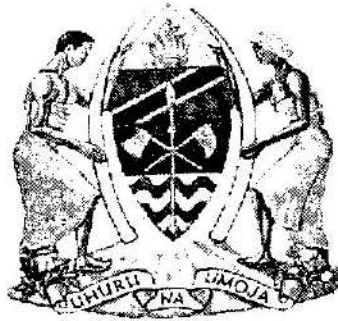


UNITED REPUBLIC OF TANZANIA
MINISTRY OF AGRICULTURE, LIVESTOCK AND FISHERIES
TANZANIA COOPERATIVE DEVELOPMENT COMMISSION



SAVINGS AND CREDIT COOPERATIVE SOCIETY (SACCOS)
OFF- SITE SUPERVISION MANUAL

Registrar and Chief Executive Officer,
P.O.Box 20,
Dodoma .

E-Mail: ushirika@ushirika.com
Web: www.ushirika.com

July, 2017

Table of Contents

LIST OF ABBREVIATION.....iv

PREFACE.....v

ACKNOWLEDGEMENT.....vi

CHAPTER ONE.....1

 1.1 Introduction.....1

 1.2 Supervision Methodology.....2

CHAPTER TWO.....5

 2.1. Off-Site Supervision Procedures.....5

 2.2 Off-Site Supervision Process.....7

 Figure 2.1 Supervision Process.....7

 2.2.1 Preparation for Off-site supervision.....7

 2.2.2 Data Collection.....8

 2.2.3 Trend Analysis and Problem Identification.....10

 Table 2.1 Prudential Standard Regulations for SACCOS.....12

 Table 2.2 Early Warning Signals and Operational Problems.....15

 2.2.4 Financial Analysis Reporting.....19

 2.2.5 Additional Factors to be considered when performing off-Site supervision.....21

 2.3 Off-Site Supervision Report Format.....22

 2.4 Response and Follow-up.....24

CHAPTER THREE.....26

 3.1 Risks Management in SACCOS.....26

 3.1.1 Credit risk.....26

 3.1.2 Target Borrowers Risk.....26

 3.1.3 Unconventional Lending Risk.....27

 3.1.4 Interest Rate Risk.....27

 3.1.5 Liquidity Risk.....27

3.1.6 Operational Risk	28
3.1.7 Internal Control Risk	28
3.1.8 Foreign Exchange Risk	28
3.1.9 Market Risk	29
3.1.10 Management Risk	29
3.1.11 New Product Risk	29
3.1.12 Subsidy dependence Risk	29
CHAPTER FOUR	37
4.1 <i>The PEARLS Rating System</i>	37
4.2 <i>Protection</i>	38
4.2.1 Protection Ratios and Ratings	39
4.2.2 Description of the Protection Ratings	39
4.3 <i>Effective Financial Structure</i>	41
4.3.1 Effective Financial Structure Ratios and Ratings	43
4.3.2 Description of Ratings for Effective Financial Structure	44
4.4 <i>Asset Quality</i>	45
4.4.1 Asset Quality Ratios and Ratings	46
4.4.2 Description of Ratings on Asset Quality	46
4.5 <i>Rates of Returns and Costs</i>	47
4.5.1 Rate of Returns and Costs Ratios and Ratings	48
4.5.2 Description of Ratings on Rates of Returns and Costs	48
4.6 <i>Liquidity</i>	49
4.6.1 Liquidity Ratio and Ratings	50
4.6.2 Description on Ratings on Liquidity	51
4.7 <i>Signs of Growth</i>	51
4.7.1 Signs of Growth Ratios	52
4.8 <i>Assignment of the PEARLS Composite Rating</i>	52
LIST OF APPENDIXES	55

1. <i>Off-Site Supervision Report</i>	55
2. <i>Off-Site Forms to be completed by SACCOS</i>	58
2.1 Form 1: Statement of Financial Position	58
2.2 Form 2: Statement of Comprehensive Income	61
2.3 Form 3: Loan Classification and Provisioning	63
2.4 Form 4: List of Loans to Insiders and Related Parties	64
2.5 Form 5: List of Large Loans Exceeding 5% of the SACCOS Core Capital and Miscellaneous Information	65
3. <i>SACCOS Comparative Analysis Worksheets</i>	66
3.1. Worksheet 1: Prudential Standards	67
3.2. Worksheet 2: Key and Supporting PEARLS Ratios	75
3.3. Worksheet 3: Financial Results	85

LIST OF ABBREVIATION

BoT	Bank of Tanzania
COASCO	Cooperative Audit and Supervision Cooperation.
EWS	Early Warning Sign.
FSP	Financial Sector Program
MIVARF	Marketing Infrastructure Value Addition Rural Finance
MoCU	Moshi Cooperative University
PEARLS	Protection, Effective Financial Structure, Asset Quality, Rate of Return and Cost, Liquidity and Signs of Growth
SACCOS	Savings and Credit Cooperative Society
SCCULT	Savings and Credit Cooperative Union League of Tanzania
TCDC	Tanzania Cooperative Development Cooperation
WOCCU	World Council of Credit Union

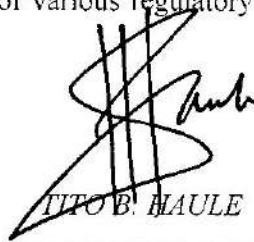
PREFACE

Inspection of Cooperative societies in Tanzania which includes SACCOS has been there for a very long time. However, this inspection focused on onsite visit to the SACCOS premises which was considered to be non-effective due to limitations of financial and human resources and challenges for the registrar to timely impose supervisory action to weak SACCOS.

For the purpose of achieving effective supervision of SACCOS, Section 93 of Cooperatives Societies Act No. 6 of 2013 requires strengthening of registrar's supervisory function. In strengthening the supervisory function, SACCOS Regulations direct inspectors to conduct off- site supervision to facilitate timely identification of SACCOS operational risk areas before onsite visits to SACCOS premises are carried out.

Considering that, off-site supervision is a new supervisory approach; the registrar has developed this manual to guide inspectors to systematically conduct inspection of SACCOS while they are at their offices. Off-site inspection shall focus on the review and analysis of financial and non -financial data submitted to the registrar by the SACCOS.

Consequently, it is expected that inspectors shall effectively conduct off-site supervision of SACCOS and facilitate the registrar to timely identify early warning signs and risk areas requiring special attention. Likewise, the off-site analysis shall form the basis for scheduling of on-site supervision, identification of priority areas for inspection and availability of SACCOS data due to availability of various regulatory returns as required by the SACCOS regulations.



TITO B. HAULE

REGISTRAR OF COOPERATIVE SOCIETIES

July 2017

ACKNOWLEDGEMENT

On my behalf and on behalf of the Tanzania Cooperative Development Commission (TCDC), I would like to express my sincere thanks to the following key partners who in one way or the another have been involved in the production of this manual including Financial Sector Program (FSP) funded by the World Bank through the BoT; Bank of Tanzania Technical Team; who tirelessly supported the review of the draft manual; SACCOS stakeholders (COASCO, MoCU and SCCULT); World Council of Credit Unions (WOCCU) – Consultant who developed the draft manual; TCDC Technical Team and Management who were involved in the whole process of developing, reviewing and approving/adopting the manual; MIVARF who supported the final review of the Manual

Readers and users of the Manual are encouraged to bring to the attention of the Registrar any error of commission or omission they may encounter for future improvement of the manual.

CHAPTER ONE

1.1 Introduction

Section 93 (1) of the Cooperative Societies Act No. 6 of 2013 and SACCOS Regulations 102 gives mandate to the Registrar of Cooperatives to inspect the affairs of Cooperative Societies including SACCOS.

The objectives of regulatory supervision are to maintain the integrity of the financial sector, foster public confidence in the financial system, encourage good management practices in SACCOS, protect member assets and deposits and detect fraud and illegal activities. Successful supervision ensures the long-term viability of these SACCOS by resolving problems when discovered. If a SACCOS has problems that it cannot correct or causes it to fail, then the goal of supervision should be to minimize the costs to creditors, members and the financial system.

In view of the above legal and regulatory requirement, the registrar of cooperative societies has developed this manual for the purpose of guiding SACCOS inspectors on how to conduct off-site inspection. In order to achieve the specified objectives, the inspector shall;

- i. Analyze the off-site reports submitted by SACCOS to ensure transparency and compliance with the law and regulations;
- ii. Review financial reports submitted by SACCOS and monitor their financial condition on an on-going basis;
- iii. Monitor compliance with regulatory requirements and implementation of applicable accounting principles;
- iv. Review and analyse audited financial statements and internal and external audit reports;
- v. Identify irregular transactions; and
- vi. Perform on-site inspections as required and needed.

Off-site and on-site supervision provides a comprehensive analysis of a SACCOS. They differ in the location where they take place (off-site in the registrar office and on-site in the field or SACCOS' office) and the items they address. The off-site supervision covers a SACCOS' quantitative information over time while on-site looks at quantitative and qualitative.

1.2 Supervision Methodology

In carrying out off site supervision the registrar shall ensure that the process; establishes regular contact, systematic, focus to risk areas, is analytical and effective as explained below;

- i. **Regular Contact:** this consists of maintaining on-going contact with the supervised SACCOS. An inspector shall be assigned a number of SACCOS that he or she is responsible for. The inspectors shall facilitate and ensure effective communication between these SACCOS, the Registrar and any other entities.
- ii. **Systematic:** the supervision process shall be well organized and carried out in steps. Inspectors along with their supervisor shall develop a work schedule to review the reports that are submitted to determine that they are in line with the established framework as developed by the Registrar. Then the inspector, along with their supervisor, shall adopt a sequence of steps to make sure that all tasks are accomplished as per Registrar's framework.

Among others, the off-site Supervision process shall comprise of;

- o A calendar to make sure all reports are delivered on time from the SACCOS to the Registrar;
 - o Review of all received reports from SACCOS to ensure that they are properly completed, dated and signed;
 - o Organizing the SACCOS' data in a meaningful way using spreadsheets and worksheets;
 - o Review compliance with regulatory requirements;
 - o Perform an assessment of the SACCOS financial condition and trend analysis;
 - o Prepare a supervisory report with conclusions about compliance and financial condition and recommendations for corrective action; and
 - o Maintain a filing system that allows easy reference to SACCO's documents and data by any inspector or supervisor. The use of a computerized supervisory system is a valuable asset in the systematic approach described.
- iii. **Focused:** inspectors shall ensure that they are not overwhelmed by a mass of meaningless data. Thus, it is important that inspectors have a clear understanding of the risks specific to the SACCOS they supervise. Inspectors shall be specialized; they

have to focus on the main assets and risks of the SACCOS, for example their loan portfolio. Off-site supervision should focus on the most risky asset – loans and variables related to the loan portfolio such as:

- General quality of the loan portfolio,
- Payment in arrears and loans in default,
- Adequacy of the allowance for loan loss,
- Loan concentrations, and
- Loans to insiders and related parties.

iv. **Analytical:** Inspectors shall adopt a pro-active and inquisitive attitude in the course of their supervisory work. In addition to receipt of SACCOS reports and perform analysis there on Inspectors shall determine the meaning of the data and ratios in terms of the financial condition, prudential standards and PEARLS ratios.¹ Inspectors shall be able to answer questions such as:

- What does this information mean in terms of the financial condition and operations of the SACCOS supervisee?
- Is the SACCOS in full compliance with regulatory requirements?
- Is the loan portfolio healthy?
- Is the SACCOS profitable?
- Is the SACCOS adequately capitalized?
- Is there anything unusual in the information the SACCOS is reporting?

Inspectors shall use relevant analytical tools such as trend analysis to obtain a dynamic perspective on a SACCOS and an early warning system to detect emerging problems before they lead to a crisis threatening the viability of a SACCOS and the safety of its members.

v. **Effective supervision;** inspector shall ensure the soundness of the SACCOS sub-sector and give rise to corrective actions by the Registrar when necessary, including pre-emptive actions such as change in management, amalgamation, or liquidation.

¹ PEARLS are a collection of ratios designed specifically for SACCOS and created by WOCCU. PEARLS are used around the world to objectively evaluate the financial condition of SACCOS. PEARLS is an acronym for Protection, Earnings, Asset Quality, Rate of Returns and Costs, Liquidity and Signs of Growth.

Off-site Supervision process shall be conducted following the risk based approach. That is, the larger SACCOS and those with operational and financial problems that generally are more risky to the system and its members shall be subjected to more supervisory attention.

Furthermore, financial information shall be periodically collected from SACCOS and shall form the basis of data source for the off-site monitoring report. Larger SACCOS, licensed SACCOS and more risky SACCOS such as those with financial weaknesses shall be required to report monthly while Smaller and less risky SACCOS shall be required to provide financial information quarterly.

Off-site supervision shall use prudential standards as set forth in the regulations and PEARLS ratios (*see Appendix 4 for an in-depth explanation of PEARLS*) to assess overall risk and the financial condition of the SACCOS. These standards and ratios shall be calculated periodically while performing off-site supervision. Prudential standards and trend analysis involves analysis of SACCOS key performance indicators to assess sustainability and profitability, liquidity, portfolio quality, efficiency and productivity in quantitative terms and to identify emerging problems. The analysis of the PEARLS ratios, prudential standards and trends in the financial numbers is the basis of the off-site supervision. The analysis shall assist the inspectors in determining the overall condition of the SACCOS and in making recommendations which provides a basis for following up on previous recommendations.

CHAPTER TWO

2.1. Off-Site Supervision Procedures

Off-Site monitoring and analysis is used to monitor SACCOS during the period between on-site inspections and follow-up contacts which is the basis of proactive supervision and regulation. Early problem identification and resolution makes for effective supervision. Successful off-site supervision is based on the concept of risk identification. The results of off-site analysis frequently determine the timing and resources needed for on-site inspections.

The registrar shall carefully assess the risk posed by each SACCOS during the off-site supervision process and prioritize the inspection schedule. Those SACCOS posing the most risk should be inspected early in the year and perhaps more frequent visits could be made for shorter time periods and focus only on the areas of risk. The registrar shall be flexible enough with the inspection schedule to change the schedule when adverse information is obtained concerning a SACCOS.

For the purpose of conducting off site Supervision each inspector shall be allocated with specific SACCOS of varying asset size, complexity and risk commensurate with their experience. They are responsible for the analysis and supervision of these SACCOS throughout the year. The supervisors may be in charge of a SACCOS' supervision for up to two consecutive years. After two years, the SACCOS should be reassigned to another inspector. When the SACCOS is assigned to the inspector all documentation files and information shall be assessable to the inspector.

The assigned inspectors shall conduct off-site supervision of their respective SACCOS. The inspectors shall be responsible for collecting the periodic data using the required forms. From the information received, the inspectors shall calculate the prudential standards and the PEARLS ratios, perform trend analysis, and complete the off-site supervision report. The inspectors shall provide all of their reports to their supervisors and the supervisors may provide reports to SACCOS' management where necessary.

Moreover, inspectors shall supervise their assigned SACCOS using various reports, tools and gathered information which most likely consists of; regulatory reports and submitted financial statements; periodic trend analysis of the prudential standards, financial results and PEARLS ratios, telephone contacts, written correspondence. In the early stages of SACCO's

development, inspectors 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 SACCOS with serious problems, supervision may also include follow-up or ad hoc inspections (additional on-site contacts) and in-depth monitoring of financial trends.

Furthermore, the inspector in charge, through other inspectors, industry participants, news reports, and any other relevant sources, must stay abreast of developments within the various industries or communities that affect the SACCOS for which they are responsible. Inspectors should act on potential problems by contacting management to verify information received. Inspectors shall inform their supervisors immediately of potentially serious conditions that could adversely affect a SACCOS.

Early problem identification and resolution makes for successful supervision. However, supervisory efforts may not always resolve the problem. After the Registrar and the SACCOS have exhausted other alternatives amalgamation or liquidation may be considered.

