



Technical Report

Basic Training Courses on Supervision and Regulation of Cooperatives with Savings and Credit Services

by Atty. Wilfredo B. Domo-ong and Ramon C. Reyes

Prepared for

**DOF Undersecretary Gil S. Beltran
Executive Director, National Credit Council
Department of Finance (DOF), and
Ms. Lecira Juarez, Chairperson
Cooperative Development Authority
Republic of the Philippines**

Submitted for review to

**Office of Economic Development and Governance
(OEDG), USAID/Philippines**

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Preface

This report is the result of technical assistance provided by the Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) Activity, under contract with the CARANA Corporation, Nathan Associates Inc. and The Peoples Group (TRG) to the United States Agency for International Development, Manila, Philippines (USAID/Philippines) (Contract No. AFP-I-00-00-03-00020-00, Delivery Order 800). The EMERGE Activity is intended to contribute towards the Government of the Republic of the Philippines (GRP) Medium Term Philippine Development Plan (MTPDP) and USAID/Philippines' Strategic Objective 2, "Investment Climate Less Constrained by Corruption and Poor Governance." The purpose of the activity is to provide technical assistance to support economic policy reforms that will cause sustainable economic growth and enhance the competitiveness of the Philippine economy by augmenting the efforts of Philippine pro-reform partners and stakeholders.

Department of Finance (DOF) Undersecretary Gil S. Beltran, Executive Director, National Credit Council (NCC), requested EMERGE, by letter dated September 25, 2006, to assist the Cooperative Development Authority (CDA), among other things, develop basic training courses on the supervision and regulation of cooperatives with savings and credit services. EMERGE subsequently contracted Atty. Wilfredo B. Domo-ong, team leader, and Ramon C. Reyes to do the job, and this is the report of their efforts.

The views expressed and opinions contained in this publication are those of the authors and are not necessarily those of USAID, the GRP, EMERGE or the latter's parent organizations.

**BASIC TRAINING COURSES
ON SUPERVISION AND REGULATION OF COOPERATIVES
WITH SAVINGS AND CREDIT SERVICES**

ACCOMPLISHMENT REPORT

Background

EMERGE was requested by the CDA to provide technical assistance (TA) to train its staff on the basic elements of regulation and supervision of cooperatives with savings and credit services (SCCs). The TA was approved by USAID on November 29, 2006.

Scope of Work

The terms of reference for the TA include the following:

- Development of training modules, in coordination with the Bangko Sentral ng Pilipinas (BSP), on the basic elements of and best practices in supervision and regulation of SCCs appropriate for the CDA Board of Administrators, CDA management staff, and CDA administrative and technical staff (a total of three training modules).
- The design of three training modules in consultation with CDA and identification of lecturers/trainers for each topic included in the modules;
- Supervision of three training sessions for the CDA management staff and lectures in some of the topics in the training modules;

A training module for CDA management/technical/administrative staff was developed covering the objectives and elements of supervision, the different supervisory processes, risk-based supervision and examination concepts, the types of risks that SCCs face and management of these risks. Other supervisory activities that the consultants deemed relevant to supervision and regulation were included, i.e., administrative actions, mergers and consolidations, and receivership and liquidation.

Three sessions of the basic training course were conducted. Participants included officers and staff from the central office and different extension offices of the CDA, as follows:

Date of Training	Place	CDA Offices	No. of Participants
3 – 5 May 2007	Tagaytay City	Central Office/Luzon EOs	49
10 – 12 May 2007	Cebu City	Visayas Ext. Offices	15
17 – 19 May 2007	Davao City	Mindanao Ext. Offices	20

The Chairperson and two other members of the CDA Board of Administrators also attended the training.

To follow is the training for trainers who will conduct the training course for the other technical and administrative staff of the CDA.

The training module, lecture materials, evaluation by the participants, and other data are included in the attachments.

List of Attachments

- Attachment I - Training Module
- Attachment II - List of Lecturers
- Attachment III - Participants by CDA Offices
- Attachment IV - PowerPoint Presentations:
 - A. Introduction-Overview
 - B. Objectives-Elements of Supervision
 - C. Registration of SCCs
 - D. Formulation-Issuance of Regulations
 - E. Federations as Deputized Examiners
 - F. Risk Management Concepts, Process, Types of Risks
 - G. Off-Site Monitoring
 - H. Analysis of Financial Statements
 - I. Examination Planning
 - J. Report of Examination
 - K. Administrative Actions
 - L. Mergers and Consolidations

**BASIC TRAINING COURSE ON REGULATION AND SUPERVISION
OF COOPERATIVES WITH SAVINGS AND CREDIT SERVICES**

Course Description

To introduce the CDA management and technical staff to the basic elements of and “best practices” in the supervision and regulation of cooperatives with savings and credit services.

Learning Objectives

Upon completion of the course, the CDA Management and Technical Staff should:

- Be familiar with the additional functions of the CDA in the regulation/ supervision of SCCs and the role and specific responsibilities of each department/unit
- Be able to understand the concept of risk-based approach to supervision/ examination
- Be able to identify the types of risks that SCCs face and how these risks can be managed
- Be able to understand the supervisory processes assigned to each department/unit

Methodology

Lecture/discussion; workshop

Training Schedule

Thursday

Time	Topic	Resource Person
12:00 pm – 1:20 pm	Lunch/Registration	
1:20 pm – 1:30 pm	Welcome Address	CDA Chairperson /Representative

1:30 pm – 2:00 pm	Introduction/Overview The CDA as Regulator/ Supervisor of SCCs	Atty. Wilfredo B. Domo-ong
2:00 pm – 2:30 pm	Objectives/Elements of Supervision	Mr. Ramon C. Reyes
2:30 pm – 3:00 pm	Registration of SCCs	Mr. Ramon C. Reyes
3:00 pm – 3:30 pm	Coffee Break	
3:30 pm – 4:30 pm	Formulation/Issuance of Regulations MORR COOP-PESOS Workshop: Sample computation of COOP- PESOS	Mr. Ramon C. Reyes
4:30 pm – 5:00 pm	Federations as Deputized Examiners	Mr. Ramon C. Reyes

Friday

7:00 am – 8:00 am	Breakfast	
8:00 am – 9:00 am	Risk-Based Supervision and Examination - Concepts	Ms. Celedina P. Garbosa
9:00 am – 10:00 am	Risk Management Process	Ms. Celedina P. Garbosa
10:00 am – 10:15 am	Coffee Break	
10:15 am – 12:00 nn	Categories of Risks Workshop – Risk Categories	Ms. Celedina P. Garbosa
12:00 nn – 1:30 pm	Lunch Break	
1:30 pm – 3:00 pm	Workshop – Risk Categories (cont'd)	Ms. Celedina P. Garbosa

3:00 pm – 3:15 pm	Coffee Break	
3:15 pm – 4:00 pm	Off-Site Monitoring <i>Workshop on Financial Statement Analysis</i>	Ms. Christine C. Tan
4:00 pm – 5:00 pm	Examination Planning/ Scheduling	Ms. Christine C. Tan
5:00 pm – 5:30 pm	Review of Report of Examination	Atty. Wilfredo B. Domo-ong

Saturday

7:00 am – 8:00 am	Breakfast	
8:00 am – 9:00 am	Administrative Actions	Ms. Christine C. Tan
9:00 am – 9:45 am	Mergers and Consolidations, Comptrollership, Receivership and Liquidation	Ms. Christine C. Tan
9:45 am – 10:00 am	Wrap-Up	Atty. Domo-ong/ Mr. R. Reyes
10:00 am – 10:30 am	Coffee Break/Snacks	

**BASIC TRAINING COURSES
ON SUPERVISION AND REGULATION OF COOPERATIVES
WITH SAVINGS AND CREDIT SERVICES**

LIST OF LECTURERS

ATTY. WILFREDO B. DOMO-ONG

Mr. Domo-ong is a lawyer and accountant by profession. He started his career at the Bangko Sentral ng Pilipinas as a bank examiner and rose through the ranks. From 1994 to 2005, he served as Director of the Supervision and Examination Department in charge of rural, cooperative and microfinance banks. He was a member of the technical working group that drafted the manual of rules and regulations (MORR) for cooperatives with savings and credit services. He represented the BSP in public hearings for the amendment of the CDA Charter and the Cooperative Code.

