards that meet Polish accounting standards and IASB (if required);
- j. Ability of the PFSA to revoke a SKOK license or the license of NASCU;
- k. Ability of PFSA to delegate supervision;
- l. CU access to the state deposit guarantee fund;
- m. Need for deposit insurance to be mandatory;
- n. Requirement that all CUs must report to the credit bureau;
- o. Concentration limit of savings and shares per member and related parties,
- p. Management of the stabilization fund –currently managed by NASCU-

4.3. RECOMMENDATIONS ON TECHNICAL ISSUES TO BE ADDRESSED THROUGH SECONDARY REGULATION

84. This section analyzes and summarizes technical measures that would need to be further developed by the regulation to promote a sound CU system in Poland.

4.3.1. LICENSING AND START-UP CAPITAL

85. Initial capital requirements and a minimum number of members need to be established to obtain a license. These requirements are important for various reasons: to limit the number of SKOKs that the PFSA has to supervise; to ensure that the SKOKs are economically viable and can offer their members the services and products they want; and to allow the SKOKs to take advantage of economies of scale in their operations. Evidence of the initial capital should be included with the application for licensing. In addition, it would be important to include provisions so that individuals intending to establish a CU need to demonstrate a common bond. Initial capital concentration limits should be established per member and related parties. No member and their related parties should own more than 10% of the initial capital. Fidelity bond insurance shall be purchased for all officials and employees.

86. All applicants should be required to submit a 3-year business plan. This plan should include the mission statement, market analysis, proposed organizational structure, the written

assumptions used to develop the plan, and the pro-forma financial statements. In order to ease regulation and supervision, and enhance governance, the use of standard by-laws is recommended. This will contribute to standardize important aspects for the management and operation of the CU. Any amendments to these standard by-laws would have to be approved by the PFSA.

87. The process and procedures to follow to obtain a license should be clear in the regulation: i) the deadline that the CU must start operations upon receiving PFSA approval. ii) the process to be followed by PFSA when a license is denied; iii) the type of correspondence that the PFSA will use to inform the applicant; and iv) any method of recourse that applicants may have in case they disagree with the denial decision along with any deadlines that may apply.

BOX 4.2 WOCCU: START-UP CAPITAL

Necessary start-up capital to establish a CU is one area that significantly diverges from banking regulations. Banks need start-up capital to secure the investor's stake in the venture and to ensure sufficient funds for operating costs. Community and members' interest, as opposed to investors' interest, drives the formation of CUs.

According to WOCCU, CU regulatory standards include lower initial start-up capital requirements because CUs are established at the community level to provide a means for low and middle income members to access small savings accounts and loan services. Member shares provide the initial funding base. CUs do not have private joint stock capital investors, but rather build their capital from retained earnings and reserves over time.

Instead of focusing on start-up capital, key elements for regulators to consider in granting a license to a new CU are: submission of 300 signatures from individuals indicating their commitment or intention to become members, presentation of a 3 year business plan that demonstrates viability, and allowing a grace period to reach capital adequacy ratios and minimum start-up funding.

Source: WOCCU Technical Guide – Credit Union Regulation and Supervision

88. Background checks of officials and proposed management should be required. In order to determine if the officials have the personal integrity, educational background and professional experience to be an official or manager, a thorough background check should be conducted. The background check should include a review of the candidates CV, personal and business references and a credit check. In addition, specific information should be provided on the planned location of the CU's business, the management information system to be used, and minutes of the General Meeting.

89. The PFSA should be able to conduct an on-site visit if deemed necessary to ascertain if the proposed CU is viable. This visit can be used to determine: i) if the CU will be operated responsibly by individuals considered capable and appropriate; ii) the past business record and experience of the applicants; iii) the nature and sufficiency of the financial resources of the applicants; iv) the soundness and financial sustainability of the business plans, v) and whether the public interest will be served by licensing the CU.

90. Additional provisions should include that CUs shall participate in a savings protection scheme if the license is granted; requirement that a standardized chart of accounts is used and the Polish accounting system for financial institutions applied.

BOX 4.3 LICENSING STANDARDS: THE INTERNATIONAL EXPERIENCE

United Kingdom – FSA

Licensing requirements for a CU in the United Kingdom (UK) are fairly simple. CUs are regulated by the Credit Union Act of 1979 and by the FSA and their CRED Handbook. The FSA-UK began supervision of CUs in 2002. The CUs must meet the initial capital requirement and the proposed officials and management must pass background checks (honesty, integrity, reputation, competence, and capability). Credit unions are divided into 2 categories – versions 1 and 2. The main distinctions between both versions are that Version 1 CUs are restricted in their investment and borrowing opportunities and in the amount of money lent and the length of the loan repayment period.

The FSA is currently in the process of amending some of their regulations to increase initial capital requirements by ten times to strengthen CUs financial capacity. The initial capital requirement is a measure of the start-up funding that a CU needs to get established and to pay the associated costs of any new organization –training, equipment, premises, etc. Thus, initial capital is largely spent during the course of a CU's first year, and is different from its ongoing capital requirement. Current regulation established a minimum initial capital of 1,000 GBP for Version 1 CUs and 5,000 GBP for Version 2 CUs.

United States –NCUA

Licensing of new CUs in the US is handled by the regulator and insurer, the National Credit Union Administration (NCUA). The requirements can be found in their Chartering Manual. Minimum requirements include: there should be at least 7 natural persons; the proposed officials and management team are subject to pass credit and background checks; the group that the CU will serve has at least 3,000 primary potential members –otherwise it is thought of as economically unadvisable–, and a 2 year business plan accompanied by written assumptions and pro forma financial statements need to be submitted.

Ireland

There must be a common bond between members based on: occupation; being a resident or being employed in a particular location; being employed or retired from a particular employer; being a member of an organization, or any other common bond approved by the Registrar. The applicant must have at least 15 members of legal age, is required to participate in a savings protection scheme and to obtain fidelity insurance policy, and the words “credit union” must be included in the name of the CU.

4.3.2. CAPITAL ADEQUACY

91. The capital adequacy regulation should include a precise definition of institutional capital. Quality capital is considered to be undivided earnings, reserve funds that have not been designated for a specific use, cash donations, and grants. None of these funds should be spent except upon liquidation. Net income from the current year should only be included if loss provisioning is adequate, accrued accounting is used and net income cannot be reduced by membership share dividends at year-end. Shares may only be included as capital if they are non-redeemable or if there is a minimum fixed amount established in the regulation below which capital cannot fall.

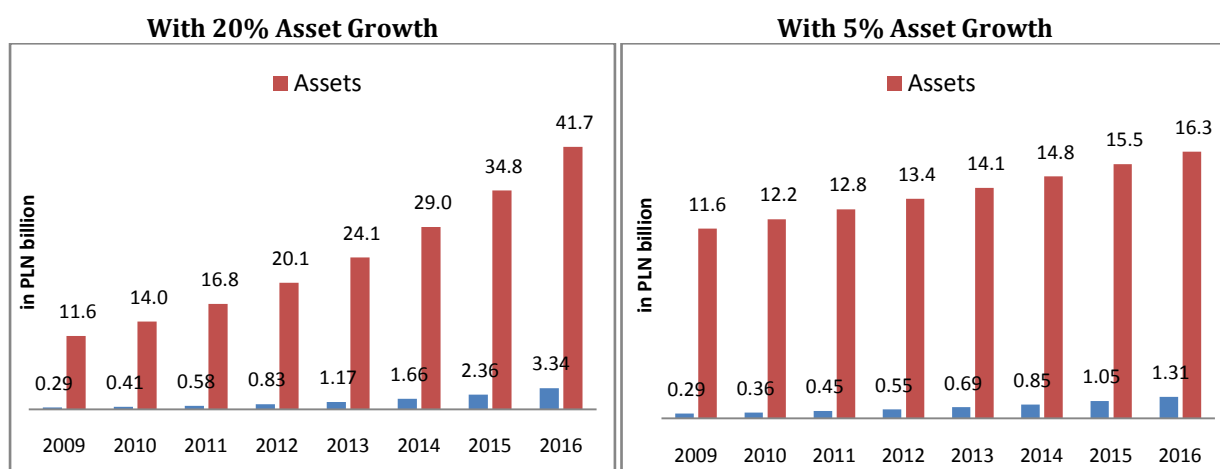
92. Capital adequacy regulation should also include a precise definition of the calculation of capital to assets ratio. The calculation is usually total capital/total assets or total capital/risk weighted assets. Frequently CUs use total assets for ease of calculation. The risk weighting does not make a material difference as a large majority of the assets are in assets with a 100% risk weighting such as loans.²¹ If membership shares are considered institutional capital then these

²¹ If risk weighting is used, the most common weights used are: 0% weighting for cash, gold, 100% share or savings secured loans, investments recoverable from the Government of Poland or the National Bank of Poland; 20% weighting for debts or investments recoverable from banks or credit institutions in Poland, precious metals or stones, cash in the process of collection; 50% weighting for debts recoverable which are secured by immoveable property of the member; and 100% weighting – investments in shares of other enterprises, immoveable property, machinery, equipment and other fixed assets, and all other debts recoverable.

shares should not be used as collateral for any loans. The solvency ratio of 5% in the proposed law is too low and should be increased to no less than 8%. If membership shares are included in institutional capital then the minimum ratio should be no less than 10%. No institutional capital account should be used by a CU as collateral on external borrowing.

93. Estimations of future capital needs show that capital should increase substantially to meet stricter regulatory requirements. Using the average annual asset growth observed since 2005 (20%), to reach the 8% solvency ratio, capital would have to increase to PLN 3.3 billion by 2016, implying an average annual growth rate of almost 42%. As of end 2009, capital was PLN 290 million or 2.5% of total assets. In a more conservative scenario, with asset growth projected at 5%, the required capital in 2016 is estimated at PLN 1.3 billion, implying a 22% annual growth rate in capital.

Figure 5: Projected Asset Growth and Capital Needed to Meet 8% Capital Requirement



Source: authors' estimates based on NASCU data

94. Based on international standards, the minimum net profit to average assets ratio should be 1% in order for CUs to build their capital. The PFSA may require a CU to have a higher minimum capital ratio than the one established in the regulation when a particular circumstance suggest it as appropriate. No CU may transfer from the reserve fund if the institutional capital ratio is below the minimum required. Dividend payments on shares shall not be allowed until institutional capital to totals assets is equal to the minimum established institutional capital ratio.

95. CUs should build their institutional capital by retaining a percentage of gross income. The fastest way to build the capital ratio is to reduce assets; this however, is probably not realistic and could be counterproductive given the ongoing demand for services offered by SKOKs. In the UK, CUs are required to transfer 20% of their profits after taxes –but before dividends– to reserves each year until reserves reach 10% of total assets. In the US, CUs are required to transfer 10% of gross income (before operating expenses and financial costs) if their statutory reserves are less than 4% of assets and 5% of gross income until statutory reserves are more than 6% of assets. After the 6% ratio is obtained, no further transfers are required. In the US, gross income is used so that a transfer is made if needed. If net income is used, there is always the chance that there will be a net loss instead of net income.

96. Regulation should stipulate the power that PFSA has over a CU if it does not comply with the requirements on capital adequacy. The supervisor frequently has the ability to suspend CU lending and investment; prohibit the CU from acquiring, through purchase or lease any additional land or buildings; prohibit the CU from accepting further deposits or other lines of credit, or any other action deemed appropriate by the supervisor.

97. Building capital is a long-term process and CUs should be given adequate time to reach the required capital or solvency ratio. Transition deadlines that include short term institutional capital to assets ratios to meet the long term standard should be included. Furthermore, each CU should be required to make a written capital adequacy plan that establishes short term capital goals and a long term goal that is no less than the minimum requirement of 8%. The plan should discuss the steps the CU will take to meet the goals. The transition period to meet the regulation should not be less than five years.

BOX 4.4 CAPITAL ADEQUACY: UK, KENYA AND IRELAND

United Kingdom – FSA

Most version 1 CUs are subject to no greater capital requirements than bare solvency. This, however, provides no protection to a CU that gets into financial difficulty, and rapidly, the CU may be precipitated into a situation in which its liabilities exceed its assets. The UK is currently amending capital adequacy ratios to provide for a minimum capital to assets ratio of 3%. This ratio is a minimum as the regulation states that the version 1 CU should transfer 20% of their profits to reserves until reserves are equal to 10% of total assets. CUs will be given until 30 September 2012 to comply with this new minimum. Version 2 CUs are required to have a risk adjusted capital to total assets ratio of 8%.

Kenya

CUs need to meet two capital adequacy ratios. The minimum core capital (includes shares, reserves, undivided earnings, donations and grants) to assets ratio is 10% and the minimum institutional capital (excludes shares) to total assets ratio is 8%.

Ireland

Since 2009 all CUs are required to have a regulatory reserve ratio of not less than 10%. Reserves available to a CU for the purposes of the Regulatory Reserve must be realized, unrestricted and non-distributable. A minimum of 8% of total assets must be held in the Statutory Reserve. The remaining 2% of total assets required to meet the overall ratio may be held in Statutory Reserve or in a reserve account called the “Additional Regulatory Reserve” which must be clearly identified as non-distributable. The regulation emphasizes that this is the minimum requirement and CUs are expected to operate with levels above the minimum requirement.

When a CU does not have adequate reserves to meet the Regulatory Reserve ratio, the board of directors of the CU must provide the Registrar with a plan for achieving compliance. Such CUs must achieve the ratio within the shortest time possible. If the ratio falls below 10%, payment of a share dividend must be approved by the Registrar and the CU board must provide a plan on how to increase the ratio with short-term time frame.

4.3.3. DELINQUENCY AND LOSS PROVISIONS

98. CU management and the PFSA should have a standardized method to measure delinquency so that emerging problems may quickly be identified. Loan delinquency can quickly have a negative effect on profitability, liquidity, capital adequacy and on the long-term perspectives of the CU. Therefore, CUs and the PFSA need to count on reliable data and procedures to monitor delinquency. Regulation on the topic should address the following issues.

99. CUs should have a written collection policy that is reviewed by the Supervisory Board no less than annually. The policy should establish: when the credit control procedure is activated in respect to delinquent loans; a description of the various stages of the credit control procedure from first contact with members in arrears to the legal recovery process and/or enforcement of security; the criteria and procedure, including approval procedure and authorization required for rescheduling loans and for transferring member’s deposits against loan arrears; and the criteria and procedure including approval procedure and authorization required for writing off bad loans.

100. A loan should be reported as delinquent when a full payment has not been received; the day at which the loan shall be reported delinquent depends on the loan repayment schedule. Loans with monthly payment are considered delinquent when a full payment has not been made

in the past 30 days. If the CU is making very short term loans with daily or weekly payments, then loans are considered delinquent one day after the contracted payment has not been received. Any loan in which the payment is less than a full payment according to the loan contract is considered in arrears and shall be classified delinquent depending on the number of days since the last payment was received.

101. When disclosing delinquency, the entire outstanding loan balance is to be reported as delinquent, not just the amount of the delinquent payments. The prudential standard for delinquent loans as compared to total loans should be disclosed. This ratio shall be calculated by taking the sum of all reportable delinquent loans by total loans. Normally this ratio is 5% or less.

102. The entire principal balance shall be deemed delinquent even if the missed payment was for interest only. Regulation should establish that loans shall be deemed to be delinquent if the total principal balance and/or interest are not received at their due date. If loan interest payments are due, loan classification will be based on the defaulted interest payments.

103. The delinquency calculation for one payment loans is based on the loan agreement. If a single payment comprised of principal and interest is due at loan maturity, then the loan shall be considered delinquent after one day has passed from maturity. When reporting a one payment loan as delinquent, the total principal balance should be included.²²

104. Loss provisioning has proven to be a problematic area in CUs. CU management frequently resists allocating enough resources to cover losses and often do not make provisions if this will cause a net loss for the period. The proposed law currently does not include provisioning requirements. However, provisioning requirements need to be included in the regulation as a fundamental of sound financial and risk management in CUs.