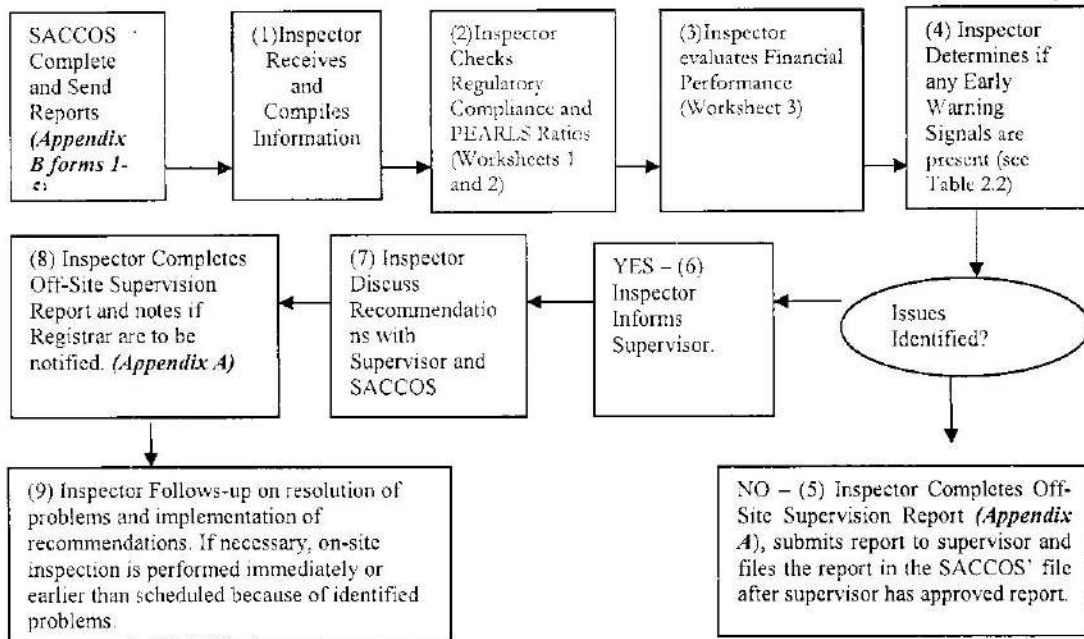
The information submitted by the SACCOS must be correct and standardized in order to facilitate analysis. This requires that the SACCOS fiscal year is standardized amongst all SACCOS, starting on 1 January and ending on 31 December, and that all SACCOS use a standardized chart of accounts for comparability purpose. From the submitted information, the inspectors shall perform a trend analysis of selected information. The general steps for conducting off-site supervision shall consist of:

- i. Data collection (*see Appendix B - Forms 1-5*), statement of financial position, Statement of comprehensive Income, loan delinquency report and reports on large loans and loans to related parties);
- ii. Trend analysis (*see Appendix C*) - prudential standards, PEARLS ratios and financial numbers) and problem identification;
- iii. Off-site supervision report (*see Appendix A*); and
- iv. Follow-up

2.2 Off-Site Supervision Process

Supervision is a continuous process as depicted in Figure 2.1.

Figure 2.1 Supervision Process



2.2.1 Preparation for Off-site supervision

Each off-site inspector with their supervisor shall set up the calendar to follow up on the timeliness of each report's delivery. This calendar shall include all the SACCOS for which the inspector is responsible. The inspector planning should take into account the timing for report submission, SACCOS financial performance analysis, previous problems and risks identified and off-site supervision report preparation. It is best if supervision is coordinated amongst all the inspectors. The inspector's calendar shall be derived from a Off-Site Supervision Manager schedule for the whole supervision team.

The input of the supervision process includes the required reporting forms as provided in Appendix-2 of this manual and the audited annual financial statements. The SACCOS is expected to provide the forms in the prescribed format. If there are any delays in report submission by the SACCOS, the off-site inspector shall contact the SACCOS by telephone immediately. If the delays persist beyond a few days, an appointment should be made with management to discuss the situation. The registrar may impose either administrative or

monetary penalties if the situation persists or the inspector may have to make an on-site visit to investigate the problems more thoroughly. Delays in report submission shall be recorded in writing by the inspector. Recurrent delays are generally early warning signals that there are problems or they lay ahead.

2.2.2 Data Collection.

Data collection involves the input of data obtained from SACCOS (*Appendix B*) into a standardized document or database (*see Appendix C*). Data standardization is imperative so that inspectors understand the information they are analysing and can make useful comparisons and conclusions. Standardized forms are essential:

- i. To collect meaningful data from each SACCOS;
- ii. To make the data useful and comparable;
- iii. To reduce individual interpretation and incorrect information; and
- iv. To produce meaningful information and results.

The SACCOS shall submit reports as required, monthly for large, risky or licensed SACCOS and quarterly for all other SACCOS (*see Appendix B for SACCOS reporting forms*). Reports shall be submitted to the Registrar no later than the 15th day of the following month for SACCOS that report monthly and the 30th day following the end of the quarter for all other SACCOS. However, the Registrar may decide that a SACCOS needs to report more frequently than quarterly (e.g. newly registered SACCOS or those with severe problems).

The reporting forms shall consist of (*Appendix B*):

- i. Statement of financial position – Form 1;
 - ii. Statement of comprehensive income – form 2;
 - iii. Loan classification and provisioning report – form 3;
 - iv. Loans to related parties – form 4; and
 - v. List of large exposures (Loans) exceeding 5% of the SACCOS core capital – form 5.
1. The SACCOS shall submit to the Registrar financial report not later than 6 months from the end of the financial year,:
 - i. Audited annual financial statements, including the statement of financial position, statement of comprehensive income, statement of cash flows, statement of changes in equity, and notes to account for 31 December of the preceding year
 - ii. Management audit report; and

- iii. Annual report of the Board for 31 December of the preceding year.
2. Inspectors shall use the standardized forms in this manual to collect all information. These forms are the input source of SACCOS financial and statistical information and off-site trend analysis (*see Appendix C*). Inspectors, as the primary contact with these SACCOS, play an integral part in the success of the data collection and review process. Accordingly, inspectors are individually responsible for ensuring the accuracy of their assigned SACCOS. The Registrar shall allocate sufficient time to inspectors specifically for this objective.
3. If inspectors have concerns with the validity of a SACCOS' data, they shall discuss this with their supervisor and contact the SACCOS manager and, if needed, chairman of the board for verification. The information shall be amended as needed. The need for accurate financial and statistical reporting is critical and requires continual review and verification.

Step (1): Receiving and Compiling Information

Upon receipt of Off-Site Supervision forms 1-5 in *Appendix B*, the off-site inspector has to check that all reports were received, that each has been properly filled in and that they are consistent. The consistency of the reports can be checked by comparing the reports submitted to reports received for earlier time periods and to the actual financial statements for the period under review. The off-site inspector compiles the data by organizing the reports and information in a meaningful way. This is done by completing Prudential Standards, PEARLS Ratio and Financial Results as explained below;

- i. Worksheet number 1: ***Prudential Standards***: This worksheet is designed to assess the regulatory compliance of a SACCOS. For each limit set by the prudential regulation, the actual performance is presented quarterly or monthly as required. This sheet provides the inspector with a view on the evolution of these indicators over the previous year or two.
- ii. Worksheet number 2: ***PEARLS Ratios***: This worksheet contains selected PEARLS ratios used industry wide to assess operations. The worksheet discloses the value of these indicators for each quarterly or monthly period, the benchmark for each ratio provides the inspector with the necessary information to perform a trend analysis.

- iii. Worksheet number 3: **Financial Results**: This worksheet summarizes the quarterly or monthly variation of the most material numbers on the statement of financial position, comprehensive income statement and off-balance sheet items. This worksheet allows the inspector to identify changes in the numbers or the data that is used to calculate the ratios. Inspectors shall be aware that ratios can often hide the source of problems because a ratio is a comparison of two or more numbers.

2.2.3 Trend Analysis and Problem Identification

Inspectors shall adopt a dynamic approach to off-site supervision and monitor the evolution of SACCOS financial performance and position. This is necessary to allow the inspector to detect negative trends, anticipate possible future problems and take corrective action if necessary.

Trend analysis shall be performed by comparing financial data and ratios over successive periods. This shall be done using the worksheets provided in this manual (*see Appendix C*) 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, loan portfolio, investments, non-current assets, interest income, interest expense, and loan loss provisions, operating expenses, profits, capital accumulation, loans in arrears, indebtedness, shares and savings.

Monitoring the growth of an institution is critical. For example - SACCOS that grow too fast risk losing control of their operating costs, as a result profitability suffers. Rapid growth in lending activities may also lead to deterioration in the quality of the loan portfolio and an increase in loan losses. If a SACCOS is eager to increase its market share, it is likely to become less demanding in evaluating the creditworthiness of its borrowers. In that context, trend analysis is a powerful tool to allow inspectors to get a better understanding of the financial condition of the SACCOS under their responsibility.

While reviewing the financial information the inspector 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 inspector shall look for unusual financial relationships within the period as well as adverse trends developing over all reporting periods.

This analysis helps to highlight important variations in key financial data or ratios, and detects any irregularities. It is the responsibility of the off-site inspector to investigate any sizeable anomaly detected in the evolution of a SACCOS' financial position.

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

- i. A decreasing net institutional capital to total assets ratio;
- ii. An increase in loan delinquency; or
- iii. A decline in net income from one reporting period to the next.

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

- i. The ratio of net institutional capital to total assets, as stated in the SACCOS Regulation is to be maintained at no less than 6%. Any SACCOS that has capital below this minimum would be in the transition period and working under capital growth plan or in non-compliance and would require additional follow-up by the inspector to determine the cause for the low capital level and what measures the SACCOS is taking, or planning to take, to comply with the minimum capital requirements. If prudential standards are not met, this will be addressed in the Off-Site Supervision Report. The inspector shall then indicate in the Off-Site Supervision Report whether the SACCOS's plans for improving the capital position are reasonable and acceptable or the inspector shall suggest alternative actions to be taken by the SACCOS.
- ii. Delinquent Loans > 30 days/ Total Loans ratio according to the SACCOS Regulations shall not exceed 5%. If a SACCOS reports a ratio in excess of the maximum, the inspector shall discuss this in the report, perform additional follow-up to determine the cause for the excessive delinquency ratio and what measures the SACCOS has implemented or is planning to implement to reduce delinquency and whether the plans are adequate.

When potential problems are detected, the first course of action shall be for the inspector to discuss the problem with their supervisor, and with the supervisor's agreement, arrange a meeting with the SACCOS management to discuss the situation. If the explanations provided are not satisfactory, the Registrar preferably, shall order an immediate on-site visit to investigate the situation more extensively and at the very least send a warning letter that describes the problems identified during off-site supervision and that requires a written response by a stated deadline from SACCOS' management that specifically outlines how the problems will be corrected.

Step (2): Checking Regulatory Compliance

Based on worksheet number 1, the inspector will check the regulatory compliance of the SACCOS over the period under review. Table 2.1 summarizes the *Prudential Standard Regulations for SACCOS*

Table 2.1 Prudential Standard Regulations for SACCOS

Standard in SACCOS Regulation	Limits
Minimum Number of Members	20 members
Minimum Amount of Core Capital for Registered SACCOS	5 million TZS
Minimum Amount of Core Capital for Licensed SACCOS	100 million TZS
Core Capital / Total Assets	> or = 8%
Institutional Capital / Total Assets	> or = 6%
Net Institutional Capital / Total Assets	> or = 6%
Delinquent Loans >30 days / Total Outstanding Loans	< or = 5%
Savings and Shares Member Concentration Limit – Maximum amount of shares, savings and deposits by any one member or related party/ Total shares, savings and deposits	20% of shares, savings and deposits
Total Net Loans / Total Assets	70%-80%
Liquid Assets + Investments < 30 days maturity – Short-term Payables < 30 days maturity / Savings Deposits	15%-20%
Maximum Loan Maturity	5 years
Maximum Investment Maturity	1 year
Deposits in one bank/ Core Capital	< or = 25%
Non-Earning Assets (excluding donated and foreclosed assets)/ Total Assets	< or = 10%
External Credit / Total Assets	< or = 25%
Maximum Loan(s) to any one member	10%

Standard in SACCOS Regulation	Limits
that is fully secured by voluntary shares, savings, time deposits, or goods registered in a public registry/ Core Capital	
Maximum loan to any one member not fully secured by voluntary shares, savings, time deposits, or goods registered in a public registry/ Core Capital	5%
Outstanding Loans to officers and employees/ Total Assets	< or = 5%
Loan Classification and Provisioning	
Overdue (watch) 31-90 days	10%
Overdue (substandard) 91-180 days	30%
Overdue (doubtful) 181-365 days	50%
Overdue (loss) > 365 days	100%

The inspector shall compare the ratios and/or results to the limits and note any indicators that do not comply. The inspector should also analyze the ratios in relation to each other as ratios are not isolated, they affect other ratios. If the regulatory indicators do not meet the prudential standards for certain time periods, the inspector shall note this in the Off-Site Supervision Report (*Appendix A*) and review the indicator trends over the past couple of years. Repetitive infractions of the standards over time are a warning signal; they may indicate instability in the SACCOS.

The inspector shall review the previous Off-Site Supervision Report and supporting forms as well as recent correspondence with the SACCOS regarding any corrective measures requested by the Registrar. The inspector has to assess the effort of the SACCOS to comply with any recommendations and if the corrective measures have been effective.

Step (3): Evaluate Financial Performance

The inspector shall evaluate financial performance of the SACCOS using PEARLS Ratios (*Appendix C, Worksheet number 2*) for the period under review and the financial results for the past period (*Appendix C, Worksheet number 3*). Using *Worksheet number 2* the inspector shall review the compliance with the PEARLS ratio standards (*see Appendix 4*). (*Appendix C, Worksheet number 2*), along with *worksheets number 1 and number 3*, allows the inspector to check if a SACCOS is complying with PEARLS standards, prudential standards and look at the ratio and trends over past periods. Once the inspector has determined the PEARLS rating for each key ratio, each area of PEARLS and the overall composite rating

they should note this in the Off-Site Supervision Report under “overall conditions” and provide a brief explanation of each PEARLS rating and the implications of the rating.

The inspector shall perform a trend analysis based on at least the past two years (or on the data available if the SACCOS has been in operation or reporting for less than two years) to obtain a dynamic perspective of the SACCOS. The trend analysis covers all the prudential standards, PEARLS ratios and a comparison of financial results from one period to the next as ratios can hide important changes so the inspector shall consider the numbers that go into calculating each ratio. The inspector shall determine trends both in the past and project trends into the future. This type of analysis places the inspector in a proactive role. It favours the assessment of the early warning signals well in advance, leaving sufficient time to the Registrar and the SACCOS to take actions where necessary.

In performing a trend analysis the inspector shall identify both positive and negative trends in the financial results and the ratios. Since off-site analysis is about early identification of risks, the inspector will want to concentrate on negative trends such as declines in capital, assets, loans, gross and net income, liquid assets, or deposits and increases in financial costs, allowance for loan losses, loan delinquency, loan write-offs, operating expenses, or indebtedness. The ratios are directly affected by negative changes in the financial results. Because of this, the inspector must watch the trends carefully for declines in the capital to asset ratio, capital growth with respect to asset growth, liquidity ratios, return on assets ratio, or the loans to assets ratio, and increases in the delinquency and write off ratios, the operating expense to asset ratio, non-earning assets to total assets ratio, or the amount of external credit as compared to total assets.

If the off-site inspector notices any negative trends the inspector shall discuss this immediately with their supervisor to coordinate the action that will be taken. Usually the manager of the SACCOS is contacted to discuss the negative trend and to learn if they have identified the source of the problem and are working to remedy it. If not, then a warning letter or on-site visit needs to be made and a plan needs to be developed between the SACCOS and the Registrar that will correct the problem.

Step (4): Checking Early Warning Signals

Continuous follow up allows for the identification of problems in advance. During the quarterly or more frequent reviews, the inspector shall focus on identifying early warning

signals (EWS). If any of the warning signals are present, they shall discuss in the Off Site Supervision Report (*Appendix A*). Table 2.2 presents EWS that the off-site inspector should look for.