He is presently providing consultancy services to, among others, the technical working group drafting the manual of examination procedures for savings and credit cooperatives.

MR. RAMON C. REYES

Mr. Reyes is a Certified Public Accountant and holds an MBA degree. He worked at the Bangko Sentral ng Pilipinas from 1978 to 2003 and retired as Manager II of a Division in the Supervision and Examination Department in charge of rural, cooperative and microfinance banks. He currently serves as an independent director of a rural bank and provides consultancy services to various banks in the country.

MS. CELEDINA P. GARBOSA

Ms. Garbosa is a Certified Public Accountant and holds an MBA degree. She worked with the SGV and Co. from 1980 to 1984 and then transferred to the Bangko Sentral ng Pilipinas where she is presently an Assistant Manager of the Supervision and Examination Department in charge of thrift and rural banks. She is a lecturer in various training courses for officers and employees of rural banks. She is taking up review classes in preparation for the Certified Financial Risk Manager examination.

MS. CHRISTINE C. TAN

Ms. Tan is a Certified Public Accountant and holds an MBA degree. She worked with the Development Academy of the Philippines as an Internal Audit Staff and is presently an Assistant Manager at the Bangko Sentral ng Pilipinas in the Supervision and Examination Department in charge of thrift and rural banks. She lectures in various training courses for officers and employees of rural banks. She is taking up review classes in preparation for the Certified Internal Auditor examination.

**BASIC TRAINING COURSES ON SUPERVISION AND
REGULATION OF COOPERATIVES
WITH SAVINGS AND CREDIT SERVICES**

Number of Participants

Venue	Date	CDA Office	No. of Participants	Total for Each Venue
Tagaytay	May 3 - 5, 2007	Central Office	14	49
		Manila Extension Office	5	
		Dagupan	5	
		Tuguegarao	5	
		CAR	5	
		Pampanga	5	
		Calamba	5	
		Naga	5	
		Cebu	May 10 - 12, 2007	
Iloilo	5			
Tacloban	5			
Davao	May 17 - 19, 2007	Davao	5	<u>25</u>
		Pagadian	5	
		Cagayan de Oro	5	
		Kidapawan	5	
		Caraga	5	
TOTAL PARTICIPANTS FROM CDA				<u>89</u>

ALSO ATTENDED AS OBSERVERS:

Deputy Executive Director of National Credit Council
and Representative of the Department of Finance
to the CDA Board of Administrators
Four other members of DOF-NCC
The Consultant on the Database Project

**BASIC TRAINING COURSES ON SUPERVISION AND
REGULATION OF COOPERATIVES
WITH SAVINGS AND CREDIT SERVICES**

PROFILE OF CDA PARTICIPANTS

CDA Central Office

Chairperson of the Board of Administrators
Executive Director
Acting Director, LRD
Three Chiefs of Division
Executive Assistant IV
Legal Officer III
Three Senior CDS
One CDS II
Three Administrative Staff

	Director/ Acting Dir.	Legal Officer III	Supervising CDS	Senior CDS	CDS II
Extension Offices					
Manila	1			3	1
Dagupan			1	2	2
Tuguegarao	1			2	2
CAR	1	1		1	2
Pampanga	1	1		1	2
Calamba		1	1	1	2
Naga	1			2	2
Cebu		1		2	2
Iloilo	1	1		3	
Tacloban			1	3	1
Davao			1	1	3
Pagadian	1	1	1	1	1
Cagayan de Oro	1		1		3
Kidapawan		1	1	1	2
CARAGA	1		1	1	2

Attachment IV. PowerPoint Presentations

A. Introduction-Overview

Seminar on Supervision and Regulation of Cooperatives with Savings and Credit Services

Presented by:

Atty. Wilfredo B. Domo-ong

Seminar on Supervision and Regulation of Cooperatives with Savings and Credit Services

General Objective

To prepare CDA undertake its additional function of regulating and supervising cooperatives with savings and credit services (SCCs)

Learning Objectives

- To be familiar with CDA's additional function as regulator/supervisor of SCCs
- To be able to:
 - a. appreciate the concept of risk-based approach to supervision/examination
 - b. identify the types or risks that SCCs face and how these risks can be managed

Learning Objectives (Cont'd)

- Be aware of other supervisory processes/functions
- Be able to develop criteria for closing SCCs whose continuance in business would cause probable losses to depositors and creditors

Attachment IV. PowerPoint Presentations

B. Objectives-Elements of Supervision



OBJECTIVES/ ELEMENTS OF SUPERVISION

Presented by:

Mr. Ramon C. Reyes



Outline

- What is supervision
- Objectives of supervision
- Elements of supervision
 - Approval
 - Regulation
 - inspection/audit
 - Deposit insurance



Supervision defined

- includes not only the issuance of rules
- overseeing to ascertain that regulations are complied with
- investigating or examining to determine whether an institution is conducting its business on a sound financial basis
- and inquiring into the solvency and liquidity of the institution.



Objectives of supervision

- Ensure the stability of the system
- Protect the safety of deposits



WOCCU paper

- “prudential supervision instills financial discipline and prudent management within the cooperative system, it helps them stay on the straight and narrow path, which is something that many unregulated credit unions still don’t have today.”



WOCCU paper (cont.)

- “supervision is important to protect and retain the confidence of the members, many who are small depositors who do not have the information or capacity to monitor the level of risk taken on by the credit unions to which they have entrusted their savings.”



Elements of supervision

- Approval/licensing
- Regulation
- Examination/inspection
- Deposit insurance



Approval/licensing

- Authorizing the startup
- Includes the right to suspend or cancel registration
- Legalize the merger of institutions
- Order the dissolution of the institution



Regulation

- Issuance of rules for the safe and sound conduct of operations SCCs
- Prescription of ratios, ceilings, or limitations on the different types of accounts and practices of SCCs
- Establishment of standards of operations for uniform application



Examination/inspection

- Overseeing that laws and regulations are complied with
- Investigating that SCCs are conducting its business on a safe and sound basis
- Inquiring into the solvency and liquidity of SCCs
- Providing remedial measures in the operations of distressed SCCs



Deposit protection

- Deposit insurance mechanism

Attachment IV. PowerPoint Presentations

C. Registration of SCCs



REGISTRATION/LICENSING

Presented by:

Mr. Ramon C. Reyes



One cause of bank failure

“Too many banks and not enough bankers.”



General aim

Charter only applicants who have the capability to render adequate services, when there is a demonstrable need for the institution, and there exists a reasonable assurance of its success.



Procedures

Procedures	CDA	NCUA	BSP
Receipt of app. docs.			
Completeness of docs.			
Investigation			
Evaluation			
Registration/licensing			



Basis for approval

- **NCUA**

“Before chartering a federal credit union, NCUA must be satisfied that the institution will be viable and that it will provide needed services to its members. Economic advisability, which is a determination that a potential charter will have a reasonable opportunity to succeed, is essential in order to qualify for a credit union charter.”



Basis for approval

- **BSP**

“The certificate of authority shall be issued only when the Monetary Board is satisfied that the proposed institution has complied with all the requirements of existing laws and regulations; public interest and economic conditions justify the authorization;



General basis

- **BSP (cont.)**

“the amount of capital, the financing organization, direction and administration as well as the integrity and responsibility of the organizers and administrators reasonably assure the safety of the interests which the public may entrust to them.”



Factors to consider

- Appropriate common bond of interest
- Fitness of organizers
- Economic feasibility



Common bond

- It is the link that must exist between all members of a credit union.
- Its intention is to ensure that members will keep to credit union principles and act reliably and responsibly.
- People are more likely to help and support, and less likely to cheat people they know.