105. CUs should classify their loan portfolio based on performance versus the terms provided in the loan contract. It is important to clearly identify when a delinquent loan or problem loan needs to be provisioned; the standard is 30 days. In addition, it is necessary to define the percentage that the provision will be made for. WOCCU recommends that all loans with more than 30 days delinquency have a provision of 35% of the outstanding balance less collateral value, and all loans delinquent more than 12 months have a provision of 100%.²³

106. In some cases, regulation may also consider provisions for the performing loans portfolio. Although not a rule, in some countries CUs are required to have a provision for performing loans in the order of 1-2%. This provision is established in anticipation of loan losses that are present in the loan portfolio but have not appeared as of the provision date. Based on the experience of CUs over the past year –due to the negative effects of the crisis– a more forward looking provision is strongly recommended.

107. All current loans that have been restructured or have been adjusted in their original terms should be provisioned at no less than the lowest provision percentage for problem loans. In addition, if a loan is restructured more than one time it should be provisioned at 100%. Restructured loans should be reported separately on the balance sheet and reported no less than quarterly to the PFSA.

108. CUs should be able to adjust the loan balance for a collateral value that can be easily established to determine the amount of the provision. Guarantors and co-signers have no monetary value. The regulation should define how often the CU must determine that the

²² If only loan interest payments are due throughout the life of the loan, delinquency will be calculated on the payment or non-payment of these interest amounts. When reporting delinquency, the entire principal balance is considered delinquent even though the missed payment was for interest only. If the loan balance is outstanding after the loan maturity date, the number of months in arrears should be increased for each month the balance remains outstanding. Accrual of loan interest shall be discontinued after the loan is 60 days delinquent and the amount previously accrued shall be reversed.

²³ Most common provisions are as follows: 20% as of 30 days, 35% as of 61 days, 50% as of 181 days, 75% as of 271 days and 100% as of 361 days.

provision for loan loss is adequate. Normally, this happens monthly with the preparation of mandatory financial statements.

109. The PFSA may establish stricter measures in special circumstances. The PFSA may require more severe classifications of specific loans or additional provisions in the following cases: i) general deterioration in the loan portfolio, ii) a change or absence of adequate CU lending procedures, iii) abnormal losses within a particular loan type, iv) weak delinquent loan collections, v) a concentration of large or risky loans, vi) negative trends and conditions in sectors or industries the CU serves, or vii) natural disasters that affect the borrower's ability to repay.

110. Provision accounts should be established for each asset class. Provisions should be required not only for loans, but for all asset types for which an actual loss occurs, or when the recoverable amount of the asset is less than its carrying value.

BOX 4.5 REGULATION ON LOSS PROVISIONS: INTERNATIONAL EXPERIENCE

United Kingdom

Current regulation requires CUs to establish a general reserve of 2% of the outstanding net loan liability for member loans that are paid current. Provisions of 35% are required when a loan is more than three months in arrears and 100% of the net liability when the loan is more than 12 months in arrears. The experience has shown that CUs have tended to apply these requirements mechanically, rather than making their own judgments about when and how much to provide. This has meant that the transition between the two percentages has been abrupt, with credit unions failing to take proper account of the size of the additional provision that needs to be made when a loan reaches 12 months delinquency. In the amended CRED Handbook of Regulations it is suggested that CUs should be looking to make provisions of 60% of the net liability at 6 months delinquent and 80% when the loan is 9 months delinquent.

Kenya

Kenya has very specific provisioning requirements. Provisioning for loans in arrears from 1-90 days is 1%, from 91-180 days delinquent is 25%, from 181-270 days delinquent is 50%, from 271-360 days delinquent is 75%, and for more than 360 days is 100%.

Ireland

If a loan is extended there is a minimum provision requirement of 20%. If the borrower fails to meet new repayment terms, the loan must be provisioned at 100%. If a loan is rescheduled more than once the loan is required to be provisioned at 100%.

4.3.4. LIQUIDITY AND MANAGEMENT OF ASSET LIABILITY

111. The new Law grants access to SKOKs to loans from the National Bank of Poland (NBP) to support the stabilization fund in case of liquidity problems. The access to the NBP liquidity facility is a positive step forward. Previously, NASCU had established liquidity pools to compensate the lack of access of SKOKs to the NBP liquidity facility. NASCU's approach has been successful in managing CU liquidity to date. According to SKOK statistics, SKOKs have adequate liquidity levels, and a transition period to meet the new regulation requirements may not be necessary. It appears that most SKOKs could meet the requirements in less than one year. Further regulation on liquidity should address the following:

112. Clear definitions of liquid assets, liquidity risk, rate sensitive assets, rate sensitive liabilities and interest rate risk should be provided. No member or related party may own more than 10% of shares and savings deposits of the CU together or separately.

113. The CU board should have a written Liquidity and Asset Liability Management (ALM) policy. The board is responsible for annually reviewing and adjusting the policy to identify who is responsible for liquidity management; who may access or establish a line of credit for liquidity purposes; how liquidity will be monitored; types of liquid assets the CU may hold; minimum and maximum level for total cash assets and for amounts kept on-site at the CU; liquidity related ratios; the process that will be used to monitor ALM; and how often the ALM analysis will be performed.

114. **In addition to the liquidity reserve requirement of 10% stated in the Law, CUs should have at least 15% of savings and deposits in liquid assets** to provide for savings withdrawals, loan demand and operating expenses.²⁴ CUs should establish a line of credit for liquidity purposes with NASCU or a different source. Each CU should analyze liquidity needs no less than weekly. This means that management should look at the liquidity needs over the past month and ensure that liquidity is adequate to meet the liquidity needs for the next month. Special consideration should be given to seasonality or any special circumstance that might affect liquidity.

115. **CU management should take appropriate steps to manage interest rate risk by reviewing and managing the balance sheet structure.** This process should include: determining rate sensitive assets and liabilities; matching the maturities for rate sensitive assets (such as loans and investments) with similar term rate sensitive liabilities (such as loans from external sources and member deposits); matching of fixed assets with institutional capital; matching of liabilities and member deposits with no maturity with short term (maturity < 30 days) assets; and a written analysis of the CU's balance sheet structure and documentation of matching rate sensitive assets with rate sensitive liabilities.²⁵

116. **The PFSA may impose restrictions to the operation of a CU if it fails to comply with the regulation.** These measures may include suspension of lending and investing; suspension from taking new deposits; prohibition from acquisition of additional assets; prohibition from declaring dividends; and prohibition or suspension from activities that PFSA perceives to be contributing to the liquidity problem.

BOX 4.6. LIQUIDITY REGULATION IN UK AND CANADA

In the **UK** a CU must at all times hold liquid assets of a value equal to at least 10% of its total relevant liabilities. This is a minimum requirement. For the purpose of this regulation, liquid assets are those that can be converted in cash at a short notice (within at most eight days).

In **Canada** Class 1 CUs (CU assets < \$50 million) must hold 7% of deposits and borrowings as liquid assets. Class 2 CUs (CU assets > \$50 million or a CU that grants at least 1 commercial loan) shall maintain liquidity levels and forms of liquidity that are sufficient for cash flow.

4.3.5. INVESTMENT

117. **NASCU investments should be regulated to further protect SKOKs individual investments.** The proposed law addresses permissible investments for SKOKs, limiting them to bonds and securities issued or guaranteed by the State Treasury or National Bank of Poland, deposits or shares of NASCU, deposits in banks, and participation units of money market funds. Total amount of deposits in a single bank or purchased securities of a single type cannot exceed 8% of total SKOK's assets. However, the real unknown part of these permissible investments is the deposits in NASCU. NASCU is not regulated nor are their investments. Future regulation should address the issue to further protect SKOKs investments. To provide further guidance, investment regulation should include the following:

118. **SKOK Board of Directors should be responsible for formulating, reviewing and amending an investment policy that is consistent with the Law and any related regulation.** The policy should address: purpose and objectives of investment activities; types of investments that can be made; investment characteristics such as: issuer, investment quality, maturity and

²⁴ This ratio is calculated: Liquid Assets (those with no maturity or a maturity of 30 days or less) – Liabilities due in 30 days or less / Average Savings Deposits over last 3 months shall be > or = 15%.

²⁵ There is no foreign exchange risk involved as the Polish SKOKs are not legally allowed to take deposits or extend loans in foreign currency.

interest rate; who has authority to make investments and the extent of this authority; need for adequate investment diversification and concentration risk management across investment type and/or entity; limitation with regards to specific type, quantity and maturity of investments and any necessary mechanism of internal control. SKOK management should provide an investment report to the SKOK Supervisory Board no less than quarterly with the following information: all investments held by the SKOK; interest rate; maturity date and other applicable terms; investment activity for the month such as buying and selling, principal repayment, interest repayment; comparison of the book value to the current market value where possible and adequacy of provisions established for investment loss.

119. The internal audit should be responsible for ensuring compliance with the investment policy. A review should be done on a quarterly basis by reviewing the investment portfolio.

120. Investments should be made with the intention of “holding to maturity”. Maximum investment maturities for each of the permissible types of investments should be defined. At no time shall the portfolio be used to trade securities for profit placing the SKOK’s capital at risk.

121. Investment transactions must be transparent and performed as arm’s length transactions. No investments shall be made with SKOK officials, employees or related parties, and immediate family members may not receive anything of value in connection with investment transactions.

122. Clear definition of fixed assets must be provided (this is currently not included in the Law). If a SKOK wants to invest in fixed assets in excess of the limit established in the Law, it should first receive a waiver from PFSA. The request for waiver shall include a detailed investment appraisal showing the cost and justification for the investment, including how it will improve member’s service and an analysis of expected impact on the profitability, liquidity and capital adequacy requirements. When a SKOK acquires property for future expansion, at least partial utilization of the property –as related to SKOK operations– shall be accomplished within two years from the date of purchase, unless the PFSA authorizes otherwise.

123. Provisions on management of conflict of interests should be included in the regulation. No SKOK may acquire, sell or lease premises without the prior written approval of the PFSA to or from a supervisory board member, member of the credit committee, or employee or immediate family member of any such individual or businesses in which any of the previously mentioned individuals are a director, officer or partner and have an interest of greater than 10% in the entity.

124. Property should be transferred to the SKOK books at the lower value of the outstanding loan balance or its current market value if a SKOK has to repossess property on a member loan because the member is unable to pay. The current market value shall be established by an appraisal. The appraisal may be performed by a qualified employee or official, provided that appropriate steps have been taken to ensure independence of the designated individual. Any losses due to loan balance being greater than the market value shall be charged to the provision for loan loss when the asset is transferred to the SKOK books. Any decline in property value while on the SKOK books must be charge to an account established to recognize such decline in value on the SKOK’s balance sheet. Charges for such declines in value shall not be made to provisions for loan loss as the asset is no longer considered a loan.

125. Disposition of the repossessed asset should take place within three years by sale or write off. The property shall be advertized publicly for sale once the asset is on the SKOK books. If a SKOK is unable to sell the property in a year, the SKOK shall reduce the value of the asset by 50% each year for two years until the value is zero. The reduction in the asset shall be made through a contra asset account designated for the write down. After the third year, the asset shall be written off the accounting records. Any direct costs and expenses associated with the acquisition of the title to the property and its maintenance shall be considered a SKOK expense.

BOX 4.7 INVESTMENT REQUIREMENTS: UK, IRELAND AND US

In the **UK** the CREDs Handbook establishes the allowable investments for CUs. All CUs must have a written financial risk management policy that addresses interest rate and funding risks and that covers aggregate limits on holding of investments. Each CU must send the PFSA a copy of this policy. Version 1 CUs are allowed to make investments with maturities of no more than 12 months and Version 2 CUs are allowed to make investments with maturities of up to 5 years. Both types of CUs are allowed to make loans to other CUs.

In **Ireland** the CU Act limits the types of investments for CUs. All investments must be denominated in Euros and CUs may make loans to another CU. In April 2009, the CU Regulator issued a guidance note to further define the accounting to be used for investments. CUs must use the lower of cost and net realizable value to account for investments. Under this method the amount to be included in the balance sheet in respect of investment should be the lower of their cost or net realizable value. The amount of any write down provided should be clearly shown in the income statement.

In the **US** the regulation defines the permissible and prohibited investments. CUs are required to have written investment policies. The regulation lays out what must be covered in the policy. CUs greater than USD 10 million in assets are required to follow Generally Accepted Accounting Procedures (GAAP) for recording investments. CUs must maintain documentation for each investment transaction for as long as it holds the investment. If investment authority is delegated to an individual other than a CU employee, the delegation is limited to an amount up to 100% of the CU's net worth at the time of delegation. This investment advisor must provide a report at least monthly that details the investments under the advisor's control. At least monthly, a CU must determine the fair value of each security it holds and report for each security held the fair value and the change since the prior month end.

4.3.6. SAVINGS AND SHARES

126. **Member savings generally represent the largest liability on the CU's balance sheet and appropriate regulation should, at least, address the type of accounts that may be offered.** Regulations should address the type of accounts that may be offered, any specific terms, conditions and disclosures for the savings and share accounts and how dividends and interest are to be calculated, accounted for and paid. The proposed Law currently does not address any savings or share concentration limitations or restrictions. Regulation on the topic should consider:

127. **It is necessary to establish a maximum amount of shares and deposits that a member and a member and his related parties may own in order to limit concentration risk.** Usually a member and related parties may own no more than 10% of shares and deposits. A CU shall prescribe a minimum number of shares at a par value for which an individual should subscribe to become a member. Deposits may only be accepted from members.

128. **Share withdrawals should only be allowed if the CU has met all capital adequacy and liquidity regulatory requirements.** No member may pledge shares as collateral or security for a loan. A member may transfer shares to other members –if allowable at the CU– upon leaving membership if the CU would not refund the shares. Shares dividends are not guaranteed and dividends may be paid from net income for the current year only after i) adequate provision for losses have been made, ii) required transfers to reserves have been made, and iii) capital adequacy requirements have been met.

129. **Interest rate, terms and conditions for savings accounts should be established by each CU and disclosed to all members.** Interest rates for savings accounts that are not dictated by a contract may be changed according to external market forces or CU funding needs. Interest on savings accounts may be fixed or variable in nature, paid at various rates, and the interest payments may occur at different frequencies depending on the type of deposit and its terms.

Interest on savings and term deposits shall be accrued no less than on a monthly basis, unless the interest is paid out monthly.

130. Accounts that are based on a contract, should have a signed contract between the CU and the member that describes the terms and conditions of the deposit. The contract shall guarantee the member the stated interest rate.

BOX 4.8 SAVINGS: IRELAND AND UK

Ireland

- No saver may have deposits of more than 200,000 Euros or own more than 1% of total assets whichever is greater.
- Aggregate liabilities of a CU in respect of deposits from members may not exceed 75% of its aggregate liabilities in respect of shares issued to members.
- Dividend rate is limited to no more than 10%. Dividends on shares can be paid only from net income for the current year or from a reserve set aside in previous years to provide for dividends.
- CU must ensure that the rate of interest payable at any time on deposits of any class does not exceed the rate of return received by the CU from the use of its funds.
- CU may require not less than 60 days notice from a member of his intention to withdraw shares and no less than 21 days notice from a member of his intention to withdraw a deposit.
- If a CU member is indebted to the CU and consents in writing, the CU may by way of set-off against the indebtedness, withdraw any of the member's shares or deposits for payment.

UK

- Deposits may only be accepted from members.
- No member may own in shares, other than deferred shares, more than 10,000 GBP or 1.5% of the total non-deferred shares.
- Version 1 CUs must not pay different dividends on different share accounts unless the CU has a total capital to assets ratio of at least 5% and the dividend payment does not reduce the ratio below 5%. A version 1 CU must not pay dividends out of interim profits more than one time per year.
- Version 2 CUs can pay different dividends on different accounts and pay dividends out of interim profits more than one time year.