Table 2.2 Early Warning Signals and Operational Problems

#	Area of Focus	Early Warning Signals (EWS) and Operational Problems that Require Further Review
1	Capital Adequacy and Capital Ratios	<ul style="list-style-type: none"> i. A deteriorating net institutional or institutional capital to assets ratio indicates a problem! The source of the problem may be lower profitability, net loss, higher loan losses, or asset growth that exceeds capital growth. ii. Membership shares that are considered part of capital. Shares should only be considered part of capital if they are non-withdraw able. That means members can not withdraw their shares even upon termination of their membership. iii. Members that are allowed to use their shares as a guarantee for loans. This has the effect of recapitalizing the SACCOS when members do not repay their loans and the shares are used to make partial or full loan payments.
2	Delinquent Loans > 30 days past due	<ul style="list-style-type: none"> i. The delinquent loans > 30 days past due ratio is increasing and/or the ratio is erratic over a period of time. ii. 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 resolved. iii. Total delinquency decreases over a short time period, which could be due to loan restructuring and extensions or manipulation of loan repayment data and not to the collection of delinquent loans. iv. A rise in this ratio can also be linked to economic problems or the result of a natural disaster such as a flood, drought, or spread of an infectious disease.

#	Area of Focus	Early Warning Signals (EWS) and Operational Problems that Require Further Review
3	Net Loan Write Off to Average Loans Ratio	<ul style="list-style-type: none"> i. Similarly to the delinquent loans > 30 days ratio, a deterioration of the loan loss ratio indicates that the SACCOS has problems. ii. The inspector must analyze this ratio in unison with the delinquent loans > 30 days. The SACCOS may have a low delinquent loan >30 days ratio because they write off loans quickly or the opposite can also be true. The delinquent loans >30 days ratio may be high and the net write off ratio is low because the institution is slow to write off loans. iii. Written off loans (net of recoveries) are more than 1.5% of average loans for 12 months. iv. Loans are not written off when they are considered a loss and/or when they are greater than 365 days delinquent. v. Written off loans are not approved and documented in the board minutes.
4	Allowance for Loan Loss (ALL)	<ul style="list-style-type: none"> i. ALL account balance is less than required. ii. Provision for loan loss expense is increasing. iii. A decrease in the ALL may be a sign of improved collections, lower profitability, greater loan losses, or inadequate provisioning. iv. Management and/or the officials do not want to increase the ALL. v. The following circumstances may negatively impact the ALL: rapid expansion of the loan portfolio; increase in restructured loans; increase in the number and amount of loans in arrears; and lack of diversification in loan portfolio.
5	Fixed and Non-Earning Assets	<ul style="list-style-type: none"> i. Large investments in fixed assets diverting valuable resources from the main business and income source, lending. ii. Fixed assets depreciated over a time period greater than recommended by accounting standards. iii. Increasing amount in non-earning assets (cash, repossessed collateral, accounts receivable, accrued interest receivable, fixed assets and other assets). iv. Increasing account balance for accrued loan or investment income receivable. v. Non-earning assets increases as a percentage of total assets above 10% or above 100% of institutional capital.
6	Structure of Assets	<ul style="list-style-type: none"> i. Large loans to a few members and their immediate family members. ii. Members guaranteeing more than 1 loan. iii. Large amount of loans to officials and employees. iv. Lack of diversification in loan and investment portfolio. v. 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. vi. Investments with a maturity > 1 year.

#	Area of Focus	Early Warning Signals (EWS) and Operational Problems that Require Further Review
7	Internal Control Environment	<ul style="list-style-type: none"> i. Requested reports are frequently late, not received and contain errors. ii. Financial or standardized reports that are completed incorrectly. iii. Accounts Receivable balances increase over the time period. iv. Statement of Financial Position and Statement of comprehensive income numbers such as gross income, operating expenses, net income, loans, investments, fixed assets, time deposits, shares, or retained earnings are erratic from one period to the next. v. Large number of extended and/or restructured loans. vi. Net income in the balance sheet does not equal the amount on the income statement. vii. Numerous accounting errors. viii. Debit account balances for accounts that normally have credit balances and credit account balances for accounts that normally have debit balances. ix. Accounting records that are in arrears. x. Frequent changes in staff. xi. Lack of a transparent, documented audit trail. xii. Recent incidents of fraud and/or robbery. xiii. Introduction of new loan products, where policies and procedures may be untested and the staff not adequately trained. xiv. No segregation and/or rotation of duties. xv. No routine internal checks or auditing. xvi. Weak Board that are subservient to management. xvii. Inactive or ineffective Supervisory Committee. xviii. No established limits on expenses. xix. Staff confusion as to job duties and responsibilities. xx. No annual external or periodic internal audits performed.
8	Governance / Management	<ul style="list-style-type: none"> i. Lack of independence of Board members. ii. Board members who are also a part of daily management such as the chairman working as the Manager. iii. Poor attendance at board meetings. iv. Weak technical skills, questionable ethics, incompetence of management staff. v. Changes in key positions or in board membership. vi. Lack of clear vision and well-defined priorities. vii. Internal squabbles between senior managers. viii. Lack of communication/ tensions between the Board members and management. ix. Management that avoids inspector contacts, cannot answer the questions and address concerns, and/or is evasive when questioned. x. Confused and inarticulate policies.

#	Area of Focus	Early Warning Signals (EWS) and Operational Problems that Require Further Review
9	Human Resources	<ul style="list-style-type: none"> i. Poor management-staff relations. ii. Low level of credit and financial skills and expertise. iii. Low motivation. iv. High staff turn-over. v. High level of staff complaints. vi. Insufficient or incompetent IT staff.
10	Information Technology System (IT)	<ul style="list-style-type: none"> i. Inaccuracy, lack of timeliness and effectiveness of IT and inappropriateness of this system compared with size, complexity and risks of SACCOS. ii. Limited computerization, with still a large part of the recording and reporting done manually. iii. Faulty computer systems, frequent break-downs, weak security, no back-up.
11	Strategic Planning and Budgeting	<ul style="list-style-type: none"> i. Nonexistent short-, medium- and long-term plans and budgets. ii. No analysis on significant and persisting gaps between budget and actual figures. iii. No written assumptions for the budgeted numbers. iv. Budget appears to have been drafted for the Registrar inspectors ONLY.
12	Operating Expenses	<ul style="list-style-type: none"> i. Operating expenses as compared to average assets are increasing and/or the ratio is greater than 5%. ii. Operating expenses are erratic from one period to the next.
13	Return on Assets	<ul style="list-style-type: none"> i. A decreasing return on assets shows a worsened profitability. ii. Decreasing or negative return on assets will negatively impact the amount of capital and the capital ratio.
14	Interest Rate Policy	<ul style="list-style-type: none"> i. Inconsistent interest rate policy. ii. Interest rates that are above local market rates with no plan on how to profitably use the funds. iii. Interest rates that do not consider and cover the SACCOS costs including increases to the institutional capital accounts. iv. Confusion in how to calculate or explain interest rates. v. Interest rates that are established at the annual meeting; this approach does not allow the SACCOS to respond quickly to changes in the market interest rates.
15	Liquidity Ratios	<ul style="list-style-type: none"> i. Material decrease in liquid cash assets. ii. Material increase in longer term loans (maturing in 3 years). iii. Mismatch between interest earning assets and interest bearing liabilities. iv. Mismatch between the maturities of assets and their funding sources (external borrowings, shares, savings and deposits). v. Total loans that are more than 85% of assets.

#	Area of Focus	Early Warning Signals (EWS) and Operational Problems that Require Further Review
16	Liability Structure	<ul style="list-style-type: none"> i. Increased reliance on debt at more onerous conditions. ii. Reliance on high interest rate deposits. iii. Delays in payments to suppliers (accounts payables) or creditors. iv. Growing difficulties in meeting debt payments. v. Non compliance with reserve fund requirement (the transfer of 20% for registered and 50% for licensed SACCOS of net income [after operating expenses and financial costs] as of year-end until net institutional and institutional capital is equal to 6% of assets.
17	Availability of Funds to Meet Credit Demand	<ul style="list-style-type: none"> i. A high dependency on donor funding may create liquidity problems. ii. Slowness in receiving funds to lend to members.
18	Cash Flow Projections	<ul style="list-style-type: none"> i. Lack of cash flow projections. ii. Lack of details in projecting the cash flows.

If any of the EWS are identified, it should be noted in the report, discussed with the supervisor and, if deemed necessary, the SACCOS should be contacted to discuss the warning signals and develop corrective measures with SACCOS' management before the problems become serious. The corrective measures shall be placed in writing in the Off-Site Supervision Report and in a warning letter to SACCOS' management as needed.

2.2.4 Financial Analysis Reporting

This stage involves the reporting on problems noted in the problem identification and trend analysis stage. The report shall identify causes of problems or negative trends and the potential risk and its effects. Inspectors shall be aware of, and note in the report unexplained or sudden increases in the level and trends of account balances and PEARLS ratios. During the performance of off-site monitoring, it is important that inspectors follow-up on unexplained changes in a SACCOS's financial statements composition or why ratios, account balances, levels, or trends have changed.

Based on the financial analysis, the Off-Site Supervision Report (*see Appendix A*) is prepared. The Off-Site Supervision Report is used to:

- i. Place the inspector's observations on negative trends and ratios in writing and document the findings and analysis performed based on the information submitted by the SACCOS;
- ii. Note the PEARLS ratio ratings;
- iii. Develop a supervisory response and strategy for resolving weaknesses or concerns identified at individual SACCOS; and
- iv. Inform the Registrar and any other relevant stakeholders regarding the condition of the SACCOS.

Within 30 calendar days (the SACCOS has 15 days to send the reports to the Registrar and the Registrar has 15 days to complete the off-site analysis) for SACCOS that report monthly and within 60 calendar days (the SACCOS has 30 days to submit the reports to the Registrar and the Registrar has 30 days to complete the off-site analysis) for SACCOS that report quarterly, the inspector shall analyze the required reports submitted by the SACCOS for negative, erratic, or unexplained changes to account balances, trends, or ratios and prepare the Off-site Supervision Report.

Step (5): Completion of Off-Site Supervision Report

If the financial review and EWS review do not indicate serious problems at the SACCOS, the off-site supervision inspector shall complete the Off-Site Supervision Report (*Appendix A*), submit the report to their supervisor and place a copy in the SACCOS's file after supervisor's review and approval.

Steps (6), (7), and (8): Problems Identified During Financial and/or EWS Review, Developing Recommendations, Notifying the Supervisor and Completion of Off-Site Supervision Report

If the financial and/or EWS review reveals problems then the off-site inspector shall contact their supervisor immediately if the problems are severe and discuss the problems identified. Together with the supervisor, the inspector shall contact the SACCOS management, if deemed necessary, to discuss the problems and develop recommendations and corrective actions to be taken. All of the recommendations and corrective actions shall be noted, in the supervision report and a warning letter sent to the SACCOS as required.

Once the final version of the Off-Site Supervision report has been completed and distributed, one copy shall be filed in the SACCOS official file together with its supporting documents including the information provided by the SACCOS, the inspector worksheets, any relevant correspondence between the Registrars and the SACCOS or relevant internal memos.

2.2.5 Additional Factors to be considered when performing off-Site supervision

When inspectors are performing their off-site analysis duties they shall also take into consideration of the following factors that may have an impact on the SACCOS's financial statements and their long-term viability. If neglected, these factors can hide the "true" financial picture.

i. **Scope of Activity.**

If a SACCOS carries out more than credit and deposit activities, that is, the cooperative is a multi-purpose cooperative involved in other businesses such as a pharmacy or grocery store. The SACCOS related revenue, expenses, assets, liabilities and equity must be identified and separate financial statements compiled. Inspectors must ensure that the SACCOS activities are profitable and sustainable.

ii. **Allowance for Loan Loss.**

If the allowance for loan loss is inadequate for potential losses and is in violation of the SACCOS regulations, an adjustment must be made. This is to ensure that the account reflects the actual state of the loan portfolio quality. The adjustment consists of bringing the account balance to the required amount by making entries to the allowance for loan loss and the provision for loan loss expense. Table 2.1 shows the required provisioning rates.

iii. **Loan Write-offs.**

Once a loan is determined as uncollectible, it has to be written-off. If coupled with proper loan loss provisioning, the net effect on the balance sheet is zero – the written-off amount is removed from both the gross loan portfolio and the allowance for loan loss. If the allowance for loan loss is not adequate, the SACCOS will have to record an expense in the income statement. Due to the short term nature of SACCOS loans, delinquent loans more than 365 days and those in legal recovery should be written off unless there is a compelling reason.

iv. **Explicit and Implicit Subsidies.**

Frequently SACCOS receive explicit and implicit subsidies. The inspector must factor in the impact of these subsidies on the SACCOS' financial statements. Many SACCOS are not sustainable if the subsidies are removed. The Registrar needs to be aware of those SACCOS that are not financially sustainable without subsidies. The following are examples of subsidies to look for: direct cash donations, below-market financing for the SACCOS portfolio that has to be recalculated with market rates, and in-kind donations such as facilities or consultancies that the SACCOS would not have contracted if not subsidized.

v. **Effects of Inflation.**

Inflation has two major effects on a SACCOS. The real value of fixed assets will keep pace with inflation, and to the extent that equity is tied up in monetary assets, the real value of equity will be eroded. The inspector must consider the effect of inflation on the SACCOS.

vi. **Accrued Interest Income.**

If a SACCOS accrues interest on its past due portfolio over 90 days, the amounts should be determined and eliminated from the income statement and from the accrued interest account on the balance sheet as the SACCOS is overstating income. If the SACCOS does not accrue or if it accrues only for its current and past due loans up to 90 days, no adjustment is necessary.

2.3 Off-Site Supervision Report Format

The Off-Site Supervision Report (*Appendix A*) is to be utilized by the inspector in order to ensure that analysis of the forms (*Appendix B*) and worksheets (*Appendix C*), conclusions, and recommendations are presented in a consistent and uniform manner. Narrative comments in the Off-Site Inspection Report shall comprise four sections as follows:

- i. Overall condition and PEARLS ratio ratings;
- ii. Issues requiring attention;

- iii. Recommendations; and
- iv. Notify the Registrar management.

1. ***Overall condition***

This section shall cover an overview of the condition and performance of the SACCOS. It shall summarize the most important points of the report and need to be a condensed description rather than an in-depth, detailed discussion. Ratios, numbers, and comparisons to overall SACCOS performance and condition may be used to provide information in perspective and support conclusions.

The PEARLS ratings (Appendix 4) for each of the five areas along with the composite rating are disclosed here along with the ratings as of the last on-site inspection. A brief explanation of each PEARLS rating for each of the five areas rated should be included along with the implications of the ratings. The ratings are based on selected key ratios and the composite rating is the arithmetic average of the five areas in which a rating is assigned. There is no rating provided for the "S" in PEARLS, Signs of Growth.

2. ***Issues requiring attention***

This section shall focus on the significant problems which require corrective action. The section clearly identifies and discusses the most significant problems that need to be corrected. It shall be clearly noted if the issues currently identified were discussed in a previous report. If problems were previously identified, it shall note the progress and improvement.

3. ***Recommendations***

This section shall provide recommendations for addressing the problems identified 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. The inspector shall discuss all recommendations made in the Report with their supervisor and SACCO's management to ensure that the recommendations are implemented.

4. ***Notify the Registrar management.***

If the SACCOS is violating prudential standards or other requirements then the inspector must note this in the Report section "Notify Registrar" and alert their supervisor. Any information received from Registrar management concerning the notification should be noted in this section or attached to the Report.

The inspector preparing this report and making the analysis shall be the same person. The report shall, in most cases, be limited to five pages. Upon completion of the report, the completed report shall bear inspector's signature and date at the bottom of the report.

To ensure prompt, effective correction of problems, the inspector who identified the problems and developed plans for corrective action shall assume supervisory responsibility.