Fitness of organizers

- Of good moral character
- Ability to effectively handle financial matters
- No criminal convictions
- No serious or unresolved past due credit obligations



Economic feasibility

- Management capability
- Depth of member support
- Present and projected market conditions

Attachment IV. PowerPoint Presentations

D. Formulation-Issuance of Regulations



REGULATION

Presented by:

Mr. Ramon C. Reyes



Regulation

- Issuance of rules for the safe and sound conduct of operations SCCs
- Prescription of ratios, ceilings, or limitations on the different types of accounts and practices of SCCs
- Establishment of standards of operations for uniform application



Regulations should be:

- Designed to ensure the safety and soundness of credit unions
- Not overly burdensome for the credit unions or its members
- Appropriate for the size of institutions regulated
- Clear and understandable



Regulations should cover: (WOCCU paper)

- Licensing and entry requirements
- Standardized accounting
- Capital adequacy
- Liquidity standards
- Terms of member loans and portfolio diversification
- Calculation of loan delinquency
- Asset classification/allowance for losses



Regulations should cover (cont):

- Limitation on fixed assets investment
- Limitation on investment activities
- Limitation on external credit
- Non-member deposits
- Records preservation program
- Supervisory sanctions
- Voluntary and involuntary liquidation and merger



Present regulatory manuals

- Standard Chart of Accounts
- COOP-PESOS (performance standards for credit cooperatives)
- Manual of Rules and Regulations



Manual of Regulations

- Organization of SCCs
- Management
- Governance
- Reportorial requirements
- Capitalization
- Deposit and borrowing operations



Manual of Regulations (cont.)

- Loans and investments
- Internal control
- Performance standards
- Miscellaneous provisions
- Sanctions

Attachment IV. PowerPoint Presentations

E. Federations as Deputized Examiners



FEDERATIONS AS DEPUTIZED SUPERVIORS

Presented by:

Mr. Ramon C. Reyes



Types of supervision

- Direct
- Indirect
 - Auxiliary
 - Delegated



Financial Service Cooperative Federation

- Minimum of 50 member primary FSCs with paid-up capital of P5 million
- P100 million in total assets



Deputized functions

- Supervise, examine and regularly monitor the financial performance of and compliance by their member FSCs
- Issue additional standards for its member cooperatives
- Exercise both on-site and off-site supervisory powers



Deputized functions (cont.)

- Provide remedial assistance in the operations and mgt. of member FSCs
- Provide comptrollership and receivership functions when so appointed
- Act as temporary or provisional administrator/liquidator
- Act as liquidator/sequestrator for the performance of an obligation



Deputized functions (cont.)

- Transmit relevant and required information regarding operations of member-cooperatives



Issues in delegated supervision

- Objectivity/independence of federation

Attachment IV. PowerPoint Presentations

F. Risk Management Concepts, Process, Types of Risks

RISK MANAGEMENT CONCEPTS

Presented by:

Ms. Celedina P. Garbosa

COURSE OBJECTIVES

- AFTER THIS SESSION, PARTICIPANTS ARE EXPECTED TO:
 - BE FAMILIAR WITH THE CONCEPTS OF RISKS
 - IDENTIFY THE DIFFERENT AREAS OF RISKS
 - ASSESS THE RISKS ON CERTAIN PROCESSES OF SSCs OPERATIONS
 - APPRECIATE THEIR ROLE IN THE OVERALL RISK MANAGEMENT of SSCs



Why risk-based supervision?

- Article 131 – proposed HB4602

“THE AUTHORITY SHALL HAVE OVERALL SUPERVISION OVER THE OPERATIONS AND EXERCISE REGULATORY POWERS OVER FSCs:

“(1) X X X

“(2) X X X WHICH SHALL, UP TO THE EXTENT POSSIBLE, CONFORM TO **INTERNATIONALLY ACCEPTED STANDARDS.**



Outline

- Developments in Financial Institutions
- Risk Environment
- Risk Management
 - Definition
 - Basic Concepts
 - Components
 - Elements
- Risk Management Process
- Risk Management Cycle
- Institution-wide Risk Management



OUTLINE

- ★ Why risk management is necessary
- ★ Risk Assessment System
- ★ Impact of Risk
- ★ Sustainability Model
- ★ Areas of Risk
 - General Types
 - Kinds of Risks

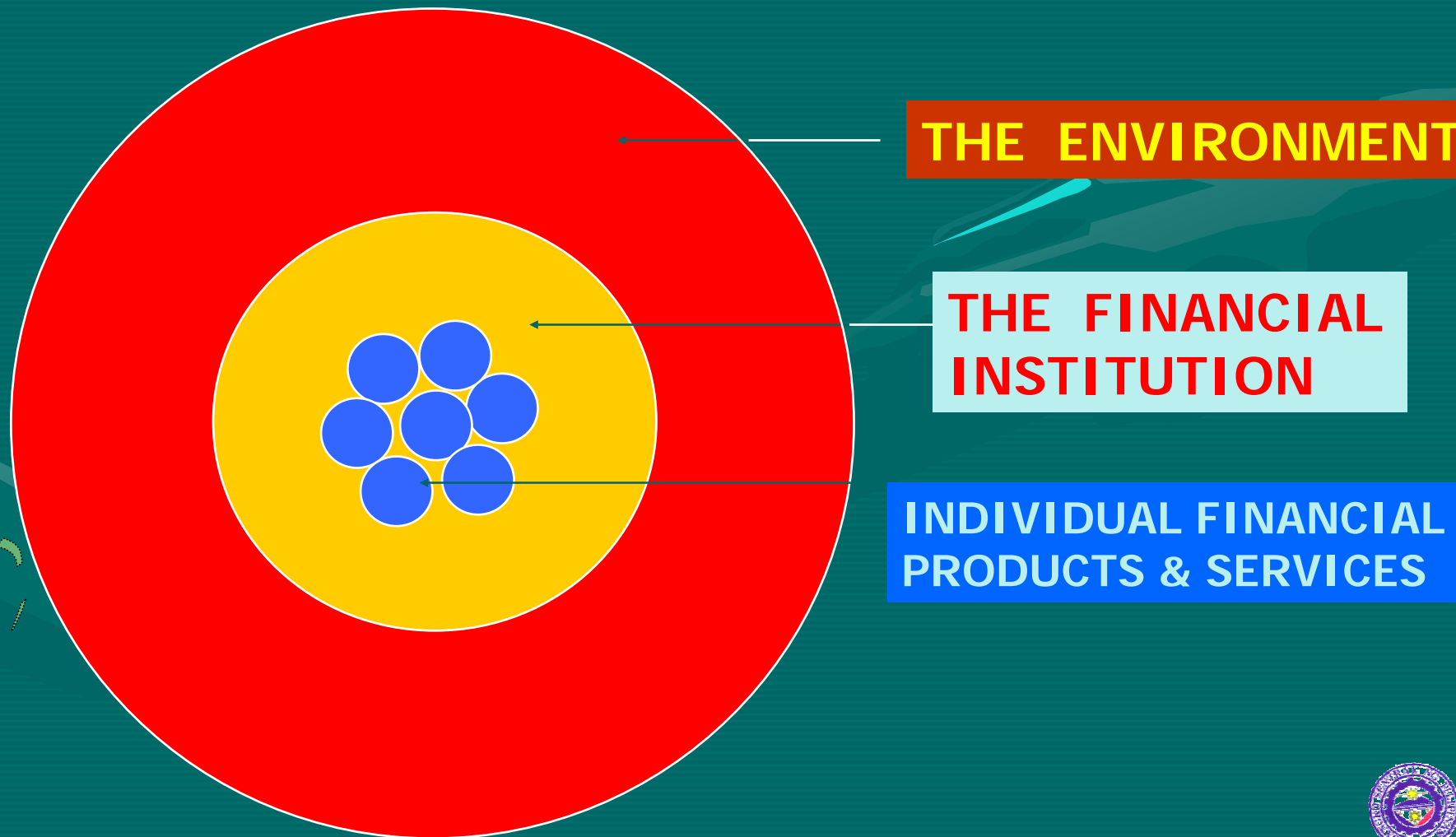


Developments in Financial Services

- ◆ globalization of markets
 - ◆ increased use of technology
 - ◆ increased transaction volume and volatility
 - ◆ new financial products
- all lead to higher risk environments



Risk Based Supervision Looks at Three Levels of Risks



What is Risk?

- AN **UNCERTAINTY** THAT AN ASSET WILL EARN AN EXPECTED RATE OF RETURN, OR THAT A LOSS MAY OCCUR



Where do RISKS come from?