4.3.7. CREDIT

131. Loans generally represent the largest asset on a CU's balance sheet and adequate risk management is important to reduce the inherent risk. The proposed Law briefly addresses lending limitations in Articles 30, 31 and 32. Total amount of loans to a member of the CU may not exceed 10% of the savings and loan fund. Loans to officials may not exceed 20% of the savings and loan fund. A loan to a member that is made for business purposes may not exceed 15% of the SKOK's institutional capital. The total amount of loans granted to all members for business purposes may not exceed 150% of the SKOK's institutional capital. Articles 33 and 34 address loan guarantees. Officials are not allowed to guarantee any loans and no member may guarantee more than two loans at a SKOK where they are a member. In addition to the limits established in the Law, the regulation should address the following:

132. Each CU should have a written lending policy that is approved by the Supervisory Board and reviewed no less than annually. It should include: eligibility requirements for receiving a loan; permissible loan purposes and acceptable types of collateral; loan portfolio

diversification with regards to collateral and loan types; loan types granted along with the interest rates, terms, frequency of payments and conditions; maximum loan size per product type; maximum loan amounts as a percentage of the collateral's value; factors used to evaluate the borrower's ability to repay the loan; borrower and related borrower loan limit concentrations; any restrictions on loans to employees and officials; loan approval authority and limitations for individuals with credit granting authority; reporting requirements to the Supervisory Board and report content of individuals with loan approval authorization; required loan documentation; and requirements for co-signers and guarantors.

133. Each CU should also have written procedures that address how to determine a borrower's ability to repay a loan and the value and condition of any collateral. These procedures should include: an interview with the borrower; collection of adequate financial information; how financial information presented including income and expense is verified and analyzed; calculation of appropriate financial ratios; the physical examination and valuation of collateral; and procedures to prevent conflict of interest and assure segregation of duties between the approval and payment of loans.

134. Regulation may include the maximum amount of the savings and loan fund that may be lent not only related to one member but to the member and related parties; the maximum maturity for the various types of loans. A member may repay a loan prior to maturity in whole or in part on any business day without being penalized. When a loan application is denied, the CU shall communicate to the applicant in writing the reasons for loan denial within 14 days. Loans may only be granted to those members of legal age.

135. A CU may charge either fixed or variable interest rates on loans. Loan fees may be charged to recover costs associated with granting a loan. The effective loan interest rate (including all interest, fees and costs) to be paid by the borrower shall be disclosed in writing prior to granting the loans. A CU may assess penalties for late loan payments.

136. No official or CU employee or immediate family member of an official or employee may receive, directly or indirectly, any commission fee or other compensation in connections with any loan made by the CU. The Supervisory Board shall approve all loans to employees, officials and their immediate family and related parties. These loans will be approved by a simple majority vote of those board members present. The individual who is the loan's recipient shall be excused from the meeting during the discussion and decision on the loan.

137. All collateral used as security for a loan must be adequately insured. Every guarantor shall be adequately informed in writing of the nature of the liability prior to signing an agreement creating guarantor liability. All collateral should be located within a reasonable geographic proximity of the CU's office and never outside of the country. If the owner of the collateral is not the borrower, the borrower must have written permission to use the collateral to secure the loan and proof that it is adequately insured to cover the loan balance. The CU must have the legal right to place a lien on the collateral. All appraisals of collateral must be performed as an "arm's length" transaction by an independent, third party appraiser. Under no circumstances may the member select the appraiser.

Table 9 – UK Credit Regulation Limitations

	Version 1 CU	Version 2 CU
Repayment Period -Unsecured	5 years	10 years
Repayment Period - Secured	10 years	25 years
Maximum Loan Value	Dependent on capital to assets ratio: <ul style="list-style-type: none"> • less than 5% - shares + 7500 GBP • more than 5% - shares + 15,000 GBP 	Shares + 15,000 GBP or 1.5% of total shares in CU in excess of member’s shareholding, whichever is the greater.
Maximum Large Exposure on Single Loan	25% of capital	25% of capital
Maximum Large Exposure – Aggregate Loans	-500% maximum limit – (over 300% requires FSA pre-notification)	-500% maximum limit – (over 300% requires FSA pre-notification)

Source: UK Financial Services Authority

4.3.8. BORROWING

138. **Borrowing is generally limited in CUs as their basis is savings and shares, not external credit.** A CU’s ability to borrow depends on its financial condition, adequacy of its capital base, and presence of highly liquid collateral. External credit frequently has a destabilizing effect on CUs and therefore should be limited. The exception could be granted for newly established CUs. The maximum level of borrowing may be higher for start-up CUs and those that have been in existence less than 3 years. Regulation on the topic should discuss, among other issues, the entities from which the CUs may borrow; the maximum percentage of assets that a CU may borrow; and the ability of the PFSA to increase that percentage.

139. **According to WOCCU standards, external borrowing should be limited between 5% and 15% of total assets depending on the level of institutional capital.** External borrowing should be no more than 5% of total assets for CUs with institutional capital of 8% or more, 10% of total assets for CUs with institutional capital of 10% or more and 15% of total assets for CUs with institutional capital of 12% or more. In cases like the UK, for example, CUs are not allowed to borrow from a natural person. Version 1 CUs are not allowed borrowings greater –except on a short-term basis– than 20% of the total non-deferred shares in the CU. Version 2 CUs may not borrow more than 50% of the total non-deferred shares in the CU. In the case of Ireland, CUs may borrow money as long as the total amount outstanding does not exceed 50% of the aggregated shares and deposit balance of the CU. In addition, if the amount borrowed is to exceed 25%, the CU must notify the regulator –in writing– 28 days prior to borrowing the funds.

4.3.9. ACCOUNTING AND AUDITING

140. **SKOKs should be given a transition period to make necessary changes to their accounting systems.** At a minimum the regulation should identify: the accounting principles that CUs are required to use; how often the external audit is required; the responsible person to perform the external audit; any professional requirements for external auditors; requirements for internal auditing; and the member account verification. Additional provisions should also be made part of the regulation.

141. **Regular reporting of financial statements should be included.** CUs should produce an income statement and balance sheet no less than monthly that details all transactions for the month. CUs should use the chart of accounts and financial institutions reporting format as required of other financial institutions to account for all transactions. Accounting transactions shall be performed and financial statements prepared in accordance with Polish accounting

principles for financial institutions. These accounting standards may be modified for SKOKS as their accounting is much simpler than the one for banks.

142. Transparency and disclosure of financial information should be encouraged. CUs should be required to provide its members upon request a copy of its annual financial statements and external auditor report. Internal audits should be reported directly to the Supervisory Board. An audit plan covering all aspects of the CU's business should be developed. The plan should identify the scope and frequency of work to be carried out in each area. Areas identified with higher risk should be covered more frequently. However, all areas should be covered over a one year period²⁶.

BOX. 4.9 EXTERNAL AUDITING: GENERAL RECOMMENDATIONS

- The Supervisory Board should review the effectiveness of the internal audit function periodically and no less than annually
- The external audit period shall be the most recently completed fiscal year. The CU shall, within six months after the end of the fiscal year, submit to the PFSA its audited financial statements approved by the annual general meeting, the auditor's report and other correspondence between the CU and its auditors.
- Auditors may not be related in any sense to officials or CU employees.
- The Supervisory Board may select the auditor through a competitive bidding process, and a contract should be signed outlining the terms and the work to be completed for a satisfactory external audit.
- External auditors shall use auditing forms and methods that are in accordance with the requirements for licensed or certified accountants, the PFSA, and meet the terms of the contract or agreement between the auditor and the CU.
- Auditors shall have access to any present or former CU official or employee to obtain information or explanations, receive by written inquiry necessary information from third parties, and inform the Supervisory Board of any conflicts of interest that would disallow the auditor from performing the external audit.
- The external auditor shall inform the PFSA of any evidence it may have that irregularities or illegal acts have been committed by officials, employees or the CU, if there are reasonable grounds to believe that the CU is insolvent or that it may become insolvent, and if the officials or employees refuse to provide all of the necessary documentation to perform a comprehensive annual audit.
- External auditors would present all work papers or copies of such papers to the PFSA when requested and submit in writing all shortcomings and illegal acts committed by the CU, officials and employees.
- The annual audit report should be sent to the PFSA within 14 days after receiving the report and the Supervisory Board and/or internal auditor shall follow up on all findings and recommendations to ensure that appropriate corrections have been made within 30 days from receipt of the report.

143. The internal or external auditor shall perform a random sampling verification of member loan, savings and share account balances annually. Under no circumstances may the verification be performed by a CU employee or official. Account statements shall be sent to the members and the statement shall instruct the member to contact the auditor if any of the account

²⁶ The internal audit work plan should include: verification of cash without prior notification; bank account reconciliation; checking loan files for compliance; verification of the CU's assets and investments; ensuring all provision for loss accounts are adequate; checking for compliance with policies and procedures; checking for compliance with the Law, legislation and regulation; checking minutes and reports of the committee of management and other committees for compliance and assessing regularity and completeness; evaluation of the reliability of the information produced by the CU accounting and computer systems; determining that reports and information submitted to the PFSA are accurate and provided timely; determining accounting procedures and controls are adequate; verification that management has implemented and maintains appropriate internal controls throughout the CU; assistance with the selection of the external auditor; and ensuring that all internal and external audit findings and recommendations are implemented as agreed upon.

balances are different than what they have in their records. The member's verified balance shall then be compared to the amount in the CU's records to ensure they match.

4.3.10. GOVERNANCE

144. **Members of CUs serve both as owners and recipient of services. Therefore, CUs profit maximization results in the form of lower interest rates on loans, lower service fees and higher interest yield and dividends for their members.** For profit financial institutions, on the other hand, have one primary goal: to maximize the owner's gain. As a result of this goal, traditional governance principles for banks serve to ensure that profitability is achieved for their shareholders, not the actual users of banks' services. In the case of CUs, the situation is completely different, as profit maximization comes from both sides: dividend yield and low interest rates on loans. The proposed Law addresses the governance issue in a general manner. The international experience may add further insights on how to promote good governance through CU regulation.

145. **Governance can be CUs' greatest strength or greatest weakness.** CUs are democratic institutions, where a single member receives a single vote, regardless of their financial stake in the CU. The main governance problems arising from this membership based structure include:

- i. CU's owners are simultaneously its clients;
- ii. Clients consist of two groups with different interests, net savers and net borrowers;
- iii. Regardless of the amount of wealth a member has invested at the CU, each member gets one vote in electing the Board of Directors and each board member gets one vote;
- iv. CU members are often composed largely of low income individuals without high levels of business experience or financial acumen; and
- v. The Board of Directors is frequently dominated by borrowers.

Box 4.10 WOCCU'S PRINCIPLES OF GOOD GOVERNANCE²⁷

1. External Governance: This addresses the issues that CUs face as participants in the financial marketplace. In order to generate member confidence, CUs are expected to operate in a transparent manner, comply with regulatory and prudential standards and be held accountable to its members.

- CUs must commit to regular, honest communication of their activities to regulators and their members in the spirit of full disclosure; including but not limited to the objective of the CU; voting rights; upcoming meetings; foreseeable risks; and any relevant information about the board of directors.
- CUs must complete financial statements compliant with generally accepted accounting practices and local regulatory standards and should make such statements available to members in a timely manner. These financial statements should be reviewed by an independent, qualified external auditor.

2. Internal Governance: Defines the responsibilities and accountability of the general assembly, the board of directors (Supervisory Board), management, internal auditor and the staff. These responsibilities include achieving an appropriate governing structure of the CU, preserving the continuity of future CU operations, creating balance within the organization and remaining accountable for their actions.

- The Board of directors should be composed of an odd number of members, no less than five and no greater than nine and the terms of appointment should be limited.
- All qualified members should be allowed to stand for the nominating process and the annual general meeting should be adequately promoted to ensure participation of most members.
- There should also be succession plans for both directors and management to ensure the continued existence of the CU. The board should also approve a disaster management and recovery plans that consider natural, human and technological disasters.
- The board should aim to reflect the demographic makeup of its members and include members with strong financial, business and accounting backgrounds.
- CUs must strike a balance between policies that benefit savers and those that benefit borrowers.
- CU must clearly indicate the accountability of the board members and management. Since the board and management are held accountable for the internal governance of the CU, it is imperative this accountability is recorded in the bylaws and other policies.

Individual Governance: This will ensure that the CU directors and management are able to fulfill the two previous obligations of external and internal governance through integrity, competence and commitment. Regulations on individual governance can identify proper criteria for board members. These requirements may include a specified level of skills, education and management experience in a financial institution. Alternatively, regulation may require that board members complete formal training in financial institution management and supervision to maintain their positions.

- Directors and CU management must not have criminal backgrounds, bankruptcies, or late payments on loans. If an official becomes more than three months delinquent on a loan, the director should be removed from his position or resign.
- Board members must be required to excuse themselves from discussions and voting on matters in which they or their relations have economic interests. Immediate family members or those with close relationships to any of the board of directors or staff should not serve on the board or in management concurrently.

²⁷ WOCCU Credit Union Governance White Paper 2005.

BOX. 4.11 GOVERNANCE: BOLIVIA AND ECUADOR

Bolivia

Bolivian regulations for CUs provide a strong model on regulating CU governance. The regulation states both the functions and the personal liabilities of the board of directors, the supervision committee, and the internal auditor.

- Defined functions of the board of directors: ensure compliance with all laws; establish policies; approve budgets, financial statements, and annual plans; convene the general assembly; hire and remove the manager; approve interest rates; evaluate the financial situation of the CU; and approve regulations related to CU membership.
- Directors are personally responsible for management of the CU's assets; for the accuracy of its financial statements, accounts and registers; and for legal compliance.
- The CU board is obligated to delegate administrative decisions to the manager and to provide managers with specific powers to carry out financial intermediation operations, manage bank accounts and undertake administrative actions.
- Define the functions of the supervision or audit committee and give them responsibility for bringing to the attention of the general assembly or to the regulator any infractions, need for sanctions, or measures for correction of problems.
- Members of the board of directors and supervision committee receive no compensation for their services to the credit union; however, they may receive reimbursement for expenses incurred while performing work for the CU on a per diem basis. Per diem payments to directors are subject to approval by the annual general meeting.

Ecuador

The regulation establishes technical and experience criteria for those who may serve on the board of directors.

- There may be no more than 7 board members, at least 2 of which must have university degrees in economics, finance, or related fields. In addition to the degree, they must have a minimum of 2 years of experience in managing businesses that provide financial services.
- The requirements are similar for the supervision committee, which must have 3 members (at least 2 must have university degrees in administration, economics, or auditing, and 2 years of experience in auditing institutions that provide financial services).
- The volunteer credit committee has been totally eliminated and is now replaced by a credit committee drawn from management.

4.3.11. MEMBERSHIP MODEL

146. **The current open CU membership model seems to have worked well**, as evidenced by the remarkably high growth rate in the membership, including among the poorest households, relative financial stability of the system, at least until now, and quite a sophisticated range of available services. In the Polish SKOK system, there are no geographical, professional or any other restrictions on SKOK membership. This is similar to many CU systems in the world, which have undergone an evolution from a closed to relatively open membership. Open membership helps distribute risks better owing to a wider geographical and sectoral range of membership and thus increases the stability of the CU system. However, an open membership model has a disadvantage that often there are no natural barriers to growth in membership, which often leads to the weakening of the CU's links with local communities, one of the primary objectives of credit unions, and increasing competition with commercial banks. . This seems to have partly been the case in Poland, where the largest SKOKs are increasingly competing with commercial banks in terms of geographical reach and clients' profile. Going forward, it would be important to ensure that the largest SKOKS face more stringent supervision requirements such as being directly supervised by the PFSa.

5. CONCLUSIONS AND FINAL RECOMMENDATIONS

147. **The Polish PFSA has many advantages over CU regulators in other countries to implement sound regulations in the CU sector.** Certainly PFSA and NASCU have considerable challenges ahead to meet the requirements under the new Law and to put all recommendations in place. However, PFSA should capitalize its advantages and move ahead. There are only 61 SKOKs to supervise. By performing supervision in just one SKOK, 38% of the sector's assets may be reviewed and supervised. This is logistically much less complicated and less costly than supervision of a large group of small CUs. SKOKs are used to supervision and regulation as NASCU has been fulfilling the role for many years. So far, NASCU supervision has worked rather well. Non-performing SKOKs have been absorbed by better performing SKOKs, ensuring that members have not lost any of their deposits and that members have had continued financial services.