2.4 Response and Follow-up

The objective of the response and follow-up stage is to cause the management of a SACCOS to correct unsatisfactory performance/conditions and the underlying unsatisfactory practices. In order for this stage to be effective, the inspector must communicate with their supervisor and directly with the SACCOS. The assigned inspectors 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 SACCOS' management on implementing necessary change to improve the condition of the SACCOS.*

If the Registrar decides to send a warning letter, the letter shall be addressed to the Board members. It should state the date when the analysis was performed, identify the problems that need to be corrected, require that the Board members respond in writing to the Registrar within a specified time frame and provide a specific plan and steps on how the problems will be corrected. The letter should also state that if corrections are not made that Registrar may take other more serious actions as described in the SACCOS regulation.

Step (9): Follow-up on Problem Resolution and Implementation of Recommendations

Depending on the seriousness of the problems the Registrar shall serve the SACCOS with a warning letter outlining the problems identified and requiring a response within a stated deadline of how the problems will be corrected, request that the SACCOS send more frequent financial information (monthly instead of quarterly), periodically contact the SACCOS to follow up and learn when management expects to see positive results, or wait until the next off-site reporting period. The Registrar also has the option to request that an on-site visit or inspection is performed, if the problem is serious or it does not improve in the next reporting period. **Inspectors are reminded that constant and consistent follow-up are key to timely problem resolution!**

Lastly, the inspector checks when the next on-site inspection is scheduled to take place. This inspection will provide the supervision team with qualitative information on the SACCOS. If no specific date has been confirmed, the inspectors shall agree on an on-site inspection date in order to complete the overall assessment of the SACCOS in a timely manner. If there are serious problems, an inspector may request that the inspection is performed earlier than scheduled.

CHAPTER THREE

3.1 Risks Management in SACCOS

Effective off-Site supervision of SACCOS requires a clear understanding of the principal sources of risk. Inspectors shall be aware of these risks, how they impact operations and what can be done to control or eliminate them. SACCOS being a financial institution encounters different risks including:-

3.1.1 Credit risk

Credit Risk refers to the likelihood that borrowers are unable or unwilling to repay their loans on time and may be quite serious if the SACCOS do not effectively appraise the loans granted to borrowers. Also this risk may be increased due to the use of non-conventional collateral combined with weak enforcement mechanism, limited geographical outreach for small SACCOS and concentration of specific target groups.

SACCOS can reduce credit risk by having a credit analysis process that carefully analyzes the borrower's ability to repay the loan. With this regard, SACCOS shall identify those borrowers with adequate cash flow that can make loan repayments on time. SACCOS shouldn't depend on collateral, as collateral does not repay loans; only borrowers with sufficient cash repay loans. Therefore SACCOS should grant loans to borrowers who have the desire and ability to repay. SACCOS are encouraged to identify their borrowers by reviewing their past credit history and build a credit history with them by granting small loans initially and increasing the size of the loan as the borrower repays.

3.1.2 Target Borrowers Risk

This risk relates to the borrower's profile, normally the poor and microenterprises. SACCOS members are relatively low income earners, less educated, more vulnerable to external calamities. Also they are operating in microenterprises which are facing high risk because they are informally operated by the owners, with no license, use traditional technologies; maintain no formal accounting records and do not separate business income from household income.

The best way for the SACCOS to manage this risk is by starting out with small loans to the borrowers so the members can establish a credit history and learn how to use credit wisely.

The SACCOS must also have credit underwriting standards in place so they can determine each borrower's ability to repay.

3.1.3 Unconventional Lending Risk

Unconventional Lending Risk originates from the loan appraisal process which appears to consider willingness and ability to pay rather than assets that can be seized. The loan evaluations focus more on the willingness and ability to pay rather than on the assets that secures the loan. In many cases there is no collateral. Even if there is collateral, it is mostly symbolic, since it may be more costly to initiate legal proceedings to seize the collateral than to write-off the loan.

3.1.4 Interest Rate Risk

This relates to the vulnerability of SACCOS to adverse movements in interest rates, which may occur for instance when long-term loans are funded with short-term funds. It is directly linked to their inability to adjust interest rates on their loans against the interest expenses that are incurred on member's savings, deposits and borrowed funds. Borrowers normally desire loans with the longest terms possible creating a mismatch of funding sources and uses.

This risk can be reduced however it cannot be totally eliminated. Interest rate risk can be quite serious as it can negatively impact on profitability. The best way for management to reduce this risk is by granting only short term loans (<12 months), granting loans with adjustable interest rates, or funding assets with liabilities that have a similar maturity. That way the assets and liabilities can be re-priced simultaneously and their interest rates can go up or down with the market rates at the time of re-pricing.

3.1.5 Liquidity Risk

Liquidity risk refers to the SACCOS inability to meet savings withdrawals and accommodate creditors when its obligations become due or to grant future loans to members. Often SACCOS have difficulties in managing liquidity and accessing liquidity or lenders of last resort. If unforeseen liquidity shortages force them to restrict their lending operations, the incentive for borrowers to repay their loans is considerably weakened.

If the SACCOS does not have enough liquidity to grant loans, meet member's requests for savings withdrawals, or pay creditors can impact the sustainability of the SACCOS may

likely tarnish the image of the SACCOS. In order to reduce liquidity risk, management shall monitor the liquidity needs on a weekly or monthly basis taking into consideration periods of high loan demand to ensure there are sufficient funds to meet loan demand and member savings withdrawals, repay creditors and pay operating expenses.

3.1.6 Operational Risk

This risk involves SACCOS operational issues like inefficiency of decentralized structure, close relationships between members and loan officers, weaknesses in Management information systems, inability to accurately record and report information of a large number of small transaction, weak internal control, or poor governance.

The risk can be mitigated if the SACCOS hires and retains competent management that understands the importance of disaster recovery and contingency plans, sound internal controls, written policies and procedures, internal and external audits, employee and officials training, an active board and committees, appropriate employee punishment for breach of policies, Management Information System and business and strategic planning.

3.1.7 Internal Control Risk

This risk may be caused by weak internal control within a SACCOS as a result of lack of segregation of duties and conflict of interest. Sometimes one loan officer is responsible for approving, disbursing and collecting the same loan. This means there are no dual controls to check for mistakes or to deter the loan officer from committing fraud. In such an environment, it is difficult to monitor and maintain the quality of the loan portfolio, internal cash controls and to deter and detect fraud.

This risk can be reduced by having written policies and procedures, adequate internal controls, segregation of duties, dual control, swift and severe penalties for fraudulent acts, and an effective internal and external audit program.

3.1.8 Foreign Exchange Risk

SACCOS that borrow in a foreign currency and lend in local currency are particularly vulnerable to this risk. If unfavourable fluctuations in exchange rates occur, the value of the loan payments may not be sufficient to repay the foreign currency borrowings.

This risk is only present if the SACCOS is doing business in more than one currency, and it can be completely eliminated by doing business in local currency or by entering into hedging contracts.

3.1.9 Market Risk

This risk occurs to when SACCOS with excess liquid invest in non-earning asset, ventures which are non-regulated and other related investments. The risk can be controlled at the institutional level by making safe investments in accordance to SACCOS Regulations in which the return of principal is guaranteed. Management should never put institutional funds at risk in investments that they do not fully understand.

3.1.10 Management Risk

This risk may occur due to inadequate qualified staff, Policies and Procedures, Succession plan in place commensurate to SACCOS operations. This risk can be reduced by employing qualified staff, offering quality training to all employees, having all policies and procedures in writing and ensuring that employees follow them as well as having a succession plan in place so that a SACCOS is not significantly affected when senior management resigns or retires.

3.1.11 New Product Risk

This risk relates to introducing new products and services when the SACCOS cannot develop appropriate terms and conditions which bring in relatively adequate returns. Inspectors shall ask management if they are offering any new products and services since the last inspection. If there are new products and services, then inspectors will want to review them to ensure they are not adversely impacting the financial condition. This can be mitigated through SACCOS undertaking a thorough analysis for each new product it needs to introduce.

3.1.12 Subsidy dependence Risk

This refers to over dependency of SACCOS funding from donor subsidies thus result to a risk of being operationally unsustainable if subsidies were withdrawn.

If a SACCOS is dependent on subsidies and the subsidies are discontinued, this could be fatal. SACCOS should have a goal to become self-sufficient, that is, to operate without subsidies. Inspectors should review their plans to become self-sufficient to ensure they are realistic and the SACCOS is operating in a sustainable way.

Example (Appendix A) - Off-Site Supervision Report

Date of Report: 31 December 2005

Prepared by: Josephat D. Kisamalala

Reviewed and Approved by: My Supervisor

Section one – General Information

Full Name of SACCOS	XYZ SACCOS
Mailing Address and Telephone Number	ABC, Tanzania.
Name of the Manager and Telephone Number	Modest Manager
Name of the Chairman of the Board and Telephone Number	Jackson XXXXX
Name of the External Auditor and Telephone Number	Fred ZZZZZ

Section two - Written Analysis**Overall Conditions**

This SACCOS has very serious operational and financial problems and is considered HIGH RISK. This SACCOS is very large in assets and if it were declared bankrupt then the impact on the SACCOS sector would be great and many members would be negatively impacted. Of the 9 prudential standards, only 2 were met - the minimum number of members and the total loans to total assets ratio. The SACCOS receives an off-site PEARL rating of 5.

The SACCOS was registered in 1970. The membership is employee based made up of president office employees, provisional police administration, directorate of personnel management and armed forces. The information presented in this report is as of 31 December 2005. Trends have been analyzed over a 5 year period from 2000 – 2005. The numbers reported are very suspect and thus unreliable; because they are so erratic from one period to the next.

Overall membership has declined consistently in the time period. The total in loans has increased but the maturity terms have changed. In 2004 the majority of loans had a maturity of 1 year or less. In 2005, over TZS5 billion is now in loans from 1-3 year maturities. The amount in short-term investments has fluctuated dramatically from as high as TZS 264 million in 2002 to TZS 6 million in 2005. There is a large amount in non-financial

investments as of 2005 TZS 403 million. In past years there was an allowance for these investments; however it is TZS 0 as of 2005.

Non-earning assets have increased and are now 20.51% of total assets. The majority of the non-earning assets are fixed assets TZS 906 million and prepaid expenses TZS 463 million. The amount in prepaid expenses appears exceptionally high as it is more than 50% of fixed assets. Short-term liabilities are also high at TZS 422 million.

Delinquency is a serious problem as delinquent loans are 12.79% of total loans. Delinquency has decreased substantially from TZS3 billion to TZS 694 million from 2004 to 2005, however there have been no loan write offs. Further analysis is needed to determine the reason for the decline.

The amount of member savings is impressive considering the low interest rate paid on the savings. As of 2005, savings deposits were 81.55% of total assets and the interest paid on the average savings deposits was 1.92%, yet inflation was 12%. Thus members were losing money by having their savings invested at the SACCOS because of the effect of inflation. External credit is elevated at 7.12% of total assets and very costly especially when compared to the interest paid on savings. Interest on external credit is 13.50% of the average external credit balance.

Mandatory shares are very low at .52% of total assets. This should be expected as no dividend has been paid from the year 2000. Transitory capital is high especially when compared to institutional capital, TSH 321 million as compared to TZS 66 million. Transitory capital is high due to the Asset Appreciation over Cost balance of TZS 278 million. This balance is suspect as it has remained the same over 2004 and 2005 yet inflation has increased. This account is usually used to adjust the value of fixed assets for the effect of inflation and is an accounting entry only. The only way the SACCOS could actually recognize the gain and receive funds to invest in loans or other assets would be to sell the building. Institutional capital is made up of Statutory Reserves, Other Reserves and Net Loss. The SACCOS does not have any retained earnings. The balances in the Statutory and Other Reserve accounts have been increasing, but the source of these increases is unexplained as the SACCOS has had a net loss since 2001. Thus the institutional capital to total assets ratio is low at .88% and the net institutional capital to total assets ratio of -2.42% indicates that the SACCOS is insolvent if the potential loan losses are considered.

The SACCOS has another net loss as of year-end 2005. This is due to several reasons. Interest income on loans is too low. In 2005 interest income on loans was only 12.11% as compared to the average loan portfolio and inflation was 12%. The loan interest rate barely covered inflation. Thus once the financial costs from interest on savings and external credit were included and the operating expenses the SACCOS had a net loss. The SACCOS has not expensed any provision for loan losses and had the SACCOS provisioned then the net loss would have been greater. Thus the provision expense is TZS 0 as is the Allowance for Loan Loss balance. The SACCOS should have provisioned for loan losses as the SACCOS has a delinquency problem. Delinquent loans are 12.79% of total loans. The allowance for loan loss should have a balance of TZS 246,641,046 using WOCCU suggested provisioning of 35% for loans less than 12 months delinquent and 100% for loans more than 12 months delinquent. The operating expenses to average assets ratio is 5.17% and has been on a declining trend. It is unusual that the administration expenses have declined significantly since 2001. Usually as SACCOS grow so do these expenses. Additionally the SACCOS has had previous period adjustments for the last 3 years as noted on the income statement. That adjustment was especially large in 2005 at TZS 151,194,342. Extraordinary income for the last 4 years has had a negative balance. This account usually has a credit balance, but it is a debit balance thus representing an expense not income.

Liquidity is a severe problem as indicated by the liquidity ratio of -3.97%. This ratio indicates that the short term payables are greater than the liquid assets, thus the negative result. This ratio implies that the SACCOS does not have enough funds available to meet member's savings withdrawals. The total loans to total assets ratio is another measure of liquidity. The ratio is 72.62% as of 2005. This ratio is acceptable. It implies that the SACCOS does not have too much invested in loans that have a longer term nature. But overall liquidity is also affected by non-earning assets and that ratio is very high at 20.51%. Thus, when all these ratios are considered it is evident that there is a severe liquidity problem.

PEARLS RATING (off-site): P_5 E_4 A_5 R_4 L_5_ Composite Rating_4.6 = 5__

**PEARLS RATING (most recent on-site inspection): P__E__A__R__L__
M__ Composite Rating__**

Section Three – Areas of Concern and Recommendations

Issues Requiring Attention

- i. Erratic numbers, trends and ratios;
- ii. Low institutional capital and negative net institutional capital to total assets ratios;
- iii. Inadequate provision – provision expense is zero as is the balance of the Allowance for Loan Loss account;
- iv. Loan delinquency is high;
- v. Loan write offs have not been made for loans greater than 12 months delinquent;
- vi. Annual net loss since 2000;
- vii. Low interest income on loans due to low interest rates and the large amount of delinquent loans;
- viii. Low interest on member loans and member savings as compared to inflation;
- ix. Improper accounting as reflected by the changes in the Asset Appreciation Over Cost account, the unidentifiable increases in the Statutory Reserve account, and the lack of an adequate balance in the Allowance for Loan Loss account; and
- x. Inadequate liquidity to meet member savings account withdrawals.

Recommendations

Registrar Recommendations –

1. A full on-site inspection should be scheduled and performed immediately as the numbers on the financial statements are erratic and cause for great concern and doubt that the reported numbers are correct. In addition, the SACCOS: has no retained earnings, a negative net institutional capital ratio, is unprofitable, has no allowance for loan loss, has high delinquency and non-earning assets. Based on this, the quality of management appears weak and this can best be analyzed with an on-site inspection.
2. At the end of the inspection, administrative action must be taken. The 1st action taken will likely be a Memorandum of Understanding between the SACCOS and Registrar.

- If other administrative actions are needed they should be taken upon the completion of the inspection
3. The assigned Registrar inspector shall follow-up on the issues addressed in the Memorandum of Understanding monthly to ensure corrections have been made and operations are improving.
 4. The SACCOS shall provide the off-site report forms to the Registrar on a monthly basis instead of a quarterly basis. The Registrar shall perform off-site analysis monthly as well.
 5. The SACCOS inspector must report to their supervisor monthly concerning the progress on the Memorandum of Understanding and the SACCOS financial results.

SACCOS Recommendations – (For each recommendation below you will also want to include the name of the person responsible for making the change needed and the time frame to make the corrections.)