A. PURE RISK

- Exposures resulting from business processes and activities with the potential to produce events that can lead to the incurrence of losses.

B. SPECULATIVE (BUSINESS) RISK

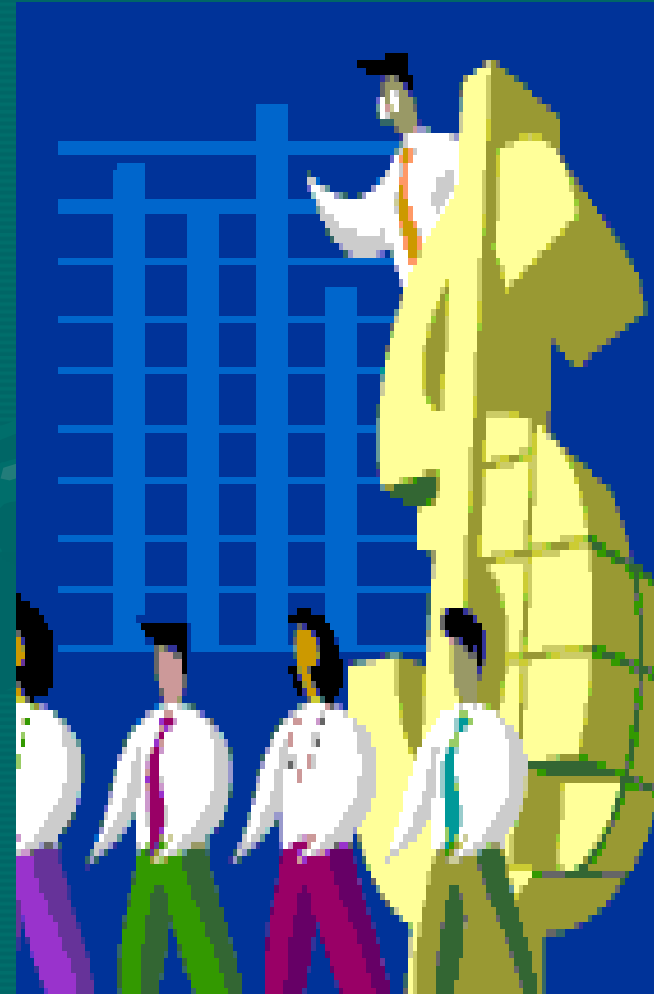
- Exposures undertaken to produce greater profits that can lead to unanticipated costs and potentially to losses.



Risk Management




Defined as -

- the establishment of controls to minimize the possibility of a loss



Risk Management

Basic Concepts -

-  a means to prevent disastrous losses in times of financial distress
-  controlling the possibility or chance of incurring losses
-  risks arise from a broad set of business procedures and activities which produce a continuum of exposures



Risk Management

Components -

- ❖ Policies
- ❖ Processes
- ❖ Personnel
- ❖ Control systems



Risk Management

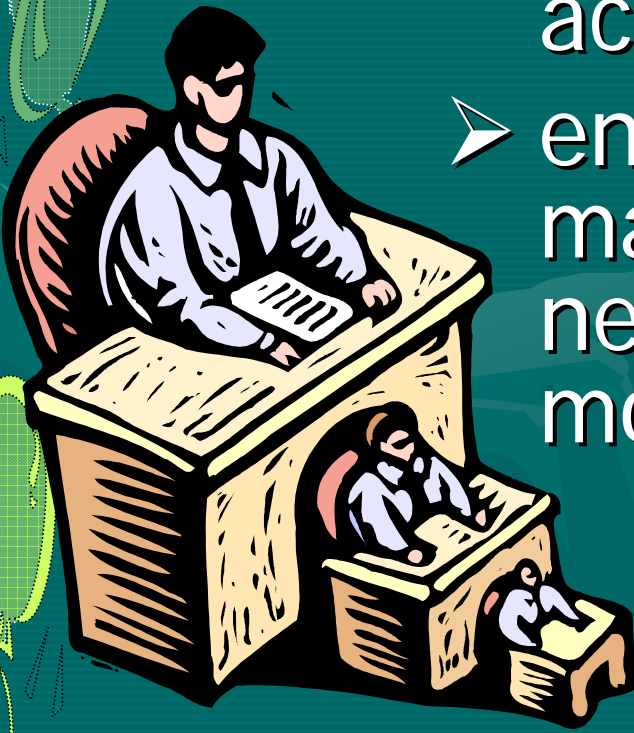
Elements -



- ▶▶ Active board and key management **oversight**
- ▶▶ Adequate **policies, procedures and limits**
- ▶▶ Effective **risk monitoring and MIS**
- ▶▶ Comprehensive **internal controls**

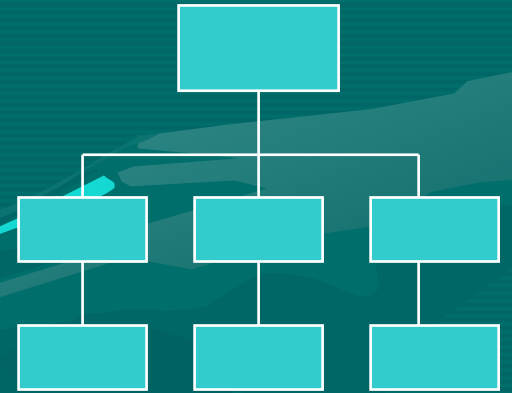
BOD Oversight Functions

- approving strategies and policies
- understanding and setting acceptable level of risks
- ensuring that senior management takes steps necessary to identify, monitor and control risks



BOD Oversight Functions

- approving organization structure
- ensuring that senior management is monitoring the effectiveness of the internal control system



Systems, Policies and Procedures

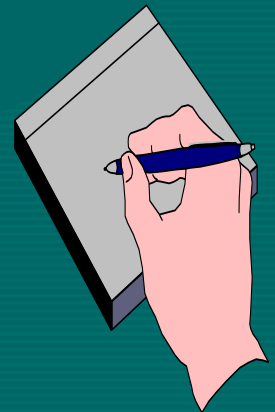
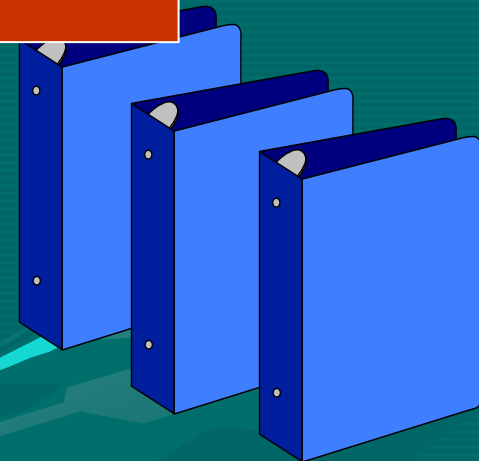
💣 WRITTEN FORM

💣 DESCRIBES:

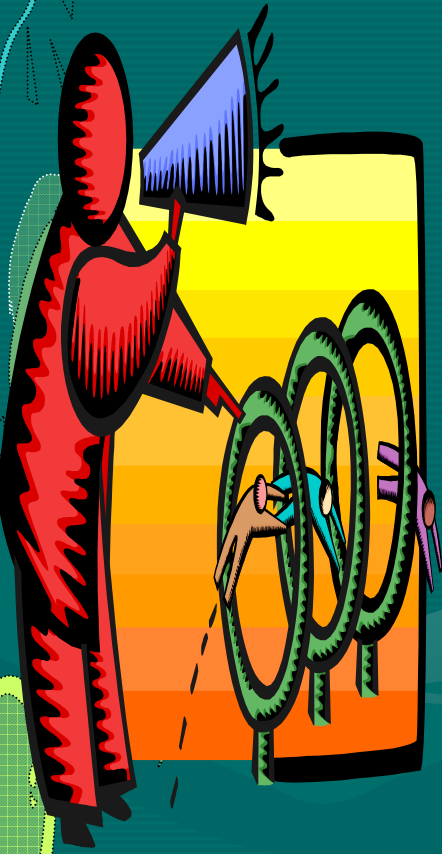
- 💣 Risk Tolerance Appetite
- 💣 Documentation
- 💣 Work Flow