148. **The PFSA should ensure that regulation and supervision build on past successful experiences and does not hinder CU development and innovation in the future,** while enhancing their financial position and improving the protection of member deposits and overall member confidence in the system as a whole. In order to move ahead and improve CU regulation and supervision in Poland, main recommendations discussed in the present report should be addressed.

149. **More clarity should be provided on the specific tasks of NASCU and PFSA after the new Law is approved.** The proposed law states that NASCU controls the activities of SKOKs and PFSA performs supervision of SKOKs. The list of activities performed by NASCU is very similar to the list of activities performed by PFSA under these two areas.

150. **The law needs to be supported by a detailed, inclusive set of regulations that establish prudential and non-prudential standards.** The most important regulations include: i) minimum standards for CU licensing; ii) capital adequacy to improve the financial soundness of individual CUs and the CU sector as a whole; iii) provisioning so that possible losses are adequately provided for; and iv) liquidity to ensure that sufficient funds are available to meet the demand. In addition, regulation should be completed with provisions on asset liability management, investment, borrowing, savings and shares, credit, accounting and auditing, as well as CU governance.

151. **The PFSA delegation of some parts of the supervision process to NASCU may be a good starting point to implement the new Law.** After an initial evaluation based on the results of on-site examinations at all 61 SKOKs, PFSA may delegate specific tasks to NASCU. This may greatly offset supervision costs as NASCU has 18 experienced examiners (off and on-site) that could assist in this task. PFSA may want to choose to perform on-site supervision of only the largest SKOKs (with assets greater than PLN 150 million), those SKOKs with serious problems that may threaten the future of the SKOK system, and SKOKs whose management or officials serve as NASCU officials or employees. This approach will ensure that the majority of the assets are supervised by PFSA.

152. **Once the PFSA drafts the new regulations, it is important to promote the participation of key stakeholders to support the proposed changes.** Obtaining support from the beginning of the reform will help create a sense of ownership of the reform by the SKOKs and will ease their transition. New regulations should be put out for comment to the CUs and their associations for a reasonable period. The PFSA may also host "road shows" -as has been done in other countries- or provide for any other method of direct communication with the SKOKs to share their views and concerns.

153. **Additional tools may be used such as speeches, newsletters, letters to CUs and meetings with stakeholders to explain and promote the changes.** Resistance from the major stakeholders should be expected. However PFSA should be persistent, deal openly and honestly

with sector stakeholders and make one clear message. At the end, changes have been put forth to protect the member's savings and the system as a whole.

ANNEX 1. STATISTICS ON POLISH SKOKS

As of the end of March 2010, the breakdowns of uses of funds in loans and investments were as follows.

Table A1. Breakdown of Loans

Loan Type	Amount PLN	% of Total
Small Business Loan	223,363,054	2.57%
Consumer Loans	5,254,722,368	60.50%
Residential Credits	754,992,561	8.69%
Home Improvement Loans	2,363,417,378	27.21%
Other Loans and Credits	88,536,146	1.03%
TOTAL	8,685,031,507	

Table2. Breakdown of Investments

Investment Type	Amount PLN	% of Total
Government Securities	216,770,182	11.88%
Bank Deposits	13,516,609	0.74%
Deposits NASCU	1,219,319,696	66.85%
Money Market Funds	374,381,509	20.53%
TOTAL	1,823,987,996	

As of the end of March 2010, the breakdown of the sources of funds from shares and savings was as follows.

Table A3. - Breakdown of Shares and Savings

Shares or Savings Account Type	Amount PLN	% of Total
Current Accounts	2,215,309,049	20.02%
Term deposits up to 1 year	8,239,231,138	74.45%
Term deposits from 1-2 years	246,653,811	2.23%
Term deposits more than 2 years	364,983,358	3.30%
TOTAL	11,066,177,355	

ANNEX 2. NASCU: CURRENT PROGRAMS, TASKS AND ACTIONS

Responsible Division	General Task	Specific Task	Actions and Rights of Participants
SKOK Supervision	SKOK Creation/Registration	Ensure that all SKOKs are properly formed.	<ol style="list-style-type: none"> 1. Organizational support, 2. Provide model documents such as by-laws and policies, 3. Determination and confirmation of qualifications of SKOK officials, 4. Co-operation with the National Court Register, 5. IT and accounting support, 6. Training assistance, and 7. Keeping register of SKOKs.
Supervision	Regulation	Establishment and implementation of prudential standards	<ol style="list-style-type: none"> 1. Establishment of standards of acceptable risk, 2. Elaboration of uniform procedures for preparing documents, and 3. Preparation of IT system that meets the requirements.
Supervision, Monitoring and Control Department	System Monitoring	Assessment of risk in SKOK system	<ol style="list-style-type: none"> 1. Collecting Data, 2. Financial and Ratio Analysis of individual SKOKs and the system as a whole, 3. Trend Analysis, and 4. Reporting on SKOK financial condition.
Supervision, Monitoring and Control Department	Institutional Monitoring	Assessment of institutional risk level	<ol style="list-style-type: none"> 1. Establishment of risk measurement standards, 2. Risk assessment, 3. Determination of risk category (rating), and 4. Co-operation with certified auditors, and 5. Review of external audit reports.
Supervision, Monitoring and Control Department	Audits / Supervision Control	Ensure that SKOKs operate in accordance with the rules of law, regulations, by-laws and their policies and procedures.	<ol style="list-style-type: none"> 1. On-site CU examinations.
Supervision, Monitoring and Control Department	Early Warning Program	Identification of potential problems and monitoring of problem solving SKOK Management Boards	<ol style="list-style-type: none"> 1. KAPER risk assessment which assists in problem identification, and 2. Monitoring of SKOK problem resolution (including development of rehabilitation programs)
Supervision, Monitoring and Control Department	Rehabilitation programs (appointment of administrators)	Limiting the risk of bankruptcy with direct intervention and/or minimizing losses to the stabilization fund with direct SKOK management.	<ol style="list-style-type: none"> 1. Problem resolution, 2. Determining standards of acceptable risk, 3. Limiting Management Board powers (e.g. order to eliminate defaults, ban on certain activities), and 4. SKOK restructuring or merging.
Supervision, Monitoring and Control Department	Stabilization Fund – Savings Protection	Protect all deposits in the event of SKOK bankruptcy.	<ol style="list-style-type: none"> 1. Agreement with SKOK management under threat of bankruptcy, 2. Financing rehabilitation programs with stabilization funds, and 3. Stabilization programs realized by merging SKOKs.
Supervision, Monitoring and Control Department	Stabilization – Liquidations	Optimize value of SKOK assets in bankruptcy	<ol style="list-style-type: none"> 1. Liquidation of assets, 2. Vindication of claims (loans and credits), and 3. Liquidation of SKOK.
Financial – Operational Division	Stabilization Fund – Administration	Safety and accessibility of resources accumulated in the Fund	<ol style="list-style-type: none"> 1. Investing fund resources in accordance with statutory provisions and resolutions of the NASCU Management Board.
CU Mutual Insurance Society	Deposit Insurance	Insure all savings to a specified level (50,000 Euros) against SKOK bankruptcy in the case that the Stabilization Fund cannot provide adequate coverage.	<ol style="list-style-type: none"> 1. Standards of concluding contracts, 2. Insurance policies and conditions, 3. Assigning to risk groups, and 4. Payment of insured savings.
CU Mutual Insurance Society	Bonding – Insurance against dishonesty of employees.	Protect SKOKs against employee dishonesty.	<ol style="list-style-type: none"> 1. General terms and conditions of insurance policies, 2. Statements of employees, and

			3. Calculation of contribution / additional payments.
CU Mutual Insurance Society	Property Insurance	Protect SKOK property against losses	1. General insurance terms and conditions, 2. Prevention through risk audits, and 3. Compensation payments.
CU Mutual Insurance Society	Financial Loss Insurance	Insurance in the event that members are unable to repay their obligations to the SKOK.	1. Policies, terms and conditions of insurance, and 2. Payment of a part or all of the member obligation to SKOK.

ANNEX 3. KAPER STANDARDS AND WOCCU PEARLS STANDARDS

Ratios	STANDARD
CAPITAL ADEQUACY	
K1: general ratio of solvency	Minimum 8,0%
K2: ratio of covering loans and credits with capital	Minimum 12%
K3: ratio of covering deposits with capital	Minimum 10%
K4: ratio of risk on account of overdue and irrecoverable loans and credits in relation to capital	0.00%
K5 ratio of institutional capital	Minimum 4,0%
K6: relations of allowances formed on account of threatened loans to loans due	100%
QUALITY OF ASSETS	
A1: ratio of share of assets not earning income	6%
A2: ratio of burdening assets with fixed assets	4.00%
A3: ratio of burdening assets with overdue loans	0.00%
A4: ratio of burdening credit obligations with overdue receivables	5.00%
A5 ratio of total operational efficiency	Minimum 100 %
LIQUIDITY	
P1: ratio of mandatory liquid reserve	Maximum 10%
P2: ratio of savings-loans turnover	80.00%
P3: current ratio	x>120.00% or x<160.00%
P4: current liquidity ratio	15%
EFFICIENCY AND RETURN	
E1: growth of member base	20%
E2: increase in assets	Not lower than E1
E3: increase in loans for members	Depending on P2
E4: increase in deposits	Depending on P2
E5: institutional capital growth	Depending on K4, K5,
E5: increase in overdue loans	Depending on A3, A4
R1: gross return ratio (return from assets)	2.00%
R2: income-earning capacity ratio	80.00%
R3: ratio of financial margin on assets	5.00%
R4: ratio of interest margin	150%
R5: ratio of assets efficiency	15%
R6: ratio of burdening assets with operational costs	Maximum 5.00%
R7: liquid investment return	Market
R8: net loan return	Market value connected with R4
R9: interest cost ratio	Market value> inflation
R10 ratio of level of deductions for overdue loans > 12 months	35%
R11 ratio of level of deductions for overdue loans < 12 months	100%
WOCCU PEARLS Monitoring System	
Protection	
P1: Allowance for Loan Losses / Allowances Required for Loans Delinquent > 12 months	100%
P2: Net Allowance for Loan Losses / Allowances Required for Loans Delinquent < 12 months	100% of allowances required for all loans delinquent < 12 months for non-delinquent loans
P3: Total Charge off of Delinquent all Delinquent loans > 12 months	Charge off 100% of all Loans Delinquent > 12 months
P4: Quarterly Loan Charge Offs / Total Loan Portfolio	Minimize

P5: Accumulated Recovered Charge Offs / Accumulated Charge Offs	100%
P6: Solvency	>110%
Effective Financial Structure	
E1: Net Loans / Total Assets	70-80%
E2: Liquid Investments / Total Assets	Maximum 20%
E3: Financial Investments / Total Assets	Maximum 10%
E4: Non-Financial Investments / Total Assets	0%
E5: Savings Deposits / Total Assets	Between 70-80%
E6: Borrowed Funds / Total Assets	Maximum 5%
E7: Member Shares / Total Assets	Maximum 20%
E8: Institutional Capital / Total Assets	Minimum 10%
E9: Net Institutional Capital	Same as E8
Asset Quality	
A1: Total Loan Delinquency / Total Loan Portfolio	< or = 5%
A2: Non-Earning Assets / Total Assets	< or =5%
A3: Net Institutional Capital + Transitory Capital + Non-Interest Bearing Liabilities) / Non-Earning Assets	>or = 200%
Rates of Return and Cost	
R1: Total Loan Income / Average Net Loan Portfolio	Entrepreneurial rate which covers financial, operating, and provisioning expenses and contributes to capital levels which maintain institutional capital at least 10%
R2: Liquid Investment Income / Average Liquid Investments	Highest rate possible without undue risk
R3: Financial Investment Income / Average Financial Investments	Highest rate possible without undue risk
R4: Non-financial Investment Income / Average Non-financial Investments	Rate greater than R1
R5: Financial cost: Savings Deposits / Average Savings Deposits	Rates which protect the nominal value of the savings deposits (> inflation)
R6: Financial Cost: Borrowed Funds / Average Borrowed Funds	Same or lesser yield (cost) than R5
R7: Financial Cost: Member Shares / Average Member Shares	Same or greater yield than R5
R8: Gross Margin / Average Total Assets	To generate sufficient income to cover all operating expenses and allowance for loan losses and provide for adequate increases to institutional capital.
R9: Operating Expenses / Average Total Assets	<10%
R10: Provisions for Loan Losses / Average Total Assets	Enough to cover 100% of delinquent loans > 12 months and 35% for loans delinquent 1-12 months
R11: Non-Recurring Income or Expenses / Average Total Assets	Minimum possible
R12: Net Income / Average Total Assets	Enough to attain the goal of E9
Liquidity	
L1: Liquid Investments + Liquid Assets – Short Term Payables / Savings Deposits	Minimum 15%
L2: Liquidity Reserves / Savings Deposits	10%
L3: Non-earning Liquid Assets / Total Assets	<1%
Signs of Growth	
S1: Growth in Loans	To increase % of Total Loans, S1 must be > S11. To maintain % of Total Loans, S1 must be = to S11. To decrease % of Total Loans, S1 must be < S11.

S2: Growth of Liquid Investments	To increase % of Liquid Investments, S2 must be > S11. To maintain % of Liquid Investments, S2 must be = to S11. To decrease % of Liquid Investments, S2 must be < S11.
S3: Growth in Financial Investments	To increase % of Financial Investments, S3 must be > S11. To maintain % of Financial Investments, S3 must be = to S11. To decrease % of Financial Investments, S3 must be < S11.
S4: Growth of Non-Financial Investments	To increase % of Non-financial Investments, S4 must be > S11. To maintain % of Non-financial Investments, S4 must be = to S11. To decrease % of Non-financial Investments, S4 must be < S11.
S5: Growth in Savings Deposits	To increase % of Savings Deposits, S5 must be > S11. To maintain % of Savings Deposits, S5 must be = to S11. To decrease % of Savings Deposits, S5 must be < S11.
S6: Growth in Borrowed Funds	To increase % of Borrowed Funds, S6 must be > S11. To maintain % of Borrowed Funds, S6 must be = to S11. To decrease % of Borrowed Funds, S6 must be < S11.
S7: Growth in Member Shares	To increase % of Member Shares, S7 must be > S11. To maintain % of Member Shares, S7 must be = to S11. To decrease % of Member Shares, S7 must be < S11.
S8: Growth in Institutional Capital	To increase % of Institutional Capital, S8 must be > S11. To maintain % of Institutional Capital, S8 must be = to S11. To decrease % of Institutional Capital, S8 must be < S11.
S9: Net Institutional Capital	To increase % of Net Institutional Capital, S9 must be > S11. To maintain % of Net Institutional Capital, S9 must be = to S11. To decrease % of Net Institutional Capital, S9 must be < S11.
S10: Growth in Membership	>12%
S11: Growth in Total Assets	> Inflation rate

ANNEX 4. NASCU: OFF-SITE MONITORING REPORT

Throughout the year, NASCU receives a significant amount of information on financial statements and general SKOK performance as part of its supervisory activity. Through standard software (SKOKCOM), SKOKs send the required information to NASCU for their analysis. The following information is provided:

- a) general statistics;
- b) credit statistics;
- c) balance sheet;
- d) income statement;
- e) control balance sheet including all accounts, analytic and zero accounts;
- f) report on deposit and credit balances;
- g) report on single credits exceeding PLN 100,000;
- h) report on overdue credits;
- i) report on debt collecting actions;
- j) general report; and
- k) definitions of balance sheet and income statement accounts.