1. Ensure the accounting records are correct by hiring a different external auditor than has been used in the past. Request an immediate audit of the records.
2. Increase the institutional capital and net institutional capital to total assets ratios by decreasing delinquency and non-earning assets and increasing profits. Develop a written plan for bringing the ratios up to the prudential standards. Per regulations, the SACCOS has 5 years from the date the regulations become effective to increase institutional capital to the required ratio.
3. Increase the Allowance for Loan Loss account to the amount required per the prudential standards. Develop a written plan for bringing the balance up to the required amount. Per the regulations, the SACCOS have 5 years from the date the regulations become effective to bring the Allowance for Loan Loss account up to the required amount.
4. Decrease delinquent loans by improving delinquent loan collection and credit analysis.
 - i. Collection of delinquent loans should start when the loans is 5 days delinquent or less. Personal contacts such as phone calls or personal visits should be made

- instead of writing letters. Follow-up must be immediate if a promised delinquent loan payment is not made on the date that was agreed upon.
- ii. Credit shall only be granted to those members who have demonstrated their ability to repay the loan. This can only be determined by credit history and a full analysis of the borrower's income and expenses. Credit analysis shall be in writing and retained in the borrower's loan file.
5. Write off all loans that are more than 12 months delinquent per the regulations. These loans shall be accounted for off-balance sheet and collection efforts shall not cease because the loan was written off.
 6. Increase interest income on loans by collecting delinquent loan interest and penalties and increasing interest rates so that they cover inflation, financial costs, operating expenses and the provisions for losses. Consider market interest rates when establishing the SACCOS loan interest rates so that they are competitive.
 7. Pay interest on member savings that is competitive with market rates for similar type financial institutions.
 8. Decrease the amount in fixed assets and prepaid expenses. Develop a written plan for reducing these non-earning assets over the next 2 years.
 9. Decrease external credit as member savings are less costly.
 10. Increase the amount of liquidity available to meet member savings withdrawals by decreasing short-term payables, fixed assets and prepaid expenses and increasing the amount in liquid assets so that the liquidity ratio (L1) is between 15-20%. Develop a written plan to improve liquidity over the next 1 year.

Notify Registrar Supervision Department Manager Yes X No

This SACCOS has very serious operational and financial problems and is considered HIGH RISK. This SACCOS is very large in assets and if it were declared bankrupt then the impact on the SACCOS sector would be great and many members would be negatively impacted. Of the 9 prudential standards, only 2 were met - the minimum

number of members and the total loans to total assets ratio. The SACCOS receives an off-site PEARL rating of 5.

Inspector Signature: _____

Date: _____

Supervisor Signature: _____

Date: _____

CHAPTER FOUR

4.1 The PEARLS Rating System

PEARLS can be used by SACCOS' management and by Registrar inspectors in monitoring and assessing performance. The PEARLS system is an international financial and operating standard developed by WOCCU. PEARLS are based upon an evaluation of six critical quantitative elements of a SACCOS' operations. A PEARL is an acronym for, Protection, Effective Financial Structure, Asset Quality, Rates of Returns and Costs, Liquidity and Signs of Growth.

Numerous ratios measuring a variety of SACCOS functions provide the basis for analysis. This rating system is designed to take into account and reflect all significant financial and operational factors that inspectors assess in their evaluation of a SACCOS' performance. The Registrar can use the financial ratios generated by PEARLS to perform analyses of all key areas of SACCOS operations except for management. These analyses are invaluable for spotting trends and detecting areas of operational or financial concern.

Furthermore, the use of the PEARLS ratios also provides standardization within the industry. The use of standardized financial ratios and formulas eliminates the diverse criteria used by SACCOS to evaluate their operations. It also creates a universal financial language that everyone can speak and understand. Thus, interested parties are looking at the same thing – what is important to the Commission's inspector is important to the SACCOS management.

The PEARLS ratios are also objective indicators. No qualitative or subjective indicators are included in the ratings. By avoiding subjective assessments, it is possible to present objective reports that are substantiated by financial information taken from balance sheets and income statements.

The PEARLS ratios can also be used by the Registrar to assign SACCOS a rating using selected key PEARLS financial ratios. Five of the 6 areas or components of PEARLS will be assigned a rating of 1 to 5, with 1 being the highest rating. An overall composite rating (an arithmetic average) will be assigned to SACCOS based on the five areas that are rated. The composite PEARLS rating is an indicator of the viability of a SACCOS, however inspectors should keep in mind that numbers and ratios can be lagging indicators of a SACCOS'

condition. Thus the inspector must look beyond the numbers to ensure that there are no serious emerging problems.

For the purposes of supervision, the PEARLS rating system is the Registrar's internal tool to measure risk and allocate resources for supervision purposes and is not intended to be used purely as a grading system. Additionally, inspectors should note that these ratings are based on the PEARLS ratios only. Off-site supervision includes much more than just the PEARLS ratios. The attainment of the prudential standards is probably just as or more important than meeting or exceeding PEARLS standards. Inspectors should keep this in mind and be careful not to focus just on the PEARLS, but look at all elements including the prudential standards, early warning signals, various risks and the trend analysis.

4.2 Protection

Protection is measured by comparing the adequacy of the allowance for loan losses against the amount of delinquent loans. The allowance for loan loss account is the 1st line of defence against non-performing loans. Protection against loan losses is deemed adequate if a SACCOS has sufficient provisions to cover 100% of all loans delinquent for more than 12 months and 35% of all loans delinquent for 1-12 months. Thus, protection is rated based on the adequacy of the allowance for loan loss as determined by the selected PEARLS ratios.

Inadequate loan loss protection produces two undesirable results: inflated asset values and fictitious earnings. Most SACCOS are not anxious to recognize loan losses, and much less, to write them off against earnings. That unwillingness leads to widespread abuse of the principles of safety and soundness. Reported net income is overstated, asset values are inflated, provisions for loan losses are inadequate, and member savings are not adequately protected.

As indicated previously, the PEARLS system can be used by SACCOS management as a tool to help managers identify problem areas and to provide meaningful solutions. To meet management's needs, PEARLS is a collection of 45 ratios. This is a large number of ratios, not all of these ratios are essential for Registrar inspectors. In an attempt to simplify the process and target the most important ratios, only key ratios have been selected for the off and on-site supervision process.

The PEARLS protection ratios are 6 in total. Of the total, only 2 have been selected as key ratios and another 1 as supporting ratios to use as needed in trend analysis and problem identification. Rating criteria is only provided for the key ratios, P1 and P2.

4.2.1 Protection Ratios and Ratings

1. *P1 – Allowance for Loan Losses / Allowance Required for Loan Delinquent > 12 months
2. *P2 – Net Allowance for Loan Losses / Allowance Required per Regulation for Loans Delinquent less than 12 months
3. P4 – Annual Loan Charge offs

*indicates a key ratio, the other ratios are considered supporting ratios

P1 – Allowance for Loan Losses / Allowance Required for Loan Delinquent > 12 months

Code 1 – \geq 100% of Delinquent Loans > 12 Months

Code 2 – 80 - 99% of Delinquent Loans > 12 Months

Code 3 – 40 - 79% of Delinquent Loans > 12 Months

Code 4 – 10 - 39% of Delinquent Loans > 12 months

Code 5 – $<$ 10% of Delinquent > 12 Months

P2 – Net Allowance for Loan Losses / Allowance Required per Regulation for Loans Delinquent less than 12 months

Code 1 – \geq = to 100% of the amount required for delinquent loans from 31 to 365 days delinquent

Code 2 – $<$ 100% and \geq 80% of the amount required for delinquent loans from 31 to 365 days delinquent

Code 3 – $<$ 80% and \geq 60% of the amount required for delinquent loans from 31 to 365 days delinquent

Code 4 – $<$ 60% and \geq 40% of the amount required for delinquent loans from 31 to 365 days delinquent

Code 5 – $<$ 40% of the amount required for delinquent loans from 31 to 365 days delinquent

4.2.2 Description of the Protection Ratings

A Protection rating of 1 applies to SACCOS that maintain an adequate amount in the Allowance for Loan Loss account to comply with PEARLS, provide for full and fair

disclosure and meet accounting requirements. Further, there should be no significant asset quality or capital adequacy problems.

A Protection rating of 2 applies to SACCOS that have a positive trend in funding the Allowance for Loan Loss account and are close to a fully funded account that will comply with full and fair disclosure and accounting requirements within the next 12 months. Additionally, there should be no significant asset quality or capital adequacy problems.

A Protection rating of 3 applies to SACCOS that have provided funds to the Allowance for Loan Loss account. The SACCOS is moving towards a fully adequate Allowance for Loan Loss account that will comply with full and fair disclosure and accounting requirements. The SACCOS' allowance account, however, remains below the PEARLS requirement and prudential standards and will not meet the requirement in the next 12 months. Such SACCOS normally exhibit more than ordinary levels of risks in some significant segments of their operation. There may be asset quality and capital adequacy problems.

A Protection rating of 4 applies to SACCOS that have provided funds to the Allowance for Loan Loss account but on an erratic basis and the account is significantly underfunded. It will be more than 1 year until the account is funded and complies with full and fair disclosure and accounting requirements. Such SACCOS exhibit more than ordinary levels of risks in some significant segments of their operation. There most likely are asset quality and capital adequacy problems.

A Protection rating of 5 is accorded to SACCOS that have provided little to no funding to the Allowance for Loan Loss account and thus the account is substantially underfunded. It will be many years before the allowance account is funded and complies with full and fair disclosure and accounting requirements. Such SACCOS exhibit severe, unacceptable levels of risks in significant operational areas. There are asset quality and capital adequacy problems that have affected the SACCOS' financial soundness and its ability to provide competitive member services. Such SACCOS are exposed to levels of risk sufficient to jeopardize their solvency.

4.3 Effective Financial Structure.

The financial structure of the SACCOS is the single most important factor in determining growth potential, earnings capacity and overall financial strength. A SACCOS' financial structure is largely made up of assets, liabilities and capital.

i. Assets.

SACCOS are encouraged to maximize their productive assets to ensure adequate earnings to meet loan losses, institutional capital goals, and operational and funding costs. Since the loan portfolio is the most profitable asset, SACCOS are encouraged to maintain 70-80% of total assets in the loan portfolio. Excess liquidity is discouraged because the margins on liquid investments are significantly lower than those earned on loans. Non-earning assets are also discouraged because once purchased, they are often difficult to liquidate. SACCOS should attempt to limit their investment in non-earning assets to 5% or less.

ii. Liabilities

A good indicator of the member's trust in the SACCOS is the amount of their own money they have invested with the SACCOS. A healthy percentage of deposit savings indicates that the SACCOS has provided a secure environment in which to save and attractive savings product to the members and has developed an effective marketing program. This also indicates that members are no longer saving in order to borrow money, but they are instead saving because of their trust in the SACCOS and the competitive rates offered.

iii. Capital

Institutional capital cushions fluctuations in earnings so that SACCOS can continue to operate in periods of losses or negligible earnings. Capital is essential to ensure the SACCOS remains profitable, solvent and a going concern. The Registrar considers the maintenance of adequate capital as a key prudential element in the management of risks associated with doing business as a SACCOS. A SACCOS needs capital to:

- Absorb losses from expected and unexpected financial difficulties, for example: increases in the allowance for loan losses due to a rise in loan delinquency or liquidity problems;
- Support the SACCOS's continued growth and future development;

- o Fund the acquisition of fixed assets such as equipment, information system and real property;
- o Maintain a cushion to protect the interest of its members; and
- o Provide the members a level of confidence in the safety and stability of the SACCOS.

The most important PEARLS ratios to the Registrar are the Institutional Capital and Net Institutional Capital/ Total Assets ratios.

They measure the financial strength of the SACCOS and its ability to absorb losses and withstand unforeseen events and economic downturns. Thus, inspectors should not only review the ratios but should keep in mind these other elements and relationships that directly affect the institution's overall financial condition:

- i. Capital amount and trend;
- ii. Compliance with reserve requirements;
- iii. Composition of institutional capital;
- iv. Interest and dividend policies and practices;
- v. Adequacy of the Allowance for Loan Losses account;
- vi. Amount and trend of delinquent loans > 30 days and the loan write offs;
- vii. Asset quality including the quality, type, liquidity and diversification of assets;
- viii. Loan and investment concentrations;
- ix. Growth plans;
- x. Ability of management to control and monitor risk;
- xi. Adequacy of earnings that allow a SACCOS to fund its growth, remain competitive, and maintain a strong capital position;
- xii. Liquidity and funds management; and
- xiii. Field of membership and economic environment.

The PEARLS Effective Financial Structure ratios are 9 in total. Of the total, 5 have been selected as key ratios and another 1 as a supporting ratio to use as needed in trend analysis and problem identification. Rating criteria is only provided for the key ratios, E1, E5, E6, E8 and E9.

4.3.1 Effective Financial Structure Ratios and Ratings

1. *E1 – Net Loans / Total Assets
2. E4 – Non-financial Investments / Total Assets
3. *E5 – Savings Deposits – Total Assets
4. *E6 – External Credit / Total Assets
5. *E8 – Institutional Capital / Total Assets
6. *E9 – Net Institutional Capital / Total Assets

*indicates a key ratio, the other ratios are considered supporting ratios

E1 – Net Loans / Total Assets

- Code 1 – $\geq 70\%$ but not $> 80\%$ of Net Loans / Total Assets
Code 2 – 60 – 69.9% or 80.1% to 82.9% of Net Loans / Total Assets
Code 3 – 50 – 59.9% or 83-85.9% of Net Loans / Total Assets
Code 4 – 40 – 49.9% or 86-87.9% of Net Loans / Total Assets
Code 5 – $< 40\%$ or $> 88\%$ of Net Loans / Total Assets

E5 – Savings Deposits / Total Assets

- Code 1 – $\geq 70\%$ of Savings Deposits / Total Assets
Code 2 – 60 – 69.9% of Savings Deposits / Total Assets
Code 3 – 50 – 59.9% of Savings Deposits / Total Assets
Code 4 – 40 – 49.9% of Savings Deposits / Total Assets
Code 5 – $< 40\%$ of Savings Deposits / Total Assets

E6 – External Credit/ Total Assets

- Code 1 - $\leq 15\%$ of External Credit / Total Assets
Code 2 – 15.1 – 18% of External Credit / Total Assets
Code 3 – 18.1 – 25% of External Credit / Total Assets
Code 4 – 25.1 – 30% of External Credit / Total Assets
Code 5 - $> 30\%$ of External Credit / Total Assets

E8 – Institutional Capital / Total Assets

- Code 1 – $\geq 6.0\%$ Institutional Capital / Total Assets
Code 2 – 5.0 – 5.9% Institutional Capital / Total Assets
Code 3 – 4.0 – 4.9% Institutional Capital / Total Assets
Code 4 – 3.9 – 1.0% Institutional Capital / Total Assets
Code 5 – $< 1.0\%$ Institutional Capital / Total Assets

E9 – Net Institutional Capital / Total Assets

- Code 1 – $\geq 6.0\%$ Institutional Capital / Total Assets
Code 2 – 5.0 – 5.9% Institutional Capital / Total Assets
Code 3 – 4.0 – 4.9% Institutional Capital / Total Assets
Code 4 – 3.9 – 1.0% Institutional Capital / Total Assets
Code 5 – $< 1.0\%$ Institutional Capital / Total Assets

4.3.2 Description of Ratings for Effective Financial Structure

An Effective Financial Structure rating of 1 indicates there are no significant asset quality problems, earnings deficiencies, or financial structure problems that affect the SACCOS' ability to maintain capital levels at or above the PEARLS standards for a 1 rating. Management is considered proficient at both the measurement and management of risk on both sides of the balance sheet. Assets are funded primarily by member shares and deposits and the asset and liability mix is organized to maximize the earnings of the operation and meet the member's financial needs.

An Effective Financial Structure rating of 2 indicates that the SACCOS' financial structure and capital adequacy are of such that there is no need to be concerned and only minor adjustments are necessary. Management's ability to measure and manage the asset and liability mix risk is sufficient, and it appears to be able to meet its members' needs. The level of capital is adequate to absorb any present or anticipated losses. However, the institutional capital position is not as strong as that of 1 rated SACCOS.

An Effective Financial Structure rating of 3 indicates that the risk exposure is above what is considered acceptable in the mix of the SACCOS' assets and liabilities. Management's ability to measure and manage risk requires improvement. The SACCOS' capital may be on an increasing trend but is still considered inadequate due to various factors, which can include, loan losses, fluctuations in the business cycle and/or high degree of non-financial investments.