💣 DEFINES:

- 💣 Lines of Authority
- 💣 Responsibilities for Managing Risks



Risk Monitoring and MIS



- Risk monitoring should address all significant risks
- Ensure that methods adopted and data used are adequate and reliable

Risk Monitoring and MIS

- ✦ Reports are structured to monitor exposures and compliance with established limits, goals or objectives
- ✦ Reports to management are accurate and timely

Internal Controls



Help ensure that -

- * business is conducted in a prudent manner
- * transactions are entered into with appropriate authority
- * assets are safeguarded and liabilities controlled



Internal Controls



Help ensure that -

- * accounting and other records provide complete, accurate and timely information
- * management is able to identify, assess, manage and control risks
- * relevant laws, rules and regulations are complied with



Benefits of Risk-Focused Supervision

- Focus on areas of major risk;
- Focus on how well risk is managed over time, rather than at a single point in time;
- Identify risks more accurately;
- Identify risks proactively;
- Express risks in CAMELS (COOP PESOS) ratings more meaningfully;
- Streamline workpaper documentation to support areas of risk; and
- Improve the quality of workpaper documentation and support for conclusions.



Additional Benefits

- Enables SCCs to focus on their major areas of risk;
- Encourages SCCs to identify the risks inherent in their current products and services and to seek ways to mitigate or manage those risks;
- Encourages SCCs to identify risks inherent in new or proposed products and services and to address management of those risks in the planning stage;
- Encourages examiners to perform preliminary analyses offsite, reducing disruption in operations;



Additional Benefits

- Encourages frequent, open communication between the coop and the examiner;

- Provides officials in **SCCs (with Rating of 4 or 5)** the option to hold a joint conference with the examiner;

- Encourages SCCs to review their processes and internal controls and to correct deficiencies in those systems;

- Encourages management to proactively identify risks through a system of well-planned and carefully implemented due diligence; and

- Enables examiners to provide the officials with customized examination reports that provide only workpapers and narrative necessary to support the examiner's analysis and conclusions.

Risk-Focused Supervision Procedures

- Risk-focused supervision procedures often include both off-site and on-site work.

Risk Management Process

Includes all elements necessary to:

- Identify
- Measure (assess)
- Monitor
- Control

And to finance the risk



RISK MANAGEMENT CYCLE



Why is risk assessment necessary?

TECHNOLOGICAL ADVANCEMENT

NEW PRODUCTS

SIZE OF TRANSACTIONS

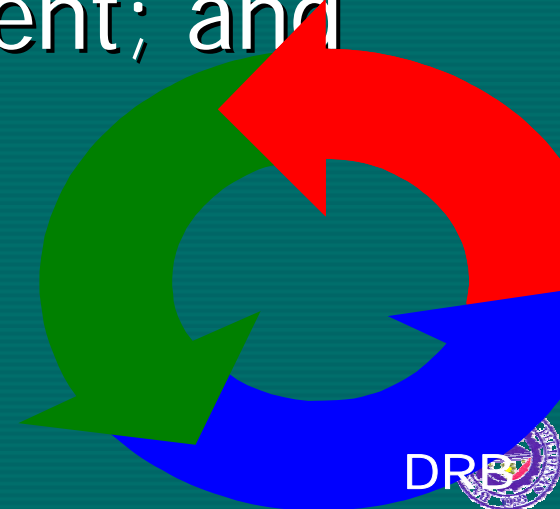
SPEED OF TRANSACTIONS



RISK ASSESSMENT SYSTEM

Framework whereby the various risks are measured and assessed in terms of

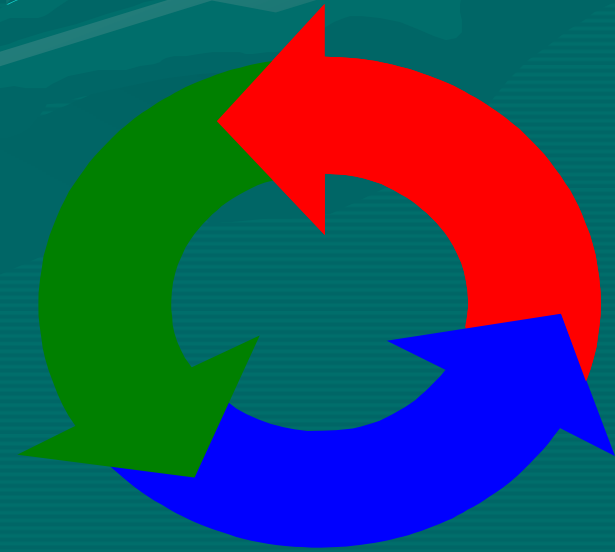
- quantity of risk;
- quality of risk management; and
- aggregate risk



RISK ASSESSMENT SYSTEM

Quantity of risk

- level or volume of risk that exists
- rated as low, moderate or high



RISK ASSESSMENT SYSTEM

Quality of risk management

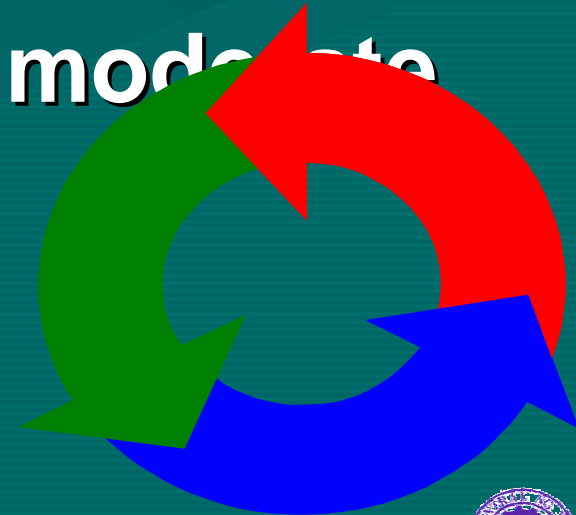
- * how well risks are identified, measured, controlled and monitored
- * assessed as strong, acceptable or weak



RISK ASSESSMENT SYSTEM

Aggregate risk

- * combined assessment of quantity & quality of risk management
- * characterized as low, moderate or high



IMPACT OF RISK:

CAPITAL AT RISK -

on value of asset

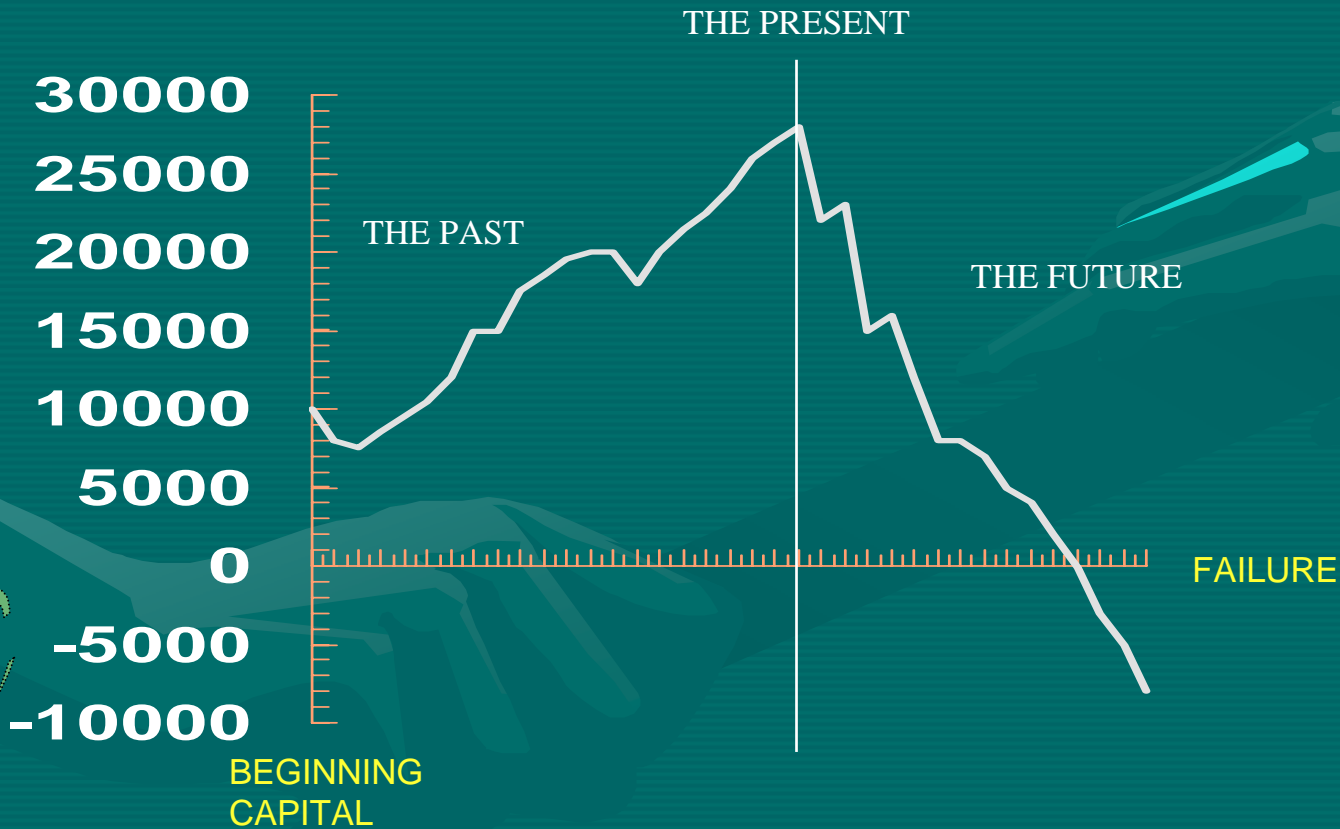
INCOME AT RISK -

on income arising from
portfolio/asset



CAPITAL

\$



RISKS

MANAGEMENT

REWARDS

NEGATIVE PRESSURES

POSITIVE PRESSURES

CAPITAL

- ↓ - Credit Risk
- ↓ - Liquidity Risk
- ↓ - Transaction Costs/Risks
- ↓ - Interest Rate Risk
- ↓ - Reputation Risk
- ↓ - Compliance Risk
- ↓ - Strategic Risk
- ↓ - External Risks
- ↓ - Dividends

- ↑ - Income From Operations
- ↑ - Subsidies (Loans)
- ↑ - Donor Contributions
- ↑ - Infusion Of Capital
- ↑ - Overfunded Loan Loss Reserve
- ↑ - Off- Balance Sheet Assets



MAJOR RISK MANAGEMENT METHODS

- LOSS CONTROL METHOD-Actions that reduce the expected cost of losses by reducing frequency and/or the severity of losses
- LOSS FINANCING METHOD-Method used to obtain funds to pay for or offset losses (risk financing)
- INTERNAL RISK REDUCTION- Diversification; investment in information to obtain superior forecast of expected losses (market research on future demands)



SUSTAINABILITY MODEL



THREE WAYS TO MINIMIZE ADVERSE CONSEQUENCES OF RISK-TAKING

AVOIDING OR LIMITING EXPOSURE TO RISKS

MITIGATING RISKS

OFF-SETTING RISKS



Risk Avoidance

Avoiding or placing limits on certain activities

Usually accompanied by minimal or no rewards since exposure to risks is limited

Relationship between the amount of risk taken and the amount of reward received



Mitigating Risks

Usually means assuming additional costs for better systems, controls and personnel but should reduce losses.

Allows an institution to assume greater risks with expectation of fewer losses

Loss reduction should be greater than the costs assumed (cost/benefit analysis)



Off-setting Risks

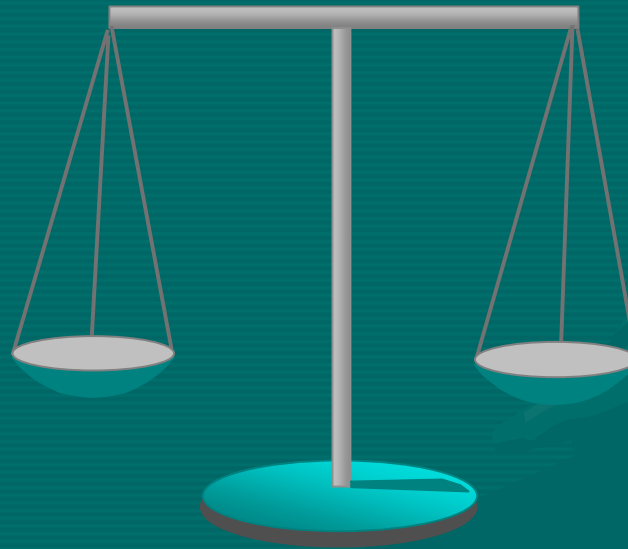
Implies willingness to take-on greater risks, greater costs and greater losses, but with expectation of experiencing even greater returns

Usually this involves charging higher rates and fees to cover the greater risks and operating costs



DONORS
SHAREHOLDERS
DIRECTORS
MANAGEMENT

RISKS



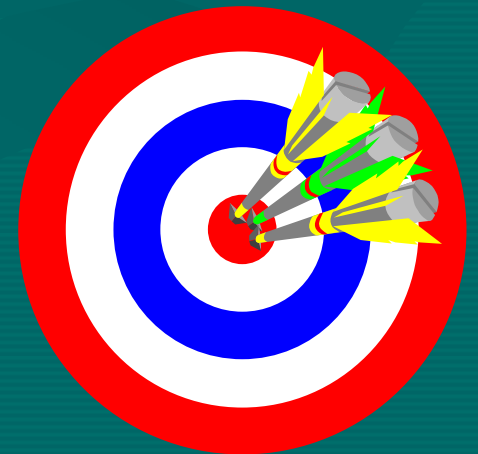
REWARDS

**IT IS THE RESPONSIBILITY OF MANAGEMENT
TO BALANCE RISKS AND REWARDS AND TO
AVOID/LIMIT, MITIGATE AND OFF-SET RISKS**



CATEGORIES OF RISKS

- CREDIT
- INTEREST RATE
- LIQUIDITY
- TRANSACTION
- COMPLIANCE
- STRATEGIC
- REPUTATION



THESE CATEGORIES ARE NOT MUTUALLY EXCLUSIVE



CREDIT RISK

- *CREDIT RISK* -
ARISE FROM AN OBLIGOR'S
FAILURE TO MEET THE TERMS
OF ANY CONTRACT WITH THE
CREDIT COOPERATIVE OR
OTHERWISE FAIL TO PERFORM
AS AGREED



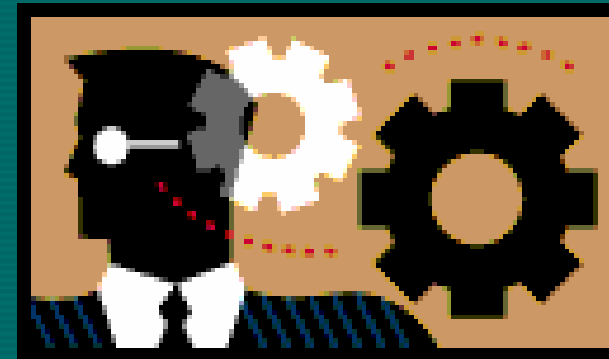
WORKSHOP

- LIST DOWN INSTANCES/SCENARIOS WHERE CREDIT RISKS ARE SEEN IN ACTIVITIES OF THE CREDIT COOPERATIVE



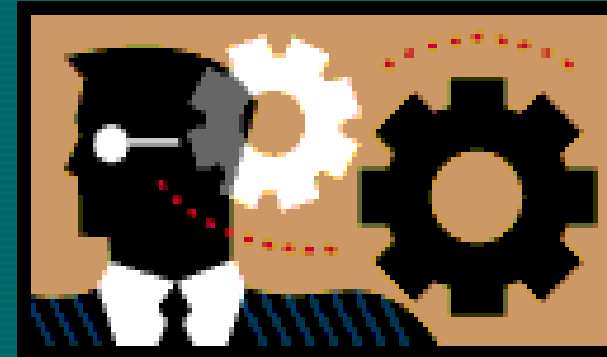
INTEREST RATE RISK

- *is the risk from movements in market interest rates*
 - *REPRICING RISK*
 - *BASIS RISK*
 - *YIELD CURVE RISK*
 - *OPTIONS RISKS*



INTEREST RATE RISK

- *REPRICING RISK - differences in timing of rate changes vs. cash flow*
- *BASIS RISK – changing relationship among different yield curves*



INTEREST RATE RISK

- *YIELD CURVE RISK – changing rate relationships across the spectrum of maturities*
- *OPTIONS RISK - interest related options imbedded in coop products*



INTEREST RATE RISK

- **GAP MANAGEMENT-**

GAP is the difference between volume of interest sensitive assets and interest sensitive liabilities



INTEREST RATE RISK

- Workshop
 - list down scenario where interest risk is prevalent in credit cooperatives



LIQUIDITY RISK

Risk from inability to meet obligations when they come due without incurring unacceptable losses.

- Inability to manage funding sources
- Failure to recognize adverse condition affecting ability to liquidate assets quickly with minimal loss of value



LIQUIDITY RISK

workshop

- Share your experiences in liquidity problems



TRANSACTION RISK (OPERATING OR FRAUD RISK)

RISKS FROM FRAUD OR ERROR THAT RESULTS IN:

- AN INABILITY TO DELIVER PRODUCTS OR SERVICES,
- MAINTAIN A COMPETITIVE POSITION AND
- MANAGE INFORMATION.



TRANSACTION RISK (OPERATING OR FRAUD RISK)

IT IS A FUNCTION OF –

INTERNAL CONTROL,
INFORMATION SYTEM,
EMPLOYEE INTEGRITY, AND
OPERATING PROCESSES.

*ARISES DAILY AS SCCs PROCESS
TRANSACTIONS*



TRANSACTION RISK

- *may arise due to:*
 - *weaknesses in organizational structure,*
 - *poor oversight function of the board of directors and senior management,*
 - *faulty hiring policy,*
 - *weak internal control system,*
 - *inadequate internal and external audit coverage and*
 - *deficient management information system*



TRANSACTION RISKS

- ❖ Documentation/Contract risk
- ❖ Booking Error
- ❖ Processing Risk
- ❖ Operational Control Risk
- ❖ MIS
- ❖ Security Risk
- ❖ Key Personnel Risk



COMPLIANCE OR REGULATORY RISK

is the risk arising from violations of laws, rules, regulations, prescribed practices, internal policies or procedures or ethical standards.



LEGAL RISK

- risk arising as a result of unenforceable contracts, lawsuits or adverse judgments.



STRATEGIC RISK

- *is the risk due to adverse business decisions or improper implementation of those decisions OR lack of responsiveness to industry changes.*



REPUTATION RISK

- *is the risk due to negative public opinion or perception –*
 - *Inability to establish new relationships, or services or continue servicing existing relationships.*



RISKS and the COOPERATIVE STRATEGIES

- 👍 **THERE MUST BE**
- COMPATIBILITY IN**
- 👍 **The Strategic Goals**
- 👍 **Business Strategies**
- 👍 **Resources Deployed**
- 👍 **Quality of Implementation**



BOD'S ROLE IN RISK MANAGEMENT OF SSCs

- MANAGEMENT is responsible for effective risk management.
- Effective risk management requires an informed BOD.
- BOD – sets strategic direction and through written policies and procedures, will enable to hold management accountable for operating within tolerance levels.



MANAGEMENT'S ROLE

- Implement BOD's strategic direction
- Develop formal/informal policies
- Oversees development and maintenance of timely, accurate and informative MIS
- Ensure effective communication



CDA'S ROLE IN RISK MANAGEMENT OF SCCs

Given the different risks faced by SCC's today AND the international best practices followed, it will be CDA BOA to set policies on risk management for adoption by the supervised credit cooperatives.....



REVIEW OF OBJECTIVES

- After this session:
 - Are we familiar with the concepts of risks
 - Can we identify the different areas of risks?
 - Can we assess the risks on certain processes of SCCs' operations
 - appreciate our role in the overall risk management of SCCs



THANK YOU



Attachment IV. PowerPoint Presentations

G. Off-Site Monitoring

OFF-SITE MONITORING

Presented by:

Ms. Christine C. Tan

SESSION OBJECTIVES

- Background on how other supervisory authorities implement off-site supervision
- Differences between on-site and off-site supervision
- What reports are needed?

OUTLINE

- Differentiate on-site and off-site supervision
- Objectives of Off-site supervision
- What tools are needed
- What/how reports are submitted
- How to conduct off-site supervision
- What can be done?

What is SUPERVISION?

- **“Supervision”** shall include not only the issuance of rules, but also the overseeing to ascertain that regulations are complied with, investigating or examining to determine whether an institution is conducting its business on a sound financial basis and inquiring into the solvency and liquidity of the institution.

What is SUPERVISION?

- is the ongoing monitoring of a supervised SCC's financial and operational condition.
 - On-site (examination)
 - Off-site (monitoring)

Off-site Objectives

- To quickly identify negative trends and emerging problems; and
- To resolve the issues before they could adversely affect the SCC's financial condition

Off-site tools

- Submitted regulatory reports and financial statements
- Periodic trend analysis of financial ratios

Off-site tools: Reports

- Periodically submitted
 - may vary depending on the problem of the institution (i.e., frequent reports may be required from those with severe problems)
- In standard format
 - Standardization makes data more useful and comparable, and eliminates individual interpretation and incorrect information

Off-site tools: ANALYSIS

- Financial statement analysis
 - to measure and analyze the performance over a period of time
 - information (# of members, totals, etc.)
 - trends (increasing, declining, stable)
 - fluctuations (causes/sources)
 - inconsistencies

Off-site tools: ANALYSIS

- Ratio analysis
 - relationship between two numbers to measure specific areas of operations
 - used effectively in trend analysis
 - to monitor performance
 - determine the presence of negative or positive trends and changes

Off-site tools: ANALYSIS

- A Ratio is useless by itself
- Compare with
 - Regulatory ratio/standards
 - Similar size SCCs
(peer group analysis)
- Warning signals

Warning Indicators

- Ratios

- Numbers

- Trends

- Suspicious activities

Which may indicate existing or potential problems

Evaluating Risk Indicators

- ✦ Examiners should look for sources of uncertainty within the operation of the SCC
- ✦ Examiners will prioritize these risks by the magnitude of the potentially adverse effect on the earnings and capital of the SCC.

Evaluating Risk Indicators

LEADING INDICATORS:

- Due diligence review by management for new and existing products and services;
- Development and application of strong internal controls;
- Analysis of financial outcomes; and
- Measurement of actual performance against forecasted results.

Evaluating Risk Indicators

LAGGING INDICATORS

- Adverse trends
- Unusual growth patterns
- Concentration activities can serve as triggers of changing risk and possible causes for future problems.

Examples

- Incomplete, late and/or non-reporting
- Inadequate provision for losses
- Management avoidance of contact/evasive answers
- Increasing delinquency/accounts receivable
- Declining income
- Ratios below regulatory standards



God bless!!

Thank you!

Attachment IV. PowerPoint Presentations

H. Analysis of Financial Statements

ANALYSIS OF FINANCIAL STATEMENTS

Presented by:

Ms. Christine C. Tan



Course Objectives

At the end of the course, participants are expected to:

1. Appreciate the basic concepts of analysis of financial statements
2. Analyze financial statements



Introduction

- Objectives
- Definition
- Users
- Kinds of FS Analysis
- Performance Indicators



Objectives

☞ Management

- Planning
- Leading
- Organizing
- Controlling

☞ Operations

- Credit worthiness
- Maximum amount
- Cash flow

☐ The Firm

- ☀ Profit
- ☀ Prestige
- ☀ Service



UNDERSTANDING FINANCIAL STATEMENTS

- ☞ Do you know how your company fare financially?
- ☞ Is it growing or contracting?
- ☞ Will it be around for a long time?
- ☞ How profitable is your company. What can be done to improve the profitability of your firm?

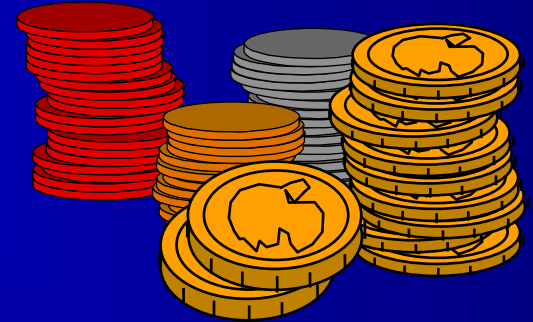
Definition of Terms

Financial Statements




Final outcome of the accounting process; concise picture of the profitability and financial position of the business. Reflection of the management of a company and the results of its decisions.

FINANCIAL STATEMENTS

- ☞ Statement of Condition
- ☞ Statement of Income & Expenses
- ☞ Statement of Capital
- ☞ Cash Flow Statement



BALANCE SHEET

-  Shows in a systematic manner the assets, liabilities, capital of a business organization at a specific time; “Statement of Condition” (SOC)
-  Freezes the action
-  Reports the condition of a company as of a given day

Definition of Terms

- ✍ *Assets* – things of value owned by the business and are recorded in terms of monetary value
- ✍ *Liabilities* – financial obligations or debts of the business entity which usually must be paid on a specific date
- ✍ *Owners' Equity* – original capital contribution +/- profits/losses of the business operation; “net worth”; “capital accounts”

STATEMENT OF INCOME AND EXPENSES

- ✍ supplements the Balance Sheet which shows the results of business operations for a stated period of time; "Income Statement"; "Profit & Loss Statement"; "Statement of Earnings & Expenses"
- ✍ Serves as the bridge between two consecutive balance sheets
- ✍ Reports the performance of a company over a specific span of time

CAPITAL STATEMENT

- ✍ summarizes the changes in the owner's equity account of a business entity

Cash Flow Statement

- ☞ Provides relevant information about the cash receipts and cash payments of an enterprise during a period.
- ☞ The information provided in a cash flow statement if used with related disclosures and information in the other financial statements should help directors, creditors and others to assess the enterprise ability to generate future net cash flows.

Users (Classified)



❑ Internal Users

- ✓ Stockholders
- ✓ Board of Directors
- ✓ Senior Mgt.
- ✓ Internal Auditor
- ✓ Key Officers:
 - Cashier
 - Accountant
 - Loan Officer
 - Savings/Loans Bookkeepers

❑ External Users

- ✓ Government
- ✓ Regulatory bodies
- ✓ Potential investors/
Stockholders
- ✓ Investment
Analysts
- ✓ Creditors
- ✓ Interested Public

Financial analysis

- ☞ refers to the examination of financial data of an entity to determine its profitability, growth, solvency, stability and effectiveness of its management.

USES OF FINANCIAL RATIOS

- ① To focus the analyst's attention on data which may require further investigation.
- ② To help diagnose a situation.
- ③ To monitor performance.
- ④ To help plan forward.
- ⑤ To reduce the amount of data to workable form and make it more meaningful



ANALYTICAL TOOLS

➔ **COMPARATIVE FS**

➔ **RATIO ANALYSIS**

➔ **TREND ANALYSIS**

➔ **COMMON SIZE
STATEMENT**

➔ **INDEX ANALYSIS**

➔ **COMPOSITE
INDUSTRY**

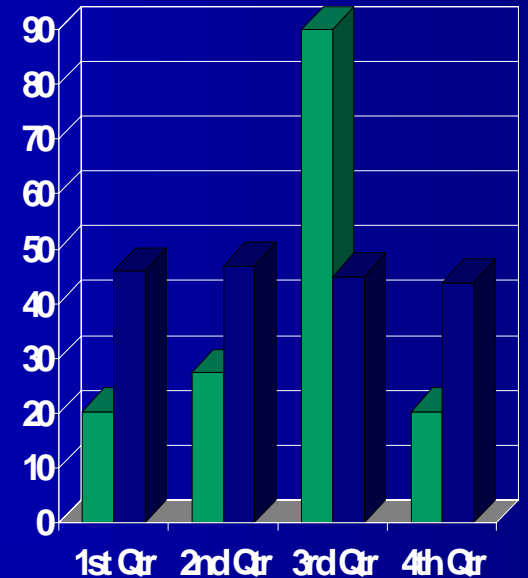
➔ **STATEMENT OF
CHANGES IN FS
(Sources and Uses)**

➔ **PRO-FORMA
STATEMENT**

ANALYTICAL PROCEDURES

☞ Standards of Comparison

- Internal – Intra company uses current year F/S vs. one or more previous period fin. statements
- External – uses industry averages or norms prescribed by financial rating organizations



INCREASE
(DECREASE)

%

TYPES OF STANDARDS OF COMPARISON

☞ INTERNAL STANDARDS- ADVANTAGES

- ① yardsticks internally developed
- ② past experience as the principal basis
- ③ provides the following:
 - ◆ measure by which to gauge the success of past operations
 - ◆ guides by which to control current performance
 - ◆ goals by which to set future projections

TYPES OF STANDARDS OF COMPARISON

☞ INTERNAL STANDARDS - DISADVANTAGES

- ☒ Poor standard in the past may encourage a dangerous degree of complacency.
- ☒ Level of activity in the economy as a whole is continually changing.
- ☒ State of technology is continually advancing.
- ☒ Reliability is eroded by the effects of inflation.

TYPES OF STANDARDS OF COMPARISON

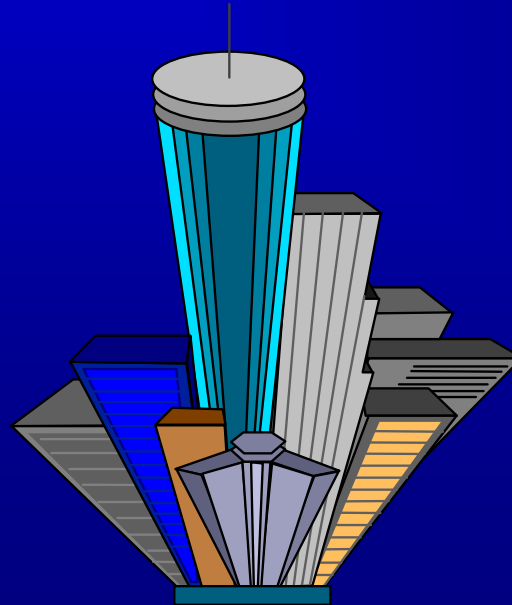
☞ EXTERNAL STANDARDS - ADVANTAGES

- ✧ Reasonably wide and representative sample of firms being examined.
- ✧ Comparison of results over similar periods ensures similar economic and technological conditions.
- ✧ Avoids the difficulties associated with budgets.

TYPES OF STANDARDS OF COMPARISON

☞ EXTERNAL STANDARDS – (Industry)

- Comparison should be made only between comparable companies.
- Warning- below par performance of the industry



TYPES OF STANDARDS OF COMPARISON

☞ COMPANIES BEING COMPARED SHOULD POSSESS THE FOLLOWING:

- ❄ Uniform accounting system and accounting procedures; uniform classification of accounts and similar depreciation methods.
- ❄ Uniform accounting period preferably on a natural business year basis.
- ❄ Similar asset valuation and amortization prices.
- ❄ Adopt and maintain somewhat uniform managerial policies.

ANALYTICAL AUDIT PROCEDURES

- Provides effective and efficient means of assessing and evaluating collected information;
- May include comparison of current period information with similar information for prior periods or with budgets/forecasts;
- Study of relationships among elements of information;
- Comparison of information with similar information for other organizational units;
- Comparison of information with similar information for the industry on which organization operates.



ANALYTICAL AUDIT PROCEDURES

- May be performed using:
- Monetary amounts
- Physical quantities
- Ratios
- Percentages



ANALYTICAL AUDIT PROCEDURES

Specific Analytical Audit Procedures include:

- Ratio analysis
- Trend analysis
- Reasonableness test
- Period to period comparisons
- Comparison with budgets/forecasts & external economic information.



ANALYTICAL AUDIT PROCEDURES

➤