At the end of each quarter, a SKOK must also send to NASCU their employment record and the statement concerning the location of all branches and sub-branches. On an annual basis, a SKOK must provide to NASCU:

- balance sheet and income statement as of 31 December along with the control balance sheet including all accounts, analytic and zero accounts;
- minutes of the General Meeting with copies of all resolutions passed by the General Meeting,
- approved financial statements; and
- copy of F-01 form sent to the main statistical office.

In addition to the above reports, a SKOK must also provide additional information periodically as required by NASCU:

- the price list for all products and services;
- a certified copy of resolution on payment rules for services rendered by the SKOK;
- a certified copy of resolution on the table of charges and commissions; and
- the annual audit report along with an opinion or an expert evaluation developed by a certified auditor within 7 days of receiving the report.

Upon receiving the SKOK reports, the Monitoring and Analysis Officer checks whether a complete set of documents was delivered and whether they meet professional and formal requirements specified in internal and external regulations. In the case of detecting inconsistency, the Monitoring and Analysis Specialist addresses the Management Board of the SKOK on the phone, in writing or using electronic mail, calling upon them to eliminate defaults. If the SKOK does not make the corrections, the analyst informs (orally) the Head of Monitoring and Analysis Section, who, in turn, immediately lodges a motion to the NASCU Management Board to call upon the SKOK to eliminate the problems.

As a result of this information a comprehensive report for each SKOK and the SKOK system as a whole is produced based on the KAPER ratio system. Unlike the CAMEL system used by supervisors worldwide, no ratings are provided for each KAPER ratio to evaluate the risk associated with each area. The KAPER system only establishes a ratio standard. The lack of a

rating makes the KAPER system more like a management tool for CU managers and less like an evaluation tool used by supervisors. In order to make the tool more useful there should be ratings for each ratio, for each of the 5 KAPER areas and one overall rating for the SKOK.

From the report produced by the Data Monitoring Officer, the Head of Monitoring Section checks the general compliance of each SKOK and the SKOK system overall with the rules of law, the basic accounting and bookkeeping rules, as well as analysis of the KAPER ratios. Then SKOKs that do not meet the established criteria are identified. Specifically, the acceptable levels of capital, profitability, liquidity, overdue loans, as well as reserves are reviewed. The NASCU Management Board receives monthly reports, including basic financial data of credit unions, as well as other information that they request.

When the standards of acceptable risk are not maintained as required, the Head of the Monitoring Section informs the NASCU Management Board. The Management Board, by way of resolution, calls upon the credit union to eliminate the problems.

The specified actions that may be requested by the NASCU Management Board include:

- performing an *ad hoc* inspection;
- carrying out explanatory proceedings;
- conducting a full scope inspection;
- requesting that lack of compliance with an action plan (for new SKOKs only), development plan (used with SKOKs whose development is too slow with a potential for a deteriorating financial condition), capital rebuilding plan, or rehabilitation program be addressed and corrected;
- taking appropriate measures towards SKOKs that do not implement rehabilitation programs or persistently and grossly violate rules;
- introducing administration; or
- suspending the SKOK Management Board.

After acceptance of the SKOK rehabilitation plan in accordance with one of the above mentioned Management Board resolutions, the SKOKs sends monthly reports on plan implementation until its financial situation stabilizes.

ANNEX 5. OFF-SITE SUPERVISION

Off and on-site supervision provides a comprehensive analysis of a CU. They differ in the location where they take place and the items they address. The off-site supervision covers CU quantitative information over time.

Off-site and on-site supervision shall use prudential standards and CAMEL ratios to assess overall risk and the financial condition of the CU. CAMEL is a collection of ratios used by regulators around the world to objectively evaluate the financial condition of all types of financial institutions. Off-site supervision will use only CAEL, that is, the areas of Capital adequacy, Asset quality, Earnings, and Liquidity will be reviewed. These standards and ratios should be calculated periodically (no less than quarterly) while performing off-site supervision. Because off-site supervision is not performed in the CU, the area of management cannot be reviewed; the competence of management can only be assessed during an on-site contact.

Prudential standards and trend analysis involves analysis of CU key performance indicators to assess sustainability and profitability, asset and liability management, portfolio quality, efficiency, and productivity in quantitative terms. The standards look at a CU at a certain point in time. Often, it is coupled with a trend analysis, which allows comparison of the current situation with the past and future projections.

Off site examiners shall be assigned a group of CUs on an annual basis. Each examiner should be given CUs of varying asset size and risk commensurate with their experience. They are responsible for the analysis and supervision of these institutions throughout the year. The examiners may be in charge of a CU's supervision for up to two consecutive years. After two years, the CU shall be reassigned to another examiner. When the CU is assigned to the examiner all documentation, files, and information will be at the examiner's disposal.

Examiners supervise their assigned CUs as needed through: review of required regulatory reports and submitted financial statements; periodic trend analysis of the prudential standards, financial results and CAMEL ratios; annual audits and management letters; telephone contacts; written correspondence; and on-site contacts. In the early stages of CU development, examiners may have to perform more frequent off-site monitoring to ensure that board and management are actively working to correct any problems previously identified. In CUs with serious problems, supervision may also include follow-up examinations (additional on-site contacts besides the required annual examination) and in-depth monitoring of financial trends.

The examiner in charge, through other examiners, industry participants, news reports, etc., must stay abreast of developments within the various industries or communities that affect the CUs for which they are responsible. Examiners should act on potential problems by contacting management to verify information received. Examiners shall inform their supervisors immediately of potentially serious conditions that could adversely affect a CU. Early problem identification and resolution makes for successful supervision.

A5.1. OFF-SITE SUPERVISION PROCESS

Off-site monitoring and analysis is used to monitor CUs during the period between on-site examinations and follow-up contacts, and is the basis of proactive supervision and regulation.

The procedures for conducting off-site supervision consist of:

- data collection;
- trend analysis and problem identification;
- financial analysis reporting; and
- follow-up.

A5.2. DATA COLLECTION

Data collection involves the input of data obtained from CUs into a standardized document or database. Data standardization is imperative so that examiners understand the information they are analyzing and can make useful comparisons and conclusions. Standardized forms are essential:

- to collect meaningful data from each CU;
- to make the data useful and comparable;
- to reduce individual interpretation and incorrect information; and
- to produce meaningful information and results.

CUs shall submit quarterly reports. Reports are due in the PFSA office no later than the 21st (suggested between 14-21 days) day following the end of the quarter. However, an examiner may decide that a CU needs to report more frequently (e.g., newly chartered CUs, or those with severe problems). Annually, no later than 30 June in each year, the CU shall also submit to the PFSA:

- audited annual financial statements; and
- annual report of the Board of Directors for 31 December of the preceding year.

Off-site examiners shall use the off-site standardized report to collect all information. These forms are the input source of CU financial and statistical information and off-site trend analysis. Examiners, as the primary contact with these financial institutions, play an integral part in the success of the data collection and review process. Accordingly, examiners are individually responsible for ensuring the accuracy of their assigned CUs.

If examiners have concerns with the validity of a CU's data, they should discuss this with their supervisor and contact the CU's manager and, if needed, chairman of the board of directors for verification. The information should be amended as needed. The need for accurate financial and statistical reporting is critical and requires continual review and verification. If analysis is performed using incorrect data then the report and all associated output is also incorrect.

A5.3. TREND ANALYSIS AND PROBLEM IDENTIFICATION

Examiners must adopt a dynamic approach to off-site supervision and monitor the evolution of an institution's financial situation. This is necessary to be able to detect negative trends, anticipate possible future problems and take corrective action if necessary.

Trend analysis is performed by comparing financial data and ratios over successive periods. This can be done using a spreadsheet to collect data over time and then compare the data from one time period to the next.

In terms of financial data, the trend analysis includes the monitoring of trends in financial results that is, asset volumes, interest income, interest expense, loan loss provisions, operating expenses, profits, loan and investment portfolios, loans in arrears, indebtedness, shares and savings.

Monitoring the growth of an institution is critical. CUs that grow too fast; risk reducing the amount of capital as compared to total assets, the quality of their assets, and losing control of their operating costs. As a result profitability suffers and the financial soundness of the CU is reduced. Rapid growth in lending activities may also lead to deterioration in the quality of the loan portfolio and an increase in loan losses. Because of its eagerness to increase its market share, the institution becomes less demanding in evaluating the creditworthiness of its borrowers. In that context, trend analysis is a powerful tool to allow examiners to get a better understanding of the financial condition of the institutions under their responsibility.

While reviewing the financial information, whether it is quarterly or more frequent the examiner shall perform a comparative analysis of the reported information and selected performance indicators (ratios and trends). The objective of this analysis is known as problem identification. It involves identifying key performance indicators (ratios and trends) that are outside acceptable operating parameters, vary significantly from overall industry averages, or that indicate significant or unusual changes. The examiner should look for early warning signals and unusual financial relationships within the period as well as adverse trends developing over all reporting periods.

Examples of early warning signals in CUs include:

- A deteriorating institutional capital to total assets ratio. The source of the problem may be lower profitability, net loss, higher loan losses, or asset growth that exceeds capital growth.
- Increase in problem loans as compared to capital, especially when the ratio is above 50%.
- The PAR > 30 days ratio is increasing and/or the ratio is erratic over a period of time.
- Delinquency between 1-2 months increases rapidly, normally indicating problems with current underwriting and/or collection procedures, as opposed to a smaller amount of delinquency between 1-2 months and a larger amount of delinquency between 6 and 12 months, which may indicate a previous problem that has been solved.
- Total delinquency decreases over a short time period, which could be due to loan restructuring and extensions and not to the collection of delinquent loans.
- A rise in the delinquency ratio can also be linked to economic problems or the result of a natural disaster such as a flood or drought.
- Loans are not written off when they are considered a loss and/or when they are greater than 365 days delinquent.
- PLL account balance is less than required and the required amount is increasing.
- Management and/or the officials do not want to increase the PLL.
- Large investments in fixed assets diverting valuable resources from the main business and income source, lending.
- Fixed assets depreciated over a time period greater than recommended by accounting standards.
- Increasing amount in non-earning assets (cash, repossessed collateral, accounts receivable, accrued interest receivable, fixed assets and other assets).
- Increasing account balance for accrued loan or investment income receivable.
- Large loans to a few members and their immediate family members.
- Large amount of loans to officials and employees.
- Lack of diversification in loan and investment portfolios.
- Investments made in high risk instruments, those that do not guarantee the return of principal, or in which management and the officials do not understand.
- Investments with a maturity > 1 year. CUs generally operate to make loans and accept deposits, not as an investment group.
- Internal control signs of weakness can be difficult to identify off-site but the following should be kept in mind:
 - Requested reports are frequently late, not received and contain errors.
 - Financial or standardized reports that are completed incorrectly.
 - Accounts Receivable balances increase over time period.
 - Balance sheet and income statement numbers such as gross income, operating expenses, net income, loans, investments, fixed assets, deposits, shares, or retained earnings are erratic from one period to the next.
 - Numerous accounting errors.

- Frequent changes in staff.
 - Lack of a transparent, documented audit trail.
 - Recent incidents of fraud and/or robbery.
 - No segregation and/or rotation of duties.
 - Weak Board of Directors that is subservient to management.
 - No established limits on expenses.
 - Staff confusion as to job duties and responsibilities.
 - No periodic internal audits performed.
- Ineffectiveness of governance –lack of independence of Board of Directors.
 - Board members who are also a part of daily management such as the chairman working as the manager.
 - Weak technical skills, questionable ethics, incompetence of management staff.
 - Changes in key positions or in board membership.
 - Lack of clear vision and well-defined priorities.
 - Lack of communication/ tensions between the Board of Directors and management.
 - Management that avoids examiner contacts, cannot answer the questions and address concerns, and/or is evasive when questioned.
 - Confused and inarticulate policies.
 - Inaccuracy, lack of timeliness and effectiveness of IT and inappropriateness of this system compared with size, complexity and risks of the CU.
 - Faulty computer systems, frequent break-downs, weak security, no back-up.
 - Non-existent short-, medium- and long-term plans and budgets.
 - No analysis on significant and persisting gaps between budget and actual figures.
 - No written assumptions for the budgeted numbers.
 - Budget appears to have been drafted for the examiner ONLY.
 - Operating expenses as compared to average assets are increasing and/or the ratio is greater than 10%.
 - A return on assets ratio less than .5%.
 - Savings interest rates that are above local market rates with no plan on how to profitably use the funds.
 - Material decrease in liquid cash assets.
 - Material increase in longer term loans (maturing in 3 years or more).
 - Mismatch between interest earning assets and interest bearing liabilities and a widening maturity gap between assets and liabilities.
 - Total loans that are more than 90% of assets.
 - Increased reliance on debt at more onerous conditions.
 - Loan interest rates greater than market rates.
 - Delays in payments to suppliers (accounts payables) or creditors.
 - Growing difficulties in meeting debt payments.
 - Lack of cash flow projections and the assumptions used to make the projections.

This analysis helps highlight important variations in key financial data or ratios, and detects any irregularity. It is the responsibility of the off-site examiner to investigate any sizeable anomaly detected in the evolution of an institution's financial position.

For illustrative purposes - an example of key ratios or indicators that reveal operational problems in a time period or over consecutive time periods that require additional examiner attention are:

- a decreasing capital to total assets ratio;
- an increase in loan delinquency; or
- a decline in net income from one reporting period to the next.

Examiners should note the negative figure, ratio, or trend and identify and formulate solutions on how the problem can be solved and monitored. For example:

The ratio of capital to total assets as stated in the regulation is to be maintained at no less than 8%. Any CU that has capital below this minimum would be in non-compliance and would require additional follow-up by the examiner to determine the cause for the low capital level and what measures the CU is taking, or planning to take, to comply with the minimum capital requirements. The examiner should then indicate in the Off-Site Supervision Report whether the CU's plans for improving the capital position are reasonable and acceptable or the examiner should suggest alternative actions to be taken by the CU. PFSA may also contact the CU and/or NASCU about the prudential standard violation and may discuss the actions that need to be taken.

The Portfolio at Risk (PAR) > 30 days to Total Loans ratio according to the regulation shall not exceed 5%. If a CU reports a ratio in excess of the maximum, the examiner should perform additional follow-up to determine the cause for the excessive PAR ratio and what measures the CU has implemented or is planning to implement to reduce delinquency and whether the plans are adequate.

A5.4 FINANCIAL ANALYSIS REPORTING

This stage involves the review, analysis and reporting on problems noted in the problem identification stage as well as the analysis of trends. The examiners should analyze the required reports submitted by the CU for negative, erratic, or unexplained changes to account balances, trends, or ratios and prepare the Off-Site Supervision Report. The report should identify causes of problems or negative trends and the potential risk and its effects. Examiners must be aware of, and note in the report unexplained or sudden increases in the level and trends of account balances and CAMEL ratios. During the performance of off-site monitoring, it is important that examiners follow-up on unexplained changes in a CU's balance sheet composition or why ratios, account balances, levels, or trends have changed.

Based on this financial analysis, an Off-Site Supervision Report is prepared. The Off-Site Supervision Report is used to:

- place the examiner's observations on negative trends and ratios in writing and document the findings and analysis performed based on the information submitted by the CUs;
- develop a supervisory response and strategy for resolving weaknesses or concerns identified at individual CUs; and
- inform others such as PFSA supervisors and NASCU regarding the condition of individual CUs.

This report should be prepared within 21 days of receiving the off-site report from the CUs. The report should be provided to NASCU. They can be of assistance in ensuring that recommendations are put into place and corrections are made. If NASCU stabilization funds are to be used, NASCU must be involved in the process as early as possible to develop a plan for the use of the funds.

A5.5 RESPONSE AND FOLLOW-UP

Response and follow-up are the actions taken by the PFSA and the CU resulting from the financial analysis step performed above. The objective of the response and follow-up stage is to cause the management of an institution to correct unsatisfactory performance/conditions and the underlying unsatisfactory practices. In order for this stage to be effective, the examiner must communicate with their supervisor and directly with the CU. The assigned examiner must discuss all the problems identified and assist management in developing useful solutions to the problems. This is one of the most important supervisory functions; it focuses a CU's management on implementing necessary change to improve the condition of the institution.

A5.6. OFF-SITE SUPERVISION REPORT FORMAT

7. The Off-Site Supervision Report is to be utilized by the examiner in order to ensure that analysis, conclusions, and recommendations are presented in a consistent and uniform manner. Narrative comments in the Off-Site Examination Report shall be divided into four sections and include:

- overall condition;
- issues requiring attention;
- recommendations; and
- follow-up.

“Overall condition” should be an overview of the condition and performance of the CU. It should succinctly summarize the most important points of the report. It should be a condensed description rather than an in-depth, detailed discussion. Ratios, numbers, and comparisons to overall CU performance and/or condition can and should be used to help put information in perspective and support conclusions.

“Issues requiring attention” should focus on the main/significant problems which require immediate corrective attention. This section clearly identifies and discusses the most significant problems that need to be corrected at present. If the CU is violating prudential standards or other PFSA requirements then the examiner must note this in the Report section and alert their supervisor. It should be clearly noted if the issues currently identified were discussed in a previous report. If problems were previously identified, it should note the progress and improvement.

“Recommendations” provides recommendations for solving the problems addressed in the section “issues requiring attention” and internal recommendations for future supervision. This is the most important supervisory function since it focuses on change and improvement. As the individual most familiar with the CU, the examiner shall offer recommendations as to problem resolution. The examiner should discuss all recommendations made in the Report with their supervisor and CU management to ensure that CU management has identified the source of the problems, understands the recommendations, knows they are workable within the context of CU operations and the time frames established and understands how to put the recommendation into place.

The examiner preparing this report and making the analysis shall be the same person. The report should, in the cases of healthy CUs, be limited to two-three pages. Upon completion of the report, the examiner shall sign and date the report.

To ensure prompt, effective correction of problems, the examiner who identified the problems and developed plans for corrective action should maintain supervisory responsibility.

ANNEX 6. ON-SITE SUPERVISION

The objectives of the on-site examination are to:

- measure the effectiveness of the operations of the CU;
- ensure that the law and regulations are being implemented;
- assess the suitability and the quality of the policies of the CU;
- ensure that policies are being implemented;
- assess the expertise of the directors and staff;
- determine the CU is serving its members as stated in the by-laws;
- identify risks to the operations and risks to the membership; and
- make relevant recommendations for corrective actions.

On-site examinations are normally conducted no less than every 2 years. However, they can be conducted more or less frequently depending on CU risk, funding and personnel limitations of PFSA. PFSA needs to carefully assess the risk posed by each CU and prioritize the examination schedule. Those CUs posing the most risk should be examined early in the year and perhaps more frequent follow-up visits could be made that were for short time periods and focused only on the areas of risk. PFSA must be flexible enough with the examination schedule to change the schedule when adverse information is obtained concerning a CU. The examination schedule should be made at the end of a year for the following year. It should be in writing and distributed to all PFSA CU supervision employees and NASCU supervision staff if they will perform on-site examinations.

A6.1 PRE-EXAMINATION PLANNING

The following shall be performed prior to examination commencement by the examiner in charge.

- Review pertinent information in the CU file. Each CU should have a file that is maintained at PFSA. Read the previous examination reports for the CU in order to determine the problems and weaknesses.
- Determine areas where additional time may be required, or time can be saved.
- Read any explanatory memoranda or analysis pertinent to potential problem areas. Consider alternative exam procedures that might be more efficient and/or effective. Examiners should concentrate their efforts on the CU operational areas that pose the most risk to the CU members and the CU system as a whole.
- Coordinate with the off-site examiners and consult with them on the main issues and problems that have been raised recently.
- Analyze the off-site worksheets and trend analysis reports to determine the negative tendencies and any areas of concern. This information will be subject to verification during the annual examination. Review all of the Off-Site Supervision Reports prepared since the previous examination. The analysis will give the examiner in charge an idea of the existing problems, the areas that could be a potential problem and what management is doing to correct the problems.
- Read all correspondence between PFSA and the CU since the last on-site examination. This may include: management responses for the last examination and other contacts, newly adopted policies, information on operational changes to policies and/or procedures, managerial changes and any other type of action taken in order to correct problems and weaknesses.
- Ascertain if the recommendations for improvement made as a result of the last examination have been taken into account by management.
- Review a copy of the last external audit, recommendations, suggested audit adjustments and the contract. Contact the external auditor, if necessary to set up a meeting during the examination to discuss the external audit.

- Decide the date of the examination and determine the exam scope and the procedures to be used, if it is other than a full examination. The examination may be performed on a surprise basis or management may be contacted in advance. For ease of performing the exam, it is much easier to contact management in advance so they can provide all of the needed information in a timely manner. If there are any suspicions that management is not performing their job properly then the exam should be conducted on a surprise basis.
- Prepare a list of reports and information that will be needed to conduct the on-site examination in order to facilitate the flow of information and use time more effectively. This list should be delivered to the CU at least two weeks prior to the commencement of the examination.
- Input any historical financial information (past year-end balance sheets and income statements) into the work papers that will be part of the examination.
- Ensure that the CU has sufficient space available for supervision staff to perform the examination and suggest that a member of the staff be appointed as contact person and facilitator.

A6.2 INITIAL MEETING PRIOR TO STARTING THE EXAMINATION

During this meeting, examiners explain the purpose and objectives of the examination, whether it is a regular full scope examination, an examination taking place in the context of a license application, a follow-up exam, or an exam resulting from the off-site review process.

At the start of the examination, the examiner-in-charge will do the following.

- Obtain copies of all the significant changes to policies and procedures since the last examination or if it is the first examination then all of the written policies and procedures shall be obtained.
- Determine all the services and products offered.
- Select the loan files to be reviewed or delegate the selection to the examiner performing the loan review.
- Review the Supervisory and Management Board's minutes since the last examination. All reports and appendices attached to the minutes should also be reviewed.
- Assign work to be completed to other examiners that will be assisting in the completion of the examination.
- Establish open lines of communication with management and officials.
- Obtain a copy of the most recent organization chart for the CU.
- Obtain a list of the names, account numbers, loan and deposit balances of all the officials, employees, and their immediate family.
- Obtain a copy of the CU's most recent budget, business plan, balance sheet and income statement and asset liability management and liquidity analysis.
- Obtain the accounting records, reconciliations and ledgers for fixed assets and investments.
- Determine if any one person(s) or group of people appears to control or dominate the board of directors or CU and if it is having a detrimental effect on the CU.

A6.3 ON-SITE EXAMINATION AREAS

The following areas are reviewed during a full scope on-site examination:

- capital adequacy and regulatory reserves;
- risk assessment of the loan portfolio;
- evaluation of the sufficiency of the Provision for Loan Loss Account;

- cash and investments analysis;
- fixed assets;
- competence of management and officials;
- internal audit activity;
- adequacy of internal controls;
- IT system;
- accounting, general ledger, and financial statements;
- profitability;
- asset liability management and liquidity;
- safety of member deposits and other debt obligations;
- pending litigation; and
- off balance sheet risk.

A6.4 CAPITAL ADEQUACY

One of the most important objectives of the examination is to evaluate the capital adequacy of a CU. The objectives of this area of the exam are to:

- Assess the CU's compliance with prudential regulation and CAMEL (if this rating system will be used) standards;
- Determine if the CU has an adequate method and procedures to monitor and project its capital needs;
- Identify and investigate significant or unusual fluctuations in the amount of capital;
- Review transactions, operations, or concerns relating to capital that were identified by off-site examination staff;
- Identify changes in the internal and external environment of the CU as well as any potential risk exposures that may materially affect the CU's solvency and capital position;
- If problems are present, evaluate the management action plans taken or to be taken to address the problem; and
- Recommend corrective actions if the CU's action plans are not effective or the amount of capital is insufficient.

Once the examiner has completed the review of the capital accounts and their adequacy, the rating for this exam area should be determined keeping in mind: the capital level and trend analysis; compliance with any regulatory reserve requirements; composition of capital; interest and dividend policies and practices; adequacy of the provision for loan loss and other asset provision accounts; asset quality – asset types, liquidity and diversification of assets, with particular reference to classified assets; liquidity and asset/liability management; economic environment; loan and investment concentrations; growth plans; ability of management to control and monitor risk, including credit and interest rate risk; and earnings - good historical and current earnings performance enables a CU to fund its growth, remain competitive, and maintain a strong capital position.

A6.5 ASSET QUALITY

The assets of a CU can be divided up into 4 broad categories – cash, investments, loans and fixed assets. The main emphasis of asset quality analysis is to determine the quality and collectability of the assets. The objectives of the asset quality review during the on-site examination are to:

- Ascertain the level of diversification or concentration of assets;

- Determine that policies and procedures are adequate so that the CU grants good quality loans and possesses assets that are worth the value stated on the balance sheet;
- Determine the amount of classified assets and evaluate their financial impact on the CU; and
- Identify and determine the source of any fluctuations or changes since the last on-site examination.

The loan portfolio is generally the single largest and most important revenue-producing asset in CUs. It is important the quality of these assets is thoroughly reviewed and analyzed. The objectives of the loan review are to:

- Determine the risk within in the loan portfolio due to poor loan underwriting and concentration of credit to borrowers and in certain loan types;
- Assess the quality of the loan documentation by assessing the borrower's financial condition, resources and ability to repay the loan in full;
- Confirm the existence, value and enforceability of the collateral;
- Review the adequacy of the financial support that can be provided to the borrower by the co-signers or guarantors;
- Evaluate the impact of the current economic and market conditions on the borrowers; and
- Recommend specific actions to reduce the risk of loss.

The examiners' job is to determine the overall quality of the loan portfolio and to identify the source or cause of any problems or potential problems. The examiner does this by looking at a sample of the loans to ensure they comply with policy and procedure and by assessing the overall risk of the portfolio by reviewing: portfolio diversification, amount of high risk loans for business purposes and long term real estate, concentration of loans with long maturities, rescheduled loans, delinquent loans, loan concentrations to borrowers and related parties.

The purpose of the investment review is to determine: the overall quality of the CU's investments, the compliance with the Law, any adverse effect on the CU's financial condition and that accounting is as required. The examiner must determine that all internal controls for cash, investments, loans and fixed assets are adequate and accounting practices are satisfactory.

After performing all the examination steps to assess asset quality, the examiner should assign the rating for asset quality. Asset quality is rated in relation to:

- The quality of loan underwriting, policies, procedures and practices;
- The level, distribution and severity of classified assets;
- The adequacy of the provision for loan loss account and other asset provision accounts;
- The level and composition of non-accrual and restructured assets;
- The ability of management to properly administer its assets, including the timely identification and collection of problem assets;
- The existence of significant growth trends indicating deterioration or improvement in asset quality;
- The existence of high loan concentrations that present undue risk to the CU;
- The presence of insider or related party loans;
- The appropriateness of and compliance with investment policies and practices; and
- The investment risk factors when compared to capital and earnings.

The asset quality rating is a function of present conditions and the likelihood of future deterioration or improvement based on economic conditions, current practices and trends. The quality and trends of all major assets must be considered in the rating. This includes investments, other real estate owned, and any other assets that could adversely impact the CU's financial condition.

A6.6 MANAGEMENT

The objectives of the management review are to:

- assess whether the officials and management have the experience and technical ability to properly ensure the CU is operated in a safe and sound manner;
- determine if the officials understand their duties and fiduciary responsibilities and comply with all policies, by-laws, regulation and law;
- verify that the officials perform their responsibilities in an appropriate manner;
- determine the officials and management are planning, directing, and controlling the CU as to achieve all stated goals and objectives and regulatory requirements;
- verify that all procedures and policies are in writing and reflective of current operations;
- determine that officials and management are planning effectively both for the long-term with the use of a business plan and for the short-term with annual operating budgets;
- determine that there are no conflicts of interest or self-serving operational practices;
- assess that the officials are making financially sound decisions;
- evaluate action plans the CU has taken, or is planning to take to cure the root causes of any problems; and
- Recommend corrective actions when the CU has not taken action or their action plans are ineffective.

Management is the examination area that takes into consideration the future viability and financial position of the CU. Management is the most forward-looking indicator of condition and a key determinant of whether a CU is able to correctly diagnose and respond to negative financial changes, results, or situations. An assessment of management should not solely be dependent on the current financial condition of the CU, nor should the management rating be an average of the other component ratings. The management rating shall be based on the quality and presence of the following managerial components: annual budget for the current year or business plan supported by written assumptions; independent acceptable annual audit; written policies and procedures reflective of current operations; up-to-date and accurate accounting; information system adequate for the size and complexity of the CU; positive financial trends; well trained staff; active and well trained officials and quality of service indicated by the number of members.

A6.7 EARNINGS

The ability of a CU to earn a profit is a standard measurement of overall performance. An indicator of a well managed CU is a high earnings ratio. The continued viability of a CU depends on its ability to earn an adequate return on capital and assets. An adequate return enables a CU to fund expansion, remain competitive, and replenish or increase capital.

The objectives of the earnings review are to:

- Establish the quality of the earnings, the impact that current and potential internal and external pressures may have on the growth and sustainability of profits;
- Identify and investigate unusual and significant fluctuations in revenues, expenditures and financial ratios;
- to evaluate action plans the CU has taken, or is planning to take to cure the root causes of any problems; and

- Recommend corrective actions when the CU has not taken action or their action plans are ineffective.

In evaluating and rating earnings, it is not enough to review past and present performance. Future performance is of equal or greater importance. Examiners should evaluate long-term earnings, that is, the future earnings ability of a CU taking into consideration any temporary fluctuations in income and one-time items. A review for the reasonableness of the CU's budget and underlying assumptions will help to establish the potential future performance. Key factors to consider when assessing the CU's earnings are:

- Level, growth trends and stability of earnings, particularly the return on assets;
- Quality and composition of earnings;
- Adequacy of the provision for loan losses and any other asset provision accounts;
- Future earnings prospects;
- Adequacy of the net interest margin;
- The effect and level of subsidies;
- Non-operating income and losses and their effect on earnings;
- Quality and composition of assets;
- Capital level;
- If earnings are sufficient to support capital formation; and
- Any other material factors affecting the CU's income producing ability (such as the amount of fixed assets and repossessed assets).

A6.8 ASSET LIABILITY MANAGEMENT/LIQUIDITY

Liquidity and asset liability management is the identification, monitoring and control of: interest rate risk sensitivity and exposure; reliance on short-term, volatile sources of funds, including any undue reliance on borrowings; availability of assets readily convertible into cash; technical competence relative to liquidity and asset/liability management, including the management of interest rate risk, cash flow and liquidity with a particular emphasis on assuring that the potential for loss in the CU's activities is not excessive as compared to capital. The cornerstone of a strong liquidity and asset/liability management system is the identification of the CU's key risks and a method for measuring those risks.

The objectives of the liquidity / asset liability management review are to:

- Assess the CU's compliance with prudential and CAMEL (if this is the rating system to be used) standards;
- Determine if the CU has adequate systems and procedures in place that are sufficient for the complexity of the CU to monitor liquidity and interest rate risk exposures;
- Review key factors such as interest rate sensitivity, asset/liability structure, net interest margin, the sources and uses of funds for maturity mismatches, the costs for the sources and uses of funds;
- Determine a CU's asset maturities and re-pricing structure in conjunction with the type of funding used to finance the assets.
- Determine if the CU has the ability to meet its present and anticipated cash flow needs, such as, funding loan demand, savings withdrawals and the payment of liabilities and expenses;
- Identify changes as well as deficiencies in the liquidity and asset liability management process;

- If there are problems, evaluate action plans that the CU has taken or plans to take to resolve the problems; and
- Recommend corrective actions when the CU's action plans are not effective, when the liquidity or asset liability management process is deficient, or when the amount of liquid assets is insufficient.

It is difficult to capture all the intricacies of asset/liability and liquidity management in ratios. Therefore, in arriving at an overall rating for liquidity and asset/liability management, consideration should be given to the overall adequacy of established policies, the effectiveness of liquidity and asset/liability management strategies, the methods used to measure interest rate and liquidity risks, and the results of the ratios used to measure this CAMEL area. Asset/liability and liquidity management policies should also assure that an adequate reporting mechanism and sufficient audit capability are in place to ensure compliance with the policies.

A6.9 OTHER EXAM AREAS

In reviewing the deposit structure, the examiner shall determine that deposit policies are realistic; internal controls are adequate; deposit growth is steady and consistent; changes in the total deposit balances from one period to the next are reasonable; and management takes corrective action when deficiencies are noted.

The examiner shall review all of the off balance sheet accounts to determine if they pose any risk to the CU's capital or financial position and the procedures to manage and control the off-balance sheet risk are adequate. Off-balance sheet items should be very limited to items such as written off loans. A CU is not in the business of issuing guarantee or financial commitments; this is the business of a commercial bank.

The examiner in charge shall obtain and review a list of all pending or proposed litigation. The list shall be reviewed to determine the possible effect of litigation on the CU's capital or earnings.

A6.10 DEVELOPING ACTION PLANS

Prior to the wrap meeting, the examiner in charge should draft action plans aimed at correcting problems in the CU. The CU's Board of Directors, management and the PFSA may have different views as to the nature and seriousness of the CU's weaknesses. That being said it is essential that these plans are developed in unison with the other participating examiners and CU officials and management. PFSA staff should be a part of developing the plans as they identified the problem(s) and CU management and officials must be a part as they are responsible for making the changes.

In order to formulate action plans, the examiner has to decide on the following:

- What are the causes of the problem?
- What is the size and character of the problem and is capital, liquidity, or solvency going to be immediate concerns?
- What are actions to be taken, who is responsible for taking the action and in what time frames?
- If illiquidity or insolvency are real possibilities, immediate corrective action is essential. On the other hand, if the problems pose no immediate threat to the CU, the possible range of actions is broadened.

A key factor in determining whether the plan will be successful is the commitment of the Board of Directors and ultimately the members of the CU. It is important to have open and honest communications with the Board so as to secure their commitment to the CU. The action plan(s) prepared by the CU should be approved by the Board of Directors and should give the PFSA

reasonable assurance that the weaknesses will be satisfactorily addressed. The PFSA should stipulate a time frame(s) within which the CU should comply with the corrective action(s). This time frame should be related to the urgency and seriousness of the weakness.

A6. 11 WRAP UP MEETING AND FINAL REPORT

Once all of the field work is completed for the on-site examination, the examiner(s) has identified all the findings and exceptions and has drafted their action plans and recommendations, the examiner in charge should hold a wrap up meeting with all officials, key CU staff members, participating PFSA examiners and their PFSA supervisor.

Prior to holding the wrap up meeting, the examiner must thoroughly understand the CU's operations, its weaknesses and strengths, and be able to effectively communicate the examination findings to the officials and assist management in developing plans for corrective action. The objectives of an exit meeting are to:

- inform the officials of the examination scope and the CU's condition;
- review all the examiner findings, exceptions, recommendations and action plans;
- reach agreements to correct problem areas; and
- develop follow up plans to ensure that the problems identified are solved before they adversely impact the CU's financial position.

It is important that PFSA communicate its concerns to the CUs as quickly as possible and communicates openly and honestly with all key individuals. This is done through the wrap up meeting with the CU management and officials and a final examination report sent to the CU's Board of Directors.

The wrap up meeting with management and officials of the CU serves a very important function. While the meeting is performed by the on-site examiners it should not be viewed or considered as the final view of the PFSA. The written report represents the final view. The examiner's supervisor should review the written report to ensure that all statements in the report are fully supported by the facts prior to delivering the report to the CU. However, it is very important that the examiners who performed the actual examination are allowed to present their findings to the CU's management upon completion of the exam. These direct meetings (at the conclusion of the examination) provide the most opportune time to review and discuss the matters contained in the report. This meeting is to allow an exchange of information between the examiners and management on the major findings contained in the report. It also allows management the opportunity to respond to items if there are questions.

To a large extent, examiners use the data developed during the examination and review the recommendations, material findings, exceptions and follow-up plans with the participants. It is best if all the action plans and recommendations have already been developed with input from CU management and officials prior to the wrap up meeting. This usually makes for a smoother, shorter meeting. This will allow the examiner to focus on the previously agreed upon action plans and recommendations. A well performed examination loses much of its effectiveness unless the wrap up meeting is focused and produces commitments from the people who will carry out the plans for corrective action.

The examination process should be viewed as a diagnostic tool and the report is the end result of the on-site examination. The examination report is an important part of the communication process between PFSA and the CU as it allows PFSA to communicate its assessment of the CU's overall condition. The report should describe in detail the CU's strengths and weaknesses and outline the corrective measures that need to be taken to solve noted problems before they have a negative impact on the CU's financial position.

The examination report is the official report to the CU. The examiner in charge prepares the report and delivers it to key officials no later than 30 days after the completion of the

examination. The examiner's supervisor should review and approve the report prior to mailing it to the CU. The officials are the primary users of the report and its primary audience, therefore, the examiner should write the report at a level that the intended readers can understand.

The examination report documents all significant items discussed during the examination. Upon completion of the on-site examination work two reports shall be produced. Examiners shall retain a copy of the report including all forms, work papers, schedules, checklists, and examiner prepared notes. This will become part of the official or field file that is maintained at PFSA. The other report will be delivered to the CU.

Once the CU receives the final report, CU management and officials have 30 days from receipt to send a formal response to PFSA acknowledging that they have read and understand the report and that they have officially adopted the recommendations and action plans.

A6. 12 FOLLOW-UP ON-SITE EXAMINATION

Examiners generally perform follow up examinations to evaluate progress and make additional recommendations in CUs with serious problems. Normally, a follow up examination occurs to review progress in resolving previously identified problems. However, it may occur because of conditions or changes noted on the financial statements, in the quarterly reports, or from other sources. Problem CUs may mask their most significant troubles in a way that can only be detected by on-site work. A follow-up contact will help to uncover the underlying causes of a weakness rather than merely the symptoms.

During follow up examinations, an examiner should:

- develop plans with management to correct previously identified problems and those identified during the current follow-up contact;
- note each problem identified in writing along with how the problem should be corrected, who is responsible for correcting it, and in what time frame;
- detect emerging financial trends that could threaten the CU's solvency;
- determine the CU's economic viability and, where necessary, explore merger and liquidation alternatives;
- recommend other sanctions or actions when necessary to protect the interests of the members, creditors and confidence in the CU system; and
- recommend future supervision plans and contact dates.

Considerations in scheduling follow up examinations include the seriousness of the problems, time elapsed since the last contact, examiner's judgment, and PFSA priorities. Examiners should discuss any proposed changes to the regularly scheduled supervision and examination program with their immediate supervisor.

When preparing for a follow-up examination, the examiners should review the CU's permanent file to better understand the CU's operational and financial performance history and to become reacquainted with the CU's problems and the information received since the last on-site contact (such as the quarterly reports, financial statements and reports, and other written information received from the CU, or correspondence sent by PFSA); and contact key management staff in advance if the contact will not be a "surprise contact" so that they will make required records available.

During a follow up exam, examiners limit their analysis and work paper preparation to adequately document conclusions about all problem areas and to convey the necessary data to management and the officials. Unlike the on-site examination, in which the examiners look at all areas of operation the follow-up exam concentrates on only the areas identified as "problem areas". Examiners develop recommendations and corrective actions with the officials to correct unresolved and material new problems. These recommendations and corrective actions are

noted in the report produced for the follow-up examination. The best results usually occur when officials are a part of developing corrective actions.

At the end of each follow up examination, examiners hold a wrap up meeting with CU management to update management on the status of problems and provide corrective action for problem resolution.

The final report for a follow up examination shall be completed and delivered to CU officials and management no later than 30 days from the end of the field work for the exam. Examiners may prepare only the necessary work papers to review the areas of concern for follow up examinations. Examiners can prepare and submit other work papers necessary to document their analysis as required by PFSA policy. Report assembly and distribution procedures are similar to regular examination procedures.

Once the CU receives the final report, CU management and officials have 30 days from receipt to send a formal response to PFSA acknowledging that they have read and understand the report and that they have officially adopted the recommendations and action plans

A6. 13 CORRECTIVE ACTIONS

Supervision is an on-going activity, that is, the process is never finished. Examiners are expected to continually monitor their assigned CUs. When dealing with problems in CUs that may impact their financial condition, or problems that may affect the CU system as a whole, or worse yet problems that may act as a contagion that could affect other parts of the financial system, timely corrective action is critical!

Supervisory measures have to be flexible and tailored to the specific situation. There is usually no pre-specified time limit within which the examiner should act after identification of the problem. The examiner should not wait for the full scope or next scheduled follow up examination to take corrective action. PFSA must be flexible and have the ability to address the problems swiftly and present, realistic workable solutions. When dealing with CU problems that threaten a CU or the system as a whole, PFSA should work closely with NASCU. NASCU has worked with these CUs for 18 years and has been successful in doing so. Additionally, NASCU has all management authority and power over the stabilization fund which will be used when needed to financially assist CUs.

If it becomes obvious that a CU has not taken the necessary corrective actions that were cited during off-site analysis or at an on-site examination or contact, the examiner should make a follow up contact immediately. Follow up contacts should also be used if new problems or issues have arisen or the examiner suspects there is a problem at the CU that may impact the institution's financial condition.

Under normal circumstances, it is the responsibility of the Board of Directors and CU management to determine how the CU should solve its problems. However, should the CU engage in unsound practices or breach regulation or other key supervisory requirements, for example, capital adequacy and liquidity requirements, the PFSA has powers to compel the CU to take necessary remedial action and a responsibility to ensure that the remedial action taken is appropriate. The role of PFSA is to guide and steer the CU in its rehabilitation. In the worst case scenario the PFSA has the authority to merge, liquidate, or close a CU.

Examiners and their supervisors are generally empowered with a range of measures that may be taken when dealing with problem CUs. Corrective measures differ in their level of intrusiveness into a CU's management. The specific measure(s) should depend on the nature and seriousness of the difficulties at a CU and how cooperative CU management is. These measures range from requirements on the CU to take specific action to mitigate the weakness to prohibiting activities that will aggravate the weakness. Supervisors should possess effective means to deal with management problems, including the power to have controlling officials and

managers replaced or their powers restricted. Examples of the measures that supervisors should have at their disposal include:

- Prohibition on the distribution of profits or other withdrawals;
- Removal of directors and managers;
- Limitations on compensation (including management fees and bonuses) to directors and managers;
- Requiring the CU to enhance governance, internal controls and risk management systems;
- Maintaining higher capital and liquidity ratios;
- Placing restrictions or conditions on the business conducted by the CU;
- Downsizing of operations and sales of assets;
- Restricting expansion of branches or closing of branches;
- Immediate or enhanced provisioning for those assets of doubtful quality and for those which are not represented in the accounts at fair value;
- Cessation of any practices that are harming the institution, such as irregularities and violation of laws or regulations governing the CU' s activity;
- Prohibiting or limiting particular lines of business or products;
- Prior PFSA approval of any major capital expenditure, material commitment, or contingent liability; and
- Appointing an administrator or conservator.

Corrective actions are actions required to deal with deficiencies and change behavior in a CU experiencing problems. Corrective action can be implemented voluntarily by the CU under the examiner's informal oversight or, if necessary, via formal supervisory intervention. If the management is willing to make the changes and the problems do not immediately threaten the capital, liquidity, or solvency then the corrective actions can be dealt with in the recommendations presented in the off or on-site examination reports. If the problems are more severe and/or management is unwilling to work with PFSA to correct the problems then a more severe action will have to be taken. This may involve the issuance of some form of supervisory or enforcement notice outlining the actions the CU and management must take and the time frame. More severe corrective actions should be considered if there is a danger of insolvency.

The escalation in the corrective action means an increase in the intensity of supervision. There are resource and cost implications for the PFSA which should be acknowledged and addressed. However, a lack of resources cannot be used as a justification for inaction.

In formulating the corrective actions to be taken, it makes sense to give priority to the more serious weaknesses. A coordinated plan that attempts to deal concurrently with the various weak areas may, however, be necessary because the various issues are often inter-related.

The following should guide supervisors in formulating and implementing corrective action:

- **The fulfillment of supervisory objectives** including financial sector stability and depositor protection.
- **Corrective action should be timely** - The PFSA should take prompt action to prevent the problems from growing and negatively affecting the CU and the system as a whole.
- **Management commitment** - CU management must be committed to the plan for corrective action. Otherwise, the replacement of management should be considered.
- **Proportionality** - Corrective actions should be appropriate to the circumstances and scale of the problem.
- **Comprehensiveness** - The corrective program must address both causes and symptoms of weakness.

ANNEX 7. ADDITIONAL GUIDELINES ON GOVERNANCE FOR CUS

To address the main issues on the governance structure in CUs, the following considerations should be included in the bylaws and/or regulation.

A7.1 General Assembly

- Define the roles and responsibilities of the general assembly

A7.2 Board of Directors

- Define the decision oversight role of the directors. These rules should limit the involvement of the board in day-to-day operations, focusing it instead on policy and direction.
- Criteria for who is qualified to assume a director position. The criteria should determine if the individual is an honest person, of integrity with a good reputation, is competent and is financially sound.
- Minimum qualifications for board members such as financial, business, or accounting skills. If members do not possess these skills, they should be required to attain the necessary skills through education or training within one year of their appointment.
- Establish the fiduciary responsibility of directors and their responsibility for monitoring the decisions of management as well as penalties for failing to meet these responsibilities. Board members shall be held liable for any loss due to their actions which are contrary to the Law, these regulations, applicable law, bylaws, or the direction of any general meeting.
- Provide for a procedure to remove board members. Board members shall be removed for failure to meet their responsibilities.
- Define the number of board members and provide for staggered rotation of board members.
- Board meeting shall be held at least once per month.
- The board of directors shall approve any loans made to any director or members of management.
- The board shall establish appropriate policies including: human resources, credit, investment, provision for loan loss, savings, liquidity, collections, records preservation, and risk management.
- The board shall develop succession and disaster recovery plans and test the plans periodically.
- The board of directors shall establish board or management committees, as may be necessary, to effectively discharge its functions. The board shall, at a minimum establish credit and audit committees.
- The board shall be responsible to the members for annually audited financial statements which shall be presented at the annual general meeting.
- Every director shall attend board meetings regularly and shall automatically cease to hold office if they fail to attend three consecutive board meetings without permission or reasonable cause.
- No member of the board shall receive remuneration in the form of salary for services rendered.
- No individual may hold the director position in more than one CU.

A7.3 Internal Audit

- Set out the appropriate functions of the internal audit and the auditor's reporting relationship with the board of directors.

A7.4 Credit Committee

- Roles and responsibilities of the Credit Committee.
- In order to ensure that credit decisions are made by individuals with appropriate technical experience and training, the credit committee should be able to delegate some or all of their loan approval authority to qualified loan officers.

A7.5 CU Management

- Establish requirements for background and experience of the Chief Executive Officer (CEO). The board of directors is responsible for the appointment and removal of the CEO.
- The board of directors shall ensure that there has been background and credit checks of the proposed CEO and the CEO has been approved by the PFSA prior to appointment.
- Establish the roles and responsibilities of the CEO. The manager's responsibilities should include implementing board-sanctioned policies and budget, administering daily operations, reporting to the board and hiring and overseeing staff.
- The CEO shall ensure that the board of directors are frequently and adequately appraised about the operations and affairs of the CU through frequent communication and presentation of relevant reports which shall cover the following: financial statements (monthly, quarterly, annual) showing current compared with past period actual performance; the budget compared with the actual and with explanations for any variances; capital structure and adequacy; delinquent loan list; loan growth; loan losses and recoveries and provisioning for loans; sources and maturity profile of savings and deposits; all insider dealings and non-performing insider loans; large risk exposures; investment portfolio; reports on violation of the Law, regulations and other applicable laws and remedial actions and regulatory reports.

A7.6 Other

- A standardized code of conduct clearly explaining proper and improper behavior with strict boundaries for directors and managers, thereby preventing possible violations due to a lack of clarity.
- Establish controls on insider loans to avoid conflict of interest.
- Require that fidelity bond insurance is in place for employees and officials.
- Officers and employees shall not disclose or permit to be disclosed any information which concerns an account or transaction of a member with the CU.
- Each official and employee that handles cash or makes loan decisions should be subject to a background check and a credit check. If the individual has been found guilty of a crime, has declared bankruptcy, or was involved with an entity that went bankrupt then the individual should not be considered for the position.
- If an official becomes more than 3 months delinquent on a loan, the official should be removed from their position or resign.
- Immediate family members or those with close relationships to any of the board of directors or staff should not serve on the board or in management concurrently.
- Adequate notification shall be provided for all general or special meetings so members who want to participate have sufficient notice.

ANNEX 8. STANDARD MONITORING REPORT

Załącznik nr 1 do Uchwały nr 9 Zarządu Kasy Krajowej z dnia 2.06.2003 r. (tekst jednolity)

RAPORT O ZATRUDNIENIU

I. PRACOWNICY ZATRUDNIENI NA CZAS NIEOKREŚLONY:

<u>Stanowisko pracy</u>	<u>Liczba zatrudnionych</u>	<u>Liczba etatów</u>
1. Zarząd
2. Księgowy
3. Inspektor kredytowy
4. Informatyk
5. Kasjer
6. inne (jakie?).....
.....
Razem pkt I

II. PRACOWNICY ZATRUDNIENI NA CZAS OKREŚLONY:

<u>Stanowisko pracy</u>	<u>Liczba zatrudnionych</u>	<u>Liczba etatów</u>
1. Zarząd
2. Księgowy
3. Inspektor kredytowy
4. Informatyk
5. Kasjer
6. inne (jakie?)
.....
.....
Razem pkt II

ZATRUDNIENIE ŁĄCZNE (razem pkt: I i II) Liczba etatów

w tym:

Liczba zatrudnionych kobiet

Liczba zatrudnionych mężczyzn

.....

.....

III. PRACOWNICY ZATRUDNIENI NA PODSTAWIE: UMOWY ZLECENIA, UMOWY O DZIEŁO:

Stanowisko pracy

Liczba zatrudnionych osób

1. Zarząd

2. Księgowy

3. Inspektor kredytowy

4. Informatyk

5. Kasjer

inne (jakie?)

Razem pkt III

Załącznik nr 2 do Uchwały nr 9 Zarządu Kasy Krajowej z dnia 2.06.2003 r.

W Z Ó R

OŚWIADCZENIE O MIEJSCU PROWADZENIA DZIAŁALNOŚCI SKOK **stan na dzień**.....

Osoba sporządzająca:

Telefon kontaktowy:

adres strony www SKOK:

DANE DOT. SIEDZIBY SKOK:

Lp.	Nr w KSKOK	Nazwa SKOK	Województwo	Powiat	Miasto	Kod pocztowy	Adres	Numer		Dni i godziny otwarcia
								telefonu	faksu	

DANE DOT. ODDZIAŁÓW, PUNKTÓW KASOWYCH, CENTRÓW KREDYTOWYCH .

Lp.	Województwo	Powiat	Miasto	Kod pocztowy	Adres	Oddział/ punkt kasowy/ centrum kredytowe	Numer		Dni i godziny otwarcia
							telefonu	faksu	
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10.									
11.									
12.									
....									

UWAGA!!! W Oświadczeniu należy podać dane wszystkich oddziałów i punktów kasowych.

Załącznik nr 3 do Uchwały nr 9 Zarządu Kasy Krajowej z dnia 2.06.2003 r.

W Z Ó R (nazwa SKOK)

Raport o poręczeniach oraz poręczeniach wekslowych udzielonych przez SKOK stan na dzień.....

Lp.	Nr umowy	Nr członka w SKOK	Rodzaj zobowiązania	Data zawarcia umowy	Kwota w zł	Termin spłaty	Zadłużenie w zł	Uwagi
Ogółem :								

Sporządził:

Sprawdził:

Załącznik nr 4 do Uchwały nr 9 Zarządu Kasy Krajowej z dnia 2.06.2003 r.

WZÓR (nazwa SKOK)

Raport o kredytach, pożyczkach i zobowiązaniach pozabilansowych udzielonych członkom organów SKOK, o których mowa w art. 25 ustawy z dnia 14 grudnia 1995 r. o s.k.ok. wg stanu na dzień

Lp.	Nr umowy	Nr członka w SKOK	Organ (RN, Z, KK)	Rodzaj zobowiązania	Data zawarcia umowy	Kwota, w zł	Termin spłaty	Zadłużenie w zł	Uwagi
OGÓŁEM:									

Sporządził:

Sprawdził:

Załącznik nr 5 do Uchwały nr 9 Zarządu Kasy Krajowej z dnia 2.06.2003 r.

WZÓR (nazwa SKOK)

Miesięczny raport o kredytach i pożyczkach długoterminowych stan na dzień.....

I. Dane dotyczące pożyczek i kredytów długoterminowych udzielonych osobom fizycznym i osobom fizycznym prowadzącym działalność gospodarczą

Lp.	Wyszczególnienie	Okres kredytowania			
		pow. 6 - 10 lat	pow. 10 - 20 lat	pow. 20 lat	Razem
1.	Liczba udzielonych pożyczek/kredytów				
2.	Kwota udzielonych pożyczek/kredytów (w zł)				
3.	Liczba pożyczek/kredytów pozostających do spłaty				
4.	Saldo (w zł)				
w tym: pożyczki/kredyty przeterminowane pow. 30 dni					
6.	Liczba pożyczek/kredytów				
7.	Saldo (w zł)				

II. Dane dotyczące wyłącznie pożyczek i kredytów długoterminowych udzielonych na działalność gospodarczą

L.p.	Wyszczególnienie	Okres kredytowania			
		pow. 6 - 10 lat	pow. 10 - 20 lat	pow. 20 lat	Razem
1.	Liczba udzielonych pożyczek/kredytów				
2.	Kwota udzielonych pożyczek/kredytów (w zł)				
3.	Liczba pożyczek/kredytów pozostających do spłaty				
4.	Saldo (w zł)				
w tym: pożyczki/kredyty przeterminowane pow. 30 dni					
6.	Liczba pożyczek/kredytów				
7.	Saldo (w zł)				

Sporządził:..... Telefon:..... Podpis:.....

(czytelne imię i nazwisko)

Sprawdził:.....

Załącznik nr 6 do Uchwały nr 9 Zarządu Kasy Krajowej z dnia 2.06.2003 r.

WZÓR (nazwa SKOK)

Półroczny raport o kredytach i pożyczkach długoterminowych (aktywnych) stan na dzień.....

1.	l.p.	nr członkowski	kwota wypłacona (w zł)	saldo (w zł)	cel-nazwa	zabezpieczenia		status ¹⁾	rodzaj kredytobiorcy ²⁾
						rodzaj	wartość w (zł)		
A.	okres kredytowania pow. 6 - 10 lat								
	1.								
	2.								
	3.								
	itd.								
Suma (A)		x			x	x		x	x
B.	okres kredytowania pow. 10 - 20 lat								
	1.								
	2.								
	3.								
	itd.								
Suma (B)		x			x	x		x	X
C.	okres kredytowania pow. 20 lat								
	1.								
	2.								
	3.								
	itd.								
Suma (C)		x			x	x			X
Suma (A+B+C)		x			x	x			X

¹⁾ należy podać status pożyczki/kredytu: normalny bądź przeterminowany; w przypadku przeterminowanego określić numer statusu w programie SkokCom

²⁾ należy określić czy kredytobiorcą jest osoba fizyczna (OF) czy prowadząca działalność gospodarczą (PO)

Sporządził:..... Telefon:..... Podpis:.....
(czytelne imię i nazwisko)

Sprawdził:.....

Załącznik nr 7 do Uchwały nr 9 Zarządu Kasy Krajowej z dnia 2.06.2003 r.

WZÓR (nazwa SKOK)

Raport o kredytach i pożyczkach większych i równych 100 tys. zł

stan na dzień

Lp.	Wyszczególnienie	Dane liczbowe (wpisać dane z części podsumowującej raport z operacji 898 w programie SkokCom)	Udział procentowy*
1.	Liczba kredytów/pożyczek:		X
2.	Kwota wypłacona w zł:		X
3.	Aktualne saldo w zł:		
	w tym: przeterminowane w zł		

* wyliczany w stosunku do salda udzielonych przez SKOK pożyczek i kredytów ogółem; w przypadku salda przeterminowanych w stosunku do ogólnego salda przeterminowanych pożyczek i kredytów w tym w statusie sąd, zasądzone

Sporządził:..... Telefon:..... Podpis:.....
(czytelne imię i nazwisko)

Sprawdził:.....

Załącznik nr 8 do Uchwały nr 9 Zarządu Kasy Krajowej z dnia 2.06.2003 r.

WZÓR

(nazwa SKOK)

Miesięczny raport o pożyczkach i kredytach na działalność gospodarczą

stan na dzień

I.1. Pożyczki i kredyty udzielone członkom kasy na cele związane z działalnością gospodarczą ¹⁾

1.	Liczba udzielonych kredytów/pożyczek narastająco	
2.	Wartość udzielonych kredytów/pożyczek narastająco (w zł)	
3.	Liczba kredytów/pożyczek pozostających do spłaty	
4.	Saldo kredytów/pożyczek pozostających do spłaty (w zł)	
5.	Liczba kredytów/pożyczek przeterminowanych pow. 30 dni	
6.	Saldo kredytów/pożyczek przeterminowanych pow. 30 dni (w zł)	
7.	Liczba kredytów/pożyczek skierowanych do windykacji na drodze sądowej i zasądzonych	
8.	Saldo kredytów/pożyczek skierowanych do windykacji na drodze sądowej i zasądzonych (w zł)	
9.	Liczba kredytów/pożyczek spisanych na straty	

1) w tym linie pożyczkowe w rachunku Tandem

I.2. Struktura rodzajowa pożyczek/kredytów pozostających do spłaty (aktywnych)

Lp.	Rodzaj kredytu/pożyczki	Liczba	Saldo (w zł)	Średnie oprocentowanie nominalne
1.				
2.				
3.				
....				

Sporządził:..... Telefon:..... Podpis:.....
 (czytelne imię i nazwisko)

Sprawdził:.....

Załącznik nr 9 do Uchwały nr 9 Zarządu Kasy Krajowej z dnia 2.06.2003 r.

WZÓR

(nazwa SKOK)

Półroczny raport o pożyczkach i kredytach na działalność gospodarczą

stan na dzień

I.1. Pożyczki i kredyty udzielone członkom kasy na cele związane z działalnością gospodarczą, którzy mają zawarte umowy o świadczenie usług na rzecz SKOK w momencie udzielania przez kasę pożyczki/kredytu na działalność gospodarczą ¹⁾

1.	Liczba udzielonych kredytów/pożyczek narastająco	
2.	Wartość udzielonych kredytów/pożyczek narastająco (w zł)	
3.	Liczba kredytów/pożyczek pozostających do spłaty	
4.	Saldo kredytów/pożyczek pozostających do spłaty (w zł)	
5.	Liczba kredytów/pożyczek przeterminowanych pow. 30 dni	
6.	Saldo kredytów/pożyczek przeterminowanych pow. 30 dni (w zł)	
7.	Liczba kredytów/pożyczek skierowanych do windykacji na drodze sądowej i zasądzonych	
8.	Saldo kredytów/pożyczek skierowanych do windykacji na drodze sądowej i zasądzonych (w zł)	
9.	Liczba kredytów/pożyczek spisanych na straty	

¹⁾ w tym linie pożyczkowe w rachunku Tandem

I.2. Struktura rodzajowa pożyczek/kredytów pozostających do spłaty (aktywnych) udzielonych członkom kasy na cele związane z działalnością gospodarczą, którzy mają zawarte umowy o świadczenie usług na rzecz SKOK w momencie udzielania przez kasę pożyczki/kredytu na działalność gospodarczą

L.p.	Nr członkowski	Rodzaj kredytu	Kwota	Saldo	Okres kredytowania	Oprocentowania nominalne	Saldo pożyczek/kredytów przeterminowanych pow. 30 dni	Saldo pożyczek/kredytów skierowanych do windykacji na drodze sądowej i zasądzonych
1.								
2.								
3.								
itd.								
	Suma	x			x	x		

II.1. Pożyczki i kredyty udzielone członkom kasy na cele związane z działalnością gospodarczą, którzy rozpoczęli świadczenie usług na rzecz SKOK po udzieleniu przez SKOK pożyczki/kredytu na działalność gospodarczą¹⁾

1.	Liczba udzielonych kredytów/pożyczek narastająco	
2.	Wartość udzielonych kredytów/pożyczek narastająco (w zł)	
3.	Liczba kredytów/pożyczek pozostających do spłaty	
4.	Saldo kredytów/pożyczek pozostających do spłaty (w zł)	
5.	Liczba kredytów/pożyczek przeterminowanych pow. 30 dni	
6.	Saldo kredytów/pożyczek przeterminowanych pow. 30 dni (w zł)	
7.	Liczba kredytów/pożyczek skierowanych do windykacji na drodze sądowej i zasądzonych	
8.	Saldo kredytów/pożyczek skierowanych do windykacji na drodze sądowej i zasądzonych (w zł)	
9.	Liczba kredytów/pożyczek spisanych na straty	

¹⁾ w tym linie pożyczkowe w rachunku Tandem

II.2. Struktura rodzajowa pożyczek/kredytów pozostających do spłaty (aktywnych) udzielonych członkom kasy na cele związane z działalnością gospodarczą, którzy rozpoczęli świadczenie usług na rzecz SKOK po udzieleniu przez SKOK pożyczek/kredytów na działalność gospodarczą

Lp.	Nr członkowski	Rodzaj kredytu	Kwota	Saldo	Okres kredytowania	Oprocentowania nominalne	Saldo pożyczek/kredytów przeterminowanych pow. 30 dni	Saldo pożyczek/kredytów skierowanych do windykacji na drodze sądowej i zasądzonych
1.								
2.								
3.								
itd.								
Suma		x			X	x		

Sporządził:..... Telefon:..... Podpis:.....
 (czytelne imię i nazwisko)

Sprawdził:.....

Załącznik nr 10 do Uchwały nr 9 Zarządu Kasy Krajowej z dnia 2.06.2003 r.

WZÓR (nazwa SKOK) Dekadowy¹ raport dotyczący płynności w SKOK

Lp.	Wyszczególnienie	stan na dzień 10-go danego miesiąca	stan na dzień 20-go danego miesiąca	stan na ostatni dzień danego miesiąca
1.	Gotówka w kasie w zł (konto 100,101)			
2.	Środki na rachunku bieżącym w zł (konto 130,131)			
3.	Lokaty terminowe w banku do 3 m-cy w zł (konto 13201)			
4.	Papiery wartościowe do 3 m-cy w zł (konto 145)			
5.	Jednostki uczestnictwa funduszy rynku pieniężnego w zł (konto 147)			
6.	Lokaty dobrowolne w KSKOK do 3 m-cy w zł (konto 2356801)			
7.	Lokaty z tyt. rezerwy płynnej w KSKOK w zł (konto 23570)			
8.	Automatyczne Lokaty Jednodniowe w KSKOK w zł (konto 23575)			
9.	Depozyty członkowskie w zł (konto 242 bez 24260)			
10.	Wysokość wskaźnika obowiązkowej rezerwy płynnej ²⁾			

1) Ostatnia dekada w miesiącu kończy się w ostatnim dniu tego miesiąca.

2) wskaźnik należy wyliczyć zgodnie z normą Kasy Krajowej z dnia 15.10.2003 r. ze zm. odnośnie systemu analizy finansowej KAPER

Sporządził:..... Telefon:..... Podpis:..... (czytelne imię i nazwisko)

Sprawdził:.....