An Effective Financial Structure Rating of 4 indicates that the SACCOS exhibits an unacceptably high exposure to risk, based on the financial structure of its assets and/or liabilities. This is an indication that management does not demonstrate an acceptable capacity to measure and manage the balance sheet. Analyses may indicate that a significant deterioration in performance is very likely for SACCOS rated 4 and inevitable for SACCOS rated 5.

An Effective Financial Structure rating of 5 is appropriate for a SACCOS with an extreme risk exposure and a very poor financial structure. A 5 rated SACCOS is *critically undercapitalized* and has significant asset quality problems, negative earnings trends, or financial structure problems. The trend is expected to cause the SACCOS to become

critically undercapitalized in the next 12 months. Such SACCOS are exposed to levels of risk sufficient to jeopardize their solvency.

4.4 Asset Quality

The quality of a SACCOS' assets is determined by:

- i. The quality of loan underwriting, policies, procedures and practices;
- ii. The level, distribution and severity of classified assets;
- iii. The level and composition of non-accrual and restructured assets;
- iv. The level of non-earning assets;
- v. The ability of management to properly administer its assets, including the timely identification and collection of problem assets;
- vi. The existence of significant growth trends indicating erosion or improvement in asset quality;
- vii. The existence of high loan concentrations that present undue risk to the SACCOS;
- viii. The appropriateness of investment policies and practices;
- ix. The investment risk factors when compared to capital and earnings structure; and
- x. The effect of fair (market) value of investments vs. book value of investments.

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 when determining asset quality and the rating. The loan portfolio is generally the largest asset and thus should receive the most attention. Other assets that should be considered include investments, repossessed assets, and any other assets that could adversely impact a SACCOS financial condition.

The PEARLS Asset Quality ratios are 3 in total. 2 have been selected as key ratios to be used in trend analysis and problem identification. Rating criteria is only provided for the key ratios A1 and A2.

4.4.1 Asset Quality Ratios and Ratings

1. *A1 – Delinquent Loans > 1 month / Gross Loan Portfolio
2. *A2 – Non-Earning Assets / Total Assets

*indicates a key ratio

A1 – Delinquent Loans > 1 months / Total Loans

Code 1 – < / = 5.0% of Delinquent Loans > 1 months / Gross Loan Portfolio

Code 2 – 5.1 - 7.0% Delinquent Loans > 1 months / Gross Loan Portfolio

Code 3 – 7.1 - 10.0% Delinquent Loans > 1 months / Gross Loan Portfolio

Code 4 – 10.1 - 15% Delinquent Loans > 1 months / Gross Loan Portfolio

Code 5 – > 15% of Delinquent Loans > 1 months / Gross Loan Portfolio

A2 – Non-earning Assets / Total Assets

Code 1 – < / = 5.0% Non-earning Assets / Total Assets

Code 2 – 5.1 - 10.0% Non-earning Assets / Total Assets

Code 3 – 10.1 – 14.0% Non-earning Assets / Total Assets

Code 4 – 14.1 – 17.0% Non-earning Assets / Total Assets

Code 5 – > 17.0% Non-earning Assets / Total Assets

4.4.2 Description of Ratings on Asset Quality

An Asset Quality rating of 1 reflects high asset quality and minimal portfolio risks. In addition, lending and investment policies and procedures are in writing, conducive to safe and sound operations and are followed. The growth in assets shall be moderate and constant; the assets shall be well diversified, internal controls shall be well defined and part of daily operations.

An Asset Quality rating of 2 denotes high-quality assets although the level and severity of classified assets are greater in a 1 rated institution. SACCOS that are 1 and 2 rated will exhibit trends that are stable or positive. The growth of assets shall be controlled and constant, the assets well diversified, internal controls well defined and part of daily operations.

An Asset Quality rating of 3 indicates a degree of concern based on either current or anticipated asset quality problems. There is a reasonable probability of increasingly higher levels of problem assets and above average risk concentration in the loan portfolio. SACCOS in this category may have only a moderate level of problem assets but may be experiencing

negative trends, inadequate loan underwriting, poor documentation, higher risk investments, inadequate lending and investment controls.

An Asset Quality rating of 4 represents increasingly severe asset quality problems. A rating of 4 indicates a high level of problem assets that will threaten the institution's viability if left uncorrected. A 4 rating should also be assigned to SACCOS with moderately severe levels of classified assets combined with other significant problems such as inadequate valuation allowances, high-risk concentration, or poor underwriting, documentation, collection practices, and high-risk investments. The growth of assets is volatile, assets are not satisfactorily diversified, and internal controls are not defined, vague and not practiced on a daily basis by the employees.

An Asset Quality Rating of 5 indicates that the SACCOS' viability has deteriorated significantly and the poor quality of the assets has seriously impacted the earnings and institutional capital. The chances are small that the SACCOS will remain an on-going concern as the asset quality threatens its very existence. The growth of assets is very volatile, increasing and decreasing very rapidly, assets are very poorly diversified and internal controls are non-existent.

4.5 Rates of Returns and Costs

The continued viability of a SACCOS depends on its ability to earn an appropriate return on its assets. It enables a SACCOS to fund expansion, remain competitive, and replenish and/or increase capital. The components of revenues and expenses are analyzed, including the operational efficiency, interest rate policy and the overall results as measured in the return on assets.

Key factors to consider in assessing a SACCOS' earnings are:

- i. Level growth trends and stability of earnings, particularly return on average assets;
- ii. Quality and composition of earnings;
- iii. Adequacy of valuation allowances and their effect on earnings;
- iv. Future earnings prospects;
- v. Net interest margin;
- vi. Net non-operating income and losses and their effect on earnings;
- vii. Sufficiency of earnings as needed for capital formation; and

- viii. Material factors affecting the SACCOS' income producing ability such as fixed and non-earning assets.

The PEARLS Rates of Returns and Costs ratios are 13 in total. Of the total, 2 have been selected as key ratios and 3 as supporting ratios that can be used in trend analysis and problem identification. Rating criteria is only provided for the key ratios R9 and R12.

4.5.1 Rate of Returns and Costs Ratios and Ratings

1. R1 – Net Loan Income / Average Net Loan Portfolio
2. R5 – Total Interest Cost on Savings Deposits / Average Savings Deposits
3. R6 – Interest on Borrowed Funds / Average Borrowed Funds
4. *R9 – Total Operating Expenses / Average Total Assets
5. * R12 – Net Income / Average Total Assets

*indicates a key ratio, the others are considered supporting ratios

R9 – Total Operating Expenses (less P.L.L.) / Average Total Assets

Code 1 – $< / = 5.0\%$ Total Operating Expenses / Average Total Assets

Code 2 – 5.1 - 8% Total Operating Expenses / Average Total Assets

Code 3 – 8.1 - 11% Total Operating Expenses / Average Total Assets

Code 4 – 11.1 - 13% Total Operating Expenses / Average Total Assets

Code 5 – $> 13.0\%$ Total Operating Expenses / Average Total Assets

R12 – Net Income / Average Total Assets

Code 1 – $> / = 3\%$ Net Income / Average Total Assets

Code 2 – 2 – 2.9% Net Income / Average Total Assets

Code 3 – 1 – 1.9% Net Income / Average Total Assets

Code 4 – 0 - .9% Net Income / Average Total Assets

Code 5 – $< 0\%$ Net Income / Average Total Assets

4.5.2 Description of Ratings on Rates of Returns and Costs

Rates of Returns & Costs rating of 1 is assigned to a SACCOS with current and projected earnings that are sufficient to fully provide for loss absorption and capital formation with due consideration to asset quality, growth, and trends in earnings. The inspector must also consider trends.

Rates of Returns & Costs rating of 2 is a SACCOS that has earnings that are positive and relatively stable, provided its level of earnings is adequate in view of asset quality and operating risks. The inspector must consider other factors, such as earnings trends and earnings quality.

Rate of Returns & Costs rating of 3 should be assigned if current and projected earnings are not fully sufficient to provide for the absorption of losses and the formation of capital to meet and maintain the minimum recommended requirements; for example, inconsistent earnings, chronically insufficient earnings, or less than satisfactory performance on assets may result in unsatisfactory savings trends.

Rates of Returns & Costs rating of 4 may be characterized by erratic fluctuations in net income, income that is not sufficient for capital formation or to meet all expenses and provisioning requirements, the development of a severe downward trend in income, or a substantial drop in earnings from the previous period, and a drop in projected or future earnings is anticipated.

Rates of Returns & Costs rating of 5 should be assigned to SACCOS experiencing consistent losses. Such losses may represent a distinct threat to the SACCOS' solvency through the erosion of capital. A 5 rating is normally assigned to SACCOS that are unprofitable to the point that capital will be depleted within twelve months.

4.6 Liquidity

Liquidity is traditionally defined as the ability to meet obligations as they come due. It is the SACCO's ability to accommodate decreases in funding sources and increases in assets, and to pay expenses. SACCOS incur liquidity risk in the normal course of operations. Such risk can be planned or unintentional. Various demands on liquidity and specific examples include loan portfolio growth, purchase of fixed assets, withdrawals, dividend payments, scheduled loan payments, salaries and other expenses.

Effective liquidity management becomes a more important skill as the SACCOS shift its financial structure from member shares to more volatile deposit savings. In many SACCOS sectors following the traditional model, member shares are very illiquid and most external

loans have a long payback period, therefore there is little incentive to maintain liquidity reserves.

Liquidity is traditionally viewed in terms of cash available to lend – a variable exclusively controlled by the SACCOS. With the introduction of withdrawable savings deposits, the concept of liquidity is radically changed. Liquidity now refers to the cash needed for withdrawals, a variable the SACCOS can no longer control.

Establishing and adhering to specific guidelines on balance sheet composition, parameters on asset mix, minimum and maximum maturities on asset categories and funding sources can help manage liquidity risk in normal operations. While liquidity management focuses on meeting short-term disbursement needs, liability management refers to the general funding strategy over the medium to long-term.

The PEARLS Liquidity ratios are 3 in total. Of the total, 1 has been selected as a key ratio that can be used in trend analysis and problem identification. Rating criteria is only provided for the key ratio L1.

4.6.1 Liquidity Ratio and Ratings

*L1 – Liquid Investments + Liquid Assets – Short-term Payables / Savings Deposits

*indicates a key ratio

L1 – Short-term Investments – Short-term Payables / Savings

Code 1 – $\geq 18\%$ but $< 250\%$ Liquid Investments + Liquid Assets – Short-term Payables / Savings Deposits

Code 2 – 15 – 17.9% or 25.1 – 35% Liquid Investments + Liquid Assets – Short-term Payables / Savings Deposits

Code 3 – 11- 14.9% or 35.1 – 45% Liquid Investments + Liquid Assets – Short-term Payables / Savings Deposits

Code 4 – 7 - 10.9% or 45.1 – 60% Liquid Investments + Liquid Assets – Short-term Payables / Savings Deposits

Code 5 – $< 7.0\%$ or $>60\%$ Liquid Investments + Liquid Assets – Short-term Payables / Savings Deposits

4.6.2 Description on Ratings on Liquidity

A Rating in Liquidity of 1 should be assigned when the SACCOS can meet its liquidity demands and liquidity is well managed, that is the SACCOS is not considered overly or under liquid. In addition, the SACCOS performs a cash flow analysis that includes cash inflows from loan repayment and other sources as well as outflows for loans, savings withdrawals and other expenses. SACCOS given this rating will maximize their earning potential by not having too much idle cash in a non-earning account.

A Rating in Liquidity of 2 should be given to SACCOS with sufficient liquidity and those that appear able to meet liquidity demands presented by loan demand, savings withdrawal and operating expenses. The SACCOS funding sources (shares, external credit, and member savings) are diversified and the LI ratio is stable over time or improving. SACCOS given this rating will try to improve their earning potential by not having too much idle cash in a non-earning account.

A Rating in Liquidity of 3 indicates that a SACCOS may not have enough liquidity to meet current or projected needs presented by loan demand, savings withdrawal or operating expenses. Funding sources are not well diversified and liquidity is subject to negative variations over time.

A Rating in Liquidity of 4 is characterized by erratic fluctuations in liquidity and indicates levels of liquidity such that the SACCOS cannot adequately meet demands for funds. Such a SACCOS should take immediate action to lower interest rate risk, improve its liquidity, or otherwise improve its condition. Funding sources are very poorly diversified and the liquidity ratio is erratic from one period to the next and there is serious non-compliance with the PEARLS standard.

A Rating in Liquidity of 5 should be assigned to SACCOS who are experiencing consistent, severe liquidity problems. The illiquid position represents a distinct threat to the SACCO's viability.

4.7 Signs of Growth

A sign that a SACCOS is successfully providing needed financial services to their members is growth, both in assets and in membership. These are good measurements of member

satisfaction, but capital growth also must be considered. So that the institutional capital ratio does not decline, it is essential that the capital growth is at least as rapid as the asset growth. If this is not the case, then the institutional capital ratio will decrease as the rate of asset growth is faster than the rate of capital. This means that due to the growth, the financial soundness of the SACCOS has decreased because there is less capital as compared to assets to absorb losses. Additionally, in order for there to be real asset growth, the growth must outpace inflation. If the growth is less than inflation, the SACCOS assets are less as the effect of inflation has eroded the value of the assets.

The PEARLS Signs of Growth ratios are 11 in total. Of the total, none have been selected as key ratios and 5 are supporting ratios that can be used in trend analysis and problem identification. Because there are no key ratios in this area, there is no rating assigned.

4.7.1 Signs of Growth Ratios

- i. S1 – Growth in Net Loans
- ii. S5 – Growth in Savings Deposits
- iii. S8 – Growth in Institutional Capital
- iv. S10 – Growth in Membership
- v. S11 – Growth in Total Assets

4.8 Assignment of the PEARLS Composite Rating

The composite rating is arrived at by calculating the rating for each PEARLS area. For example in the Protection area if the P1 ratio receives a 2 rating and the P2 ratio receives a 4 then the rating for the Protection area will be 3 (the average of 2+4). Thus the SACCOS' composite rating is arrived at by calculating the average rating for each of the 5 areas – Protection, Effective Financial Structure, Asset Quality, Rates of Return and Liquidity. The result is the composite PEARLS rating that should be reported on the Off-Site Supervision Report (*Appendix A*).

The PEARLS ratings shall be used by the Registrar as a management tool for allocating staff resources. Lower rated SACCOS (Codes 3, 4, and 5) require more supervision and thus greater attention when planning the year's work. Conversely, higher-rated SACCOS (Codes 1 and 2) require less attention and can have inspection dates and any needed supervision scheduled accordingly.

Off-site PEARLS ratings are very objective and are determined by calculating the average for the key ratios in each PEARLS area. The following discussion is provided so that inspectors understand the characteristics of SACCOS based on their PEARLS ratings.

Composite Rating 1 – **Indicates strong performance that consistently provides for safe and sound operations.** The historical trend and projections for key performance measures are consistently positive. SACCOS in this group are resistant to external economic and financial disturbances and are more capable of withstanding the unexpected actions of business conditions more than SACCOS with a lower composite rating. *Such SACCOS give no cause for supervisory concern.*

Composite Rating 2 - **Reflects satisfactory performance that consistently provides for safe and sound operations.** Both historical and projected key performance measures should generally be positive with any exceptions being those that do not directly affect safe and sound operations. SACCOS in this group are stable and able to withstand business fluctuations quite well; however, areas of weakness can be seen which could develop into conditions of greater concern. *The supervisory response is limited to the extent that minor adjustments are resolved in the normal course of business and that operations continue to be satisfactory.*

Composite Rating 3 - **Represents performance that is flawed to some degree and is of some supervisory concern.** Performance is average. Both historical and projected key performance measures may generally be flat or negative to the extent that safe and sound operations may be adversely affected. SACCOS in this group are only nominally resistant to the onset of adverse business conditions and could easily deteriorate if concerted action is not effective in correcting certain identifiable areas of weakness. Overall strength and financial capacity is present so as to make failure only a remote probability. *Such SACCOS require supervisory attention to address deficiencies.*


Composite Rating 4 - **Refers to poor performance that is of serious supervisory concern.** Key performance measures are likely to be negative. Such performance, if left unchecked, may lead to conditions that threaten the viability of the SACCOS. A high potential for failure is present but is not yet imminent or pronounced. *SACCOS in this group require close and constant supervisory attention.*

Composite Rating 5 – Represents unsatisfactory performance that is critically deficient and in need of immediate remedial attention. Such performance, by itself or in combination with other weaknesses, directly impairs the viability of the SACCOS. *SACCOS in this group have a high probability of failure and will likely require supervisory interventions such as liquidation or some other form of emergency assistance such as amalgamation or statutory management.*

LIST OF APPENDIXES

Appendix A

1. Off-Site Supervision Report

 TCDC- Inspection working paper	Name of Society:	Period:	Index: A
	Subject: SACCOS Off-Site Inspection	Date:	Sign:
Prepared by:		Sign:	
Reviewed by:		Sign:	
Approved by:		Sign:	

Section one – General Information

Full Name of SACCOS	
Mailing Address and Telephone Number	
Name of the Manager and Telephone Number	
Name of the Chairman of the Board and Telephone Number	
Name of the External Auditor and Telephone Number	

Section two - Written Analysis

This section should contain a summary of your off-site analysis in a clear and concise manner under the following headings:

Overall Conditions

This section should be an overview of the condition and performance of the SACCOS. It should 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 SACCOS performance and/or condition should be used to help put information in perspective and support conclusions and the PEARLS rating disclosed. The following should be included:

- General description of the SACCOS – such as when operations started, the asset size, the area that it provides services to, types of products and services offered;
- A summary of the condition and performance of the SACCOS;
- A brief explanation of each PEARLS rating for each of the 5 areas rated in off-site supervision and the implications of the ratings; and
- The inspector’s conclusion, that is, their opinion of the financial condition and risk profile of the SACCOS.

PEARLS RATING (off-site):P___E___A___R___L___ **Composite Rating**___

PEARLS RATING (most recent on-site inspection): P___E___A___R___L___
M___ **Composite Rating**___

Issues Requiring Attention

This section focuses on the main/significant problems which require immediate corrective attention. The issues requiring attention may be presented as bullet points or more information may be provided so that the problem is clearly identified and discussed. It should be noted if the “issues” currently identified were discussed in a previous report. If problems were previously identified, it should be noted in this section any progress made and improvements or if there have been no improvements.

Recommendations

The final section provides recommendations for solving the problems addressed in the above section “issues requiring attention” and internal recommendations for future regulatory supervision of the SACCOS. This is the most important supervisory function since it focuses

on change and improvement. As the individual most familiar with the SACCOS, the inspector shall offer recommendations as to problem resolution. The inspector should discuss all recommendations made in the Report with their supervisor and SACCOS' management to ensure that the recommendations are workable. In addition, the inspector should discuss whether there is a need for a warning letter or on-site contact such as a meeting with SACCOS management to discuss the concerns, and what steps, if any, should be taken between this report and the next one.

Notification to Registrar **Yes** _____ **No** _____

If the Registrar is notified, please explain why, the date of notification, the name of the individual notified, method in which notification was made (Off-Site Supervision Report, letter, phone call, etc.) and any information or directives received from the manager of the Supervision department.


Inspector Signature: _____

Date: _____

Supervisor Signature: _____

Date: _____

2. Off-Site Forms to be completed by SACCOS

 TCDC- Inspection working paper	Name of Society:	Period:	Index: B
	Subject: SACCOS Off-Site Inspection	Date:	Sign:
Prepared by:		Sign:	
Reviewed by:		Sign:	
Approved by:		Sign:	

2.1 Form 1: Statement of Financial Position

SACCOS Name: _____

Report as of (date): _____

Assets		Amount in TZS
1	Earning Assets – Loans	
1.1	Short-term Loans (< 1 year)	
1.2	Medium-term Loans (1-3 years)	
1.3	Long-term Loans (>3 years)	
1.4	Other Loans	
1.5	Restructured Loans	
1.6	Loan Participations	
1.7	(Less the Allowance for Loan Losses)	
1.8	Total Net Loans	
2	Earning Assets – Investments	
2.1	Government Securities < 30 day maturity	
2.2	Government Securities > 30 day maturity	
2.3	Investments in Financial Institutions < 30 day maturity	
2.4	Investments in Financial Institutions > 30 day maturity	
2.5	Investment in other SACCOS or 2 nd tier organizations	
2.6	Other Investments	
2.7	(Less the Allowance for Investment Loss)	
2.8	Non-Financial Investments	
2.9	Total Net Investments	
3	Non-Earning Assets – Cash	
3.1	Cash on Hand	

	3.2	Current Accounts with other financial institutions	
	3.3	Other Non-earning Deposits with other financial institutions	
	3.4	Total Cash and Non-earning Accounts	
4	Non-Earning Assets – Fixed Assets		
	4.1	Land (cost)	
	4.2	Building (cost)	
	4.3	Furniture, Fixture and Equipment (cost)	
	4.4	Other Fixed Assets (cost)	
	4.5	Leasehold Improvements (cost)	
	4.6	Revaluation of Fixed Assets	
	4.7	(Less Accumulated Depreciation)	
	4.8	Total Net Fixed Assets	
5	Non-Earning Assets – Other Assets		
	5.1	Accounts Receivable due in < 30 days	
	5.2	Accounts Receivable due in > 30 days	
	5.3	Accrued Income on Loans	
	5.4	Accrued Income on Investments	
	5.5	Other Accrued Income	
	5.6	Prepaid Expenses	
	5.7	Internal Receivables	
	5.8	Assets in Liquidation	
	5.9	Suspense Accounts	
	5.1	Other Assets	
	0		
	5.1	(Less Allowance for Other Asset Losses)	
	1		
	5.1	Total Other Assets	
	2		
	6 TOTAL ASSETS		
Liabilities and Equity			Amount in TZS
7	Interest Bearing - Borrowed Funds		
	7.1	Short-Term Borrowing (< 1 year maturity)	
	7.2	Long-Term Borrowings (> 1 year maturity)	
	7.3	Total Borrowed Funds	
8	Interest Bearing – Savings Deposits		
	8.1	Savings Accounts	
	8.2	Term Deposits	
	8.3	Special Savings	
	8.4	Other Savings	
	8.5	Total Savings and Deposits	
9	Non-Interest Bearing Liabilities		
	9.1	Accounts Payable due in < 30 days	
	9.2	Other Payables	
	9.3	Accrued Interest Payable on Savings	
	9.4	Accrued Interest Payable on External Credit	
	9.5	Taxes Payable	

	9.6	Internal Payable	
	9.7	Suspense Accounts	
	9.8	Accounting Discrepancies	
	9.9	Other Liabilities	
	9.10	Total Non-Interest Bearing Liabilities	
10	Equity		
	10.1	Member Shares	
	10.2	Voluntary Shares	
	10.3	Other Shares	
	10.4	Fixed Asset Revaluation Reserve	
	10.5	Transitory Capital	
	10.6	Donations and Grants (cash only)	
	10.7	Reserve Funds	
	10.8	Retained Earnings (Profit/Loss for Past Years)	
	10.9	Profit/Loss for the Current Year	
	10.10	Total Equity (Sum 10.1-10.9)	
11.	TOTAL LIABILITIES AND EQUITY		
12. Off Balance Sheet – Other SACCOS Commitments and Obligations such as unfunded member lines of credit.			

(*SACCOS management should complete this form using their balance sheet as of the reporting date. SACCOS management should also attach their balance sheet to this form.)

Name: _____ Signature: _____ Date: _____

2.2 Form 2: Statement of Comprehensive Income

SACCOS Name: _____ Report as of (date): _____

Item		Quarter to Date	Year to Date
		Amount in TZS	Amount in TZS
1	Interest Income		
1.1	Interest Income on Loans		
1.2	Interest Income - Government Securities		
1.3	Interest Income – Deposits in Financial Institutions		
1.4	Interest Income – Other SACCOS and 2 nd Tier organizations		
1.5	Interest Income – Other Investments		
1.6 (II)	Total Interest Income (Sum 1.1-1.5)		
2	Interest Expense		
2.1	Interest Expense on Borrowings		
2.2	Interest Expense on Member Savings and Deposit Accounts		
2.3	Other Interest Expense		
2.4	Total Interest Expense (Sum 2.1-2.3)		
2.5 (NII)	Net Interest Income = (Total Interest Income – Total Interest Expense)		
3	Non Interest Income		
3.1	Commissions and Fees		
3.2	Penalties		
3.3	Other Non Interest Income		
3.4	Total Non Interest Income (Sum 3.1-3.3)		
3.5 (GOI)	Gross Operating Inc (Loss) = (Net Interest Income-II + Non Interest Income-NII)		
4	Operating Expenses		
4.1	Salaries and Wages		
4.2	Other Personnel Costs and Benefits		
4.3	Office Occupancy (Rent)		
4.4	Operations Expenses (supplies, travel, training, communications, utilities, marketing, other administrative)		

4.5	Professional Fees and Services		
4.6	Depreciation		
4.7	Maintenance/Repairs		
4.8	Other Operating Expenses		
4.9 (TOE)	Total Operating Expenses (Sum 4.1-4.8)		
4.10 (NOI)	Net Operating Income (Loss) = (Gross Operating Income-GOI – Total Operating Expenses-TOE)		
5	Loan Loss Provisions (Recoveries)		
5.1	Provision for Loan Losses		
5.2	(Less: Recoveries)		
5.3	Provisions for Investments and Other Losses		
5.4 (NPL)	Net Provision for Losses (Sum 5.1+5.3-5.2)		
6	Extraordinary Items		
6.1	Extraordinary Income		
6.2	Extraordinary Expenses		
6.3	Donations and Grants (cash only)		
6.4	Prior Period Adjustments		
6.5 (TEI)	Total Extraordinary Income/(Expenses) Sum 6.1-6.3)		
7.0	Net Profit for Period = (Net Operating Income-NOI+/- Net Provision for Loan Loss-NPL +/- Total Extraordinary Income-TEI)		
8.0	Dividend Paid on Shares		

(*SACCOS management should complete this form using their income statement information as of the reporting date. SACCOS management should also attach their income statement to this form.)

Name: _____ Signature: _____ Date: _____

2.3 Form 3: Loan Classification and Provisioning

SACCOS Name: _____ Report as of (date): _____

Regular Portfolio Classification (1)	Number of Loans (2)	Delinquent Loans Total Outstanding Loan Balance (3)	Provision Required and Classified Loan Amounts	
			Rate (4)	Provision Amount in TZS (5)
3.0 Current Loans				
3.1 Overdue (watch) 31-90 days			0%	
3.2 Overdue (substandard) 91 to 180 days			10%	
3.3 Overdue (doubtful) 181-365 days			30%	
3.4 Overdue (loss) > 365 days			50%	
3.5 Total			100%	

(*SACCOS management should provide the number of loans for each classification and the total outstanding amount as of the reporting date. The total should then be multiplied by the classification rates and the result for each classification provided in the column entitled "Provision Amount".)

Additional Information:

- 3.6. Total Allowance Amount required for the Portfolio (total line 3.5, column 5): _____
 - 3.7. Actual Amount in the Allowance for Loan Loss Account (see balance sheet): _____
 - 3.8. Amount of Adjustment, if necessary (3.6 minus 3.7): _____
 - 3.9. Total Amount for last 12 months of Written off Loans: _____
 - 3.10. Total Amount for last 12 months of Recoveries on all written off Loans: _____
 - 3.11. Total Gross Loan balance 12 months prior to the date of this report: _____
- (*SACCOS management should provide the requested amounts [items 3.6-3.11] as of the reporting date for the form.)

Name: _____ Signature: _____ Date: _____

2.4 Form 4: List of Loans to Insiders and Related Parties

SACCOS Name: _____

Report as of (date): _____

Related Party (1)	Number of loans (2)	Loan Amount in TZS (3)	Amount of Savings, Deposits and Voluntary Shares Guaranteeing Loan (4)
4.1 Board and Committee Members			
4.2 Managers			
4.3 Employees			
4.4 External auditors and Registrar Inspectors			
4.5 Immediate family members of any of the above			
4.6 Total			

(*SACCOS management should provide the total number of loans, the total outstanding amount of each related party and the total amount of savings, deposits or voluntary shares used to guarantee the loans as of the reporting date.)

Name:

Signature:

Date:

2.5 Form 5: List of Large Loans Exceeding 5% of the SACCOS Core Capital and Miscellaneous Information

SACCOS Name: _____ Report as of (date): _____

Name	Number of Loans	Amount in TZS	Amount of Savings, Deposit, or Voluntary Shares Guaranteeing Loan
1			
2			
3			
4			
5			
Total			

(*SACCOS management should provide the member name, the number of loans for each member the total outstanding balance for all loans to the member that in TOTAL exceed 5% of core capital and the total amount of savings, deposits, or voluntary Shares used to guarantee the loan as of the reporting date.)

Miscellaneous Information

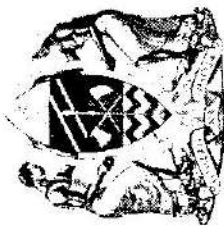
- 5.1 Largest amount of fully secured loan(s) to any one member: _____
- 5.2 Largest amount of loan(s) NOT fully secured to any member: _____
- 5.3 Longest Loan Maturity: _____
- 5.4 Largest amount of shares, savings and deposit to any one member _____
- 5.5 Largest amount of shares, savings and deposits to any member and their related parties _____
- 5.6 Longest Investment Maturity _____
- 5.7 Largest amount of investments in any one bank _____
- 5.8 Number of Members _____

(*SACCOS management should provide the information requested in items 5.1-5.8 as of the reporting date of this form.)

Name: _____ Signature: _____ Date: _____

APPENDIX C

3. SACCOS Comparative Analysis Worksheets

	Name of Society:	Period:	Index: C
	Subject: SACCOS Off-Site Inspection	Date:	Sign:
TCDC- Inspection working paper			
Prepared by:			
Reviewed by:			
Approved by:			

3.1. Worksheet 1: Prudential Standards

Variables and Ratios	Formulas (see Appendix B -- Forms 1-5)	Prudential Requirement	Meets Prudential Requirement as of Report Date (Y/N)	January	February	March	April	May	June
Minimum Number of Members	Form 5 - 5.8	50 members							
Minimum Amount of Core Capital for Registered SACCS	Form 1 - $(10.1+10.6+10.7+10.8+10.9)+1.7)$ less $(2.7+5.9+5.11+Form\ 3-3.5)$	5 million TZS							
Minimum Amount of Core Capital for Licensed SACCS	Form 1 - $(10.1+10.6+10.7+10.8+10.9)+1.7)$ less $(2.7+5.9+5.11+Form\ 3-3.5)$	100 million TZS							
Core Capital/ Total Assets	Form 1 - $(10.1+10.6+10.7+10.8+10.9+1.7)$ less $(2.7+5.9+5.11+Form\ 3-3.5)/Form\ 1-6$	> or = 8%							
Institutional Capital/ Total Assets (same as PEARLS	Form 1 - $(10.6+10.7+10.8+10.9)/6$	> or = 6%							

Variables and Ratios	Formulas (see Appendix B – Forms 1-5)	Prudential Requirement	Meets Prudential Requirement as of Report Date (Y/N)	January	February	March	April	May	June
E8) ²									
Net Institutional Capital/ Total Assets (same as PEARLS E9) ³	Form 1 – (10.6+10.7+10.8+10.9+1.7) less (2.7+5.11+5.9+Form 3- 3.5)/Form 1- 6	> or =60%							
Delinquent Loans > 30 days / Total Outstanding Loans (same as PEARLS A1) ⁴	Form 3 – 3.4 column 3/Form 1 -6	< or = 5%							
Savings and Shares Member Concentration Limit – Maximum amount of	Form 5 – 5.5 / Form 1 – (8.5+10.1+10.2+10.3)	20%							

² The reference to PEARLS is only made so that the inspector knows that the prudential ratio calculation is the same as the referenced PEARLS ratio. That way the inspector will not calculate the same ratio twice.

³ Same as above

⁴ Same as above

Variables and Ratios	Formulas (see Appendix B – Forms 1-5)	Prudential Requirement	Meets Prudential Requirement as of Report Date (Y/N)	January	February	March	April	May	June
shares, savings and deposits by any one member or related party/ Total shares, savings and deposits									
Net Loans / Total Assets (same as PEARLS E1 ratio ⁵)	Form 1 – 1.8/6	< or = 80%							
Liquid Investments + Liquid Assets – Short-term Payables / Savings Deposits (Liquid Investments and Assets <	Form 1 – [(2.1+2.3+3.1+3.2+5.1)-9.1]/8.5	> or = 15%							

⁵ Same as above

Variables and Ratios	Formulas (see Appendix B – Forms 1-5)	Prudential Requirement	Meets Prudential Requirement as of Report Date (Y/N)	January	February	March	April	May	June
30 days maturity < 30 days maturity – Total Short-term Payables < 30 days) / Total Savings Deposits (same as PEARLS L1 ratio) ⁶									
Maximum Loan Maturity	Form 5 – 5.3	5 years							
Maximum Investment Maturity	Form 5 – 5.6	1 year							
Deposits in one bank/ Core Capital	Form 5-5.7/ Form 1 – (10.1+10.6+10.7+10.8+10.9)+1.7) less (2.7+5.9+5.11+Form 3- 3.5)	< or = 25%							
Non-Earning Assets	Form 1 (3.4+4.8+5.12) / 6	< or – 10%							

⁶ Same as above

Variables and Ratios	Formulas (see Appendix B – Forms 1-5)	Prudential Requirement	Meets Prudential Requirement as of Report Date (Y/N)	January	February	March	April	May	June
(excluding donated and foreclosed assets)/ Total Assets (Cash on Hand + Non-interest Bearing accounts + Accounts Receivable + Assets in Liquidation + Land + Building + Other Fixed Assets) / Total Assets (same as PEARLS A2 ratio ⁷)									
External	Form 1 – 7.3 / 6	< or = 25%							

⁷ Same as above

Variables and Ratios	Formulas (see Appendix B – Forms 1-5)	Prudential Requirement	Meets Prudential Requirement as of Report Date (Y/N)	January	February	March	April	May	June
Credit / Total Assets (same as PEARLS E6 ratio)									
Maximum Loan(s) to any one member that is fully secured by voluntary shares, savings, time deposits, or goods registered in a public registry/ Core Capital	Form 5 – 5.1 / Form 1 – (10.1+10.6+10.7+10.8+10.9)+1.7) less (2.7+5.9+5.11+Form 3- 3.5)	10%							
Maximum Loan(s) to any one member that is not fully	Form 5 – 5.2 / Form 1 – (10.1+10.6+10.7+10.8+10.9)+1.7) less (2.7+5.9+5.11+Form 3- 3.5)	5%							

Variables and Ratios	Formulas (see Appendix B – Forms 1-5)	Prudential Requirement	Meets Prudential Requirement as of Report Date (Y/N)	January	February	March	April	May	June
secured by voluntary shares, savings, time deposits, or goods registered in a public registry/ Core Capital									
Outstanding Loans to officers and employees/ Total Assets	Form 4 – 4.6 column 3 / Form 1-6	< or = 5%							
Loan Classification and Provisioning Overdue (watch) 31-90 days Overdue (substandard) 91-180 days	Form 3– Column 5– 3.1, 3.2, 3.3, 3.4	10% 30% 50% 100%							

Variables and Ratios	Formulas (see Appendix B – Forms 1-5)	Prudential Requirement	Meets Prudential Requirement as of Report Date (Y/N)	January	February	March	April	May	June
Overdue (doubtful) 181- 365 days Overdue (loss) > 365 days									

3.2. Worksheet 2: Key and Supporting PEARLS Ratios

Ratios	Formula	Standard	Ratios as of Month or Quarter Ending								
			Jan	Feb	March	April	May	June	July	Aug	
*P1 – Allowance for Loan Losses / Allowance Required for Loan Delinquent > 12 months	<p>Allowance for Loan Losses / Allowance Required for Loans Delinquent > 12 Months = Allowance for Loan Losses (balance sheet) / Loan Balances of all delinquent loans > 12 months Form 1-2.7/Form 3-3.3 column 3</p>	100%									
*P2 – Net Allowance for Loan Losses / Allowance Required per Regulation for Loans Delinquent less than 12 months	<p>Net Allowance for Loan Losses / Allowances Required for Loans Delinquent Less than 12 Months = (Total Allowance for Loan Loss (balance sheet) – Delinquent Loans > 12 months) / Amount Required per Regulation for all Delinquent Loans outstanding from 1-12 months</p>	100% Of required amount									

Ratios	Formula	Standard	Ratios as of Month or Quarter Ending							
			Jan	Feb	March	April	May	June	July	Aug
P4 - Annual Loan Write offs	<p>(Form 1-2.7 less Form 3-3.4 column 3) / (Form 3-3.1+3.2+3.3 column 3)</p> <p>Loan Write Offs/Average Loans = Total of Loans Charged Off in preceding 12-month period / [(Gross Loan Portfolio as of beginning of 12 month period + Gross Loan Portfolio as of end of 12 month period) / 2]</p> <p>Form 3-3.8 / [(Form 3-3.10+ Form 1-1.8+1.7)/2]</p>	Minimum								
*E1 - Net Loans / Total Assets	<p>Net Loans / Total Assets = (Gross Loans - Allowance for Loan Loss) / Total Assets</p> <p>Form 1-1.8/6</p>	70-80%								
E4 - Non-financial Investments / Total Assets	<p>Non-financial Investments / Total Assets = All Non-financial Investments / Total Assets</p> <p>Form 1-2.8/6</p>	0%								

Ratios	Formula	Standard	Ratios as of Month or Quarter Ending									
			Jan	Feb	March	April	May	June	July	Aug		
*E5 – Savings Deposits – Total Assets	Deposits / Total Assets = Total Savings Deposits / Total Assets Form 1 – 8.5/6	70-80%										
*E6 – External Credit / Total Assets	External Credit / Total Assets = Total of Short and Long-term loan obligations / Total Assets Form 1 – 7.3/6	Maximum 25%										
*E8 – Institutional Capital / Total Assets	Institutional Capital / Total Assets = (Regular Reserve + Other Unappropriated Reserves + Donations +/- Retained Earnings +/- Net Income or Loss) / Total Assets Form 1 – (10.6+10.7+10.8+10.9) / 6	Minimum 6%										
*E9 – Net Institutional Capital / Total Assets	*E9 – Net Institutional Capital / Total Assets = (Institutional Capital + Allowance for Loan Losses) – Amount Required in the Allowance for Loan Losses per	Minimum 6%										

Ratios	Formula	Standard	Ratios as of Month or Quarter Ending									
			Jan	Feb	March	April	May	June	July	Aug		
	WOCUU calculation of 35% of loans delinquent between 1 -12 months and 100% of loans delinquent > 12 months / Total Assets Form 1 – (10.6+10.7+10.8+10.9+1.7) less (2.7+5.11+5.9+Form 3- 3.5)/Form 1- 6											
*A1 – Delinquent Loans > 1 month / Gross Loan Portfolio	Delinquent Loans / Total Loans = Total of Loans Delinquent > 1 month / Total Loans Form 3– 3.4 column 3/Form 1- 6	< / = 5%										
*A2 – Non-Earning Assets / Total Assets	Total Non-Earning Assets / Total Assets = (Cash on Hand +Non-interest Bearing accounts + Accounts Receivable + Assets in Liquidation + Land + Building + Other Fixed Assets) / Total Asscts Form 1 – (3.4+4.8+5.12) / 6	< / = 5%										

Ratios	Formula	Standard	Ratios as of Month or Quarter Ending							
			Jan	Feb	March	April	May	June	July	Aug
R1 – Loan Income / Average Net Loan Portfolio	<p>Loan Income / Average Net Loan Portfolio = Income on Loans including commissions, fees, penalties / [(Net Loan Portfolio, Net of Allowance for Loan Losses as of Current year-end + Net Loan Portfolio, Net of Allowance for Loan Losses as of Last year-end)/ 2]</p> <p>Form 2- 1.1+3.1+3.2 (annualized if amount is not for 12 months) / Form 1- [(1.8 + Net loans as of prior year-end)/2]</p>	<p>Entrepreneurial Rate that covers all costs including contributions to capital so that the E9 ratio is at least 6%</p>								
R5 – Total Interest Cost on Savings Deposits / Average Savings Deposits	<p>Interest on Savings Deposits / Average Savings Deposits = Total Interest Paid on Savings Deposits / [(Total Savings Deposits as of Current End of period + Total Savings Deposits as of Prior end of period)/2] Form 2- 2.2 (annualized if</p>	<p>Market rates > Inflation</p>								

Ratios	Formula	Standard	Ratios as of Month or Quarter Ending										
			Jan	Feb	March	April	May	June	July	Aug			
	amount is not for 12 months)/ Form 1- [(8.5 + Savings Deposits as of prior year-end)/2]												
R6 – Interest on Borrowed Funds / Average Borrowed Funds	<p>Interest on Borrowed Funds / Average Borrowed Funds = Total Interest paid on Borrowed Funds / [(Total Borrowed Funds as of Current end of period + Total Borrowed Funds as of Prior end of period) / 2]</p> <p>Form 2- 2.1 (annualized if amount is not for 12 months)/ Form 1- [(7.3 + Borrowed funds as of prior year-end)/2]</p>	Market rates that have a yield <or= R5											
*R9 – Total Operating Expenses / Average Total Assets	<p>Operating Expenses / Average Assets = (Total Operating Expenses - Provision for Loan Losses – Provision for Investment and Other Losses) / [(Total Assets as of Current end of period + Total Assets as of Prior end of period) / 2]</p>	< or = 5%											

Ratios	Formula	Standard	Ratios as of Month or Quarter Ending										
			Jan	Feb	March	April	May	June	July	Aug			
	Form 2- 4.9 (annualized if amount is not for 12 months)/ Form 1 - [(6 + Assets as of prior year-end)/2]												
* R12 – Net Income / Average Total Assets	<p>Net Income / Average Assets = Net Income or Loss from operations after dividends / [(Total Assets as of Current end of period + Total Assets as of Prior end of period) / 2]</p> <p>Form 2- (7 less 8) (annualized if amount is not for 12 months) / [(Form 1- 6 + Total Assets as of prior year-end)/2]</p>	> 1% and amount needed for E9=6%											
* L1 – Liquid Investments + Liquid Assets – Short-term Payables / Savings Deposits	<p>Liquid Investments + Liquid Assets – Short-term Payables / Savings Deposits = (Total Liquid Investments and Assets < 30 days – Total Short-term Payables < 30 days) / Total Savings Deposits</p> <p>Form 1 –</p>	15%-20%											

Ratios	Formula	Standard	Ratios as of Month or Quarter Ending							
			Jan	Feb	March	April	May	June	July	Aug
S1 – Growth in Net Loans	$[(2.1+2.3+3.1+3.2+5.1)-9.1]/8.5$ <p>S1 – Growth in Net Loans = Current Loan Portfolio – Loan Portfolio as of last year-end/ Loan Portfolio as of last year-end</p> <p>Form 1- (1.8+1.7 less Gross Loan Portfolio as of prior year-end)/ Gross Loan Portfolio as of prior year-end</p>	Amount needed so E1 = 70-80%								
S5 – Growth in Savings Deposits	<p>S5 – Growth in Savings Deposits = Total Current Savings Deposits – Total Savings Deposits as of last year-end / Total Savings Deposits as of last year-end</p> <p>Form 1- (8.5 less Savings Deposits as of prior year-end) / Savings Deposits as of prior year-end</p>	Amount Needed so E5 = 70-80%								
S8 – Growth in Institutional Capital	<p>S8 – Growth in Institutional Capital = (Total Institutional Capital as of Current end of period</p>	Amount Needed so E8 >or = 6%								

Ratios	Formula	Standard	Ratios as of Month or Quarter Ending							
			Jan	Feb	March	April	May	June	July	Aug
S10 – Growth in Membership	<p>– Total Institutional Capital as of Prior end of period) / Total Institutional Capital as of Prior end of period</p> <p>Form 1 – (10.6+10.7+10.8+10.9 less Total Institutional Capital as of prior year-end/ Total Institutional Capital as of prior year-end</p>	>15%								
S11 – Growth in	<p>Growth in Membership = (Number of Members Current end of period – Number of Members Prior end of period) / Number of Members Prior end of period</p> <p>Form 5- 5.8 less Number of Members as of prior year-end / Number of Members as of prior year-end</p> <p>Growth in Total Assets = (Total Assets Current end</p>	>Inflation + 10%								

Ratios	Formula	Standard	Ratios as of Month or Quarter Ending								
			Jan	Feb	March	April	May	June	July	Aug	
Total Assets	$\frac{\text{of period - Total Assets}}{\text{Prior end of period} / \text{Total Assets}}$ Prior end of period Form 1- 6 less Total Assets as of prior year-end/ Total Assets as of prior year-end										

*denotes a key PEARLS ratio

COMMENTS:

2.3. Worksheet 3: Financial Results

Financial Results	Results as of Month or Quarter Ending												
	Jan	Feb	March	April	May	June	July	August					
INCOME STATEMENT													
Interest Income on Loans (Form 2- 1.1)													
Interest Income on Investments (Form 2- 1.2)													
Income from Fees, Charges and Penalties (Form 2- 3.1+3.2)													
Other Miscellaneous Income (includes Loan Recoveries)(Form 2- 3.3+5.2)													
Total Income (Form 2- 1.6+3.4+5.2)													
Interest Expense from Borrowing (Form 2- 2.1)													
Interest Expense on Member Savings and Deposits (Form 2- 2.2)													
Gross Loan loss provision expense (Form 2- 5.1)													
Total Operating expenses (Form 2- 4.9)													
Net Income/Loss from Period													

Financial Results	Results as of Month or Quarter Ending												
	Jan	Feb	March	April	May	June	July	August					
(Form 2-7)													
BALANCE SHEET													
Cash and non-earning accounts (Form 1-3.4)													
Investments in Government Securities (Form 1-2.1+2.2)													
Investments in Financial Institutions (Form 1-2.3+2.4)													
Other Investments (Form 1-2.5+2.6)													
Allowance for Investment Losses (Form 1-2.7)													
Total Net Investments (Form 1-2.9)													
Total Loan portfolio outstanding (Form 1-1.8+1.7)													
Loans with a maturity > 3 years (Form 1-1.3)													
Restructured Loans (Form 1-1.5)													
Allowance for Loan Loss (Form 1-1.7)													
Delinquent loans > 30 days past due (Form 3-3.4 column													

Financial Results	Results as of Month or Quarter Ending												
	Jan	Feb	March	April	May	June	July	August					
3)													
Fixed Assets (net) (Form 1-4.8)													
Total Assets (Form 1-6)													
External Borrowings (Form 1-7.3)													
Member Savings Accounts (Form 1-8.1)													
Member Term Deposits (Form 1-8.2)													
Other Member Savings (Form 1-8.3+8.4)													
Total Other Liabilities (excluding borrowings, savings account and deposit accounts) Form 1-9.10)													
Member Shares (Form 1-10.1)													
Voluntary and Other Shares (Form 1-10.2+10.3)													
Reserve Fund (Form 1-10.7)													
Revaluation Reserve and Transitory Capital (Form 1-10.4+10.5)													
Donations and Grants (cash													

Financial Results	Results as of Month or Quarter Ending							
	Jan	Feb	March	April	May	June	July	August
only) (Form 1- 10.6)								
Retained Earnings (Form 1-10.8)								
Total Equity (Form 1- 10.10)								
Gross Loan Write-offs (Form 3- 3.8)								
Recoveries made on previously Written Off Loans (Form 3- 3.9)								
Off-balance sheet total amount (Form 1- 12)								

COMMENTS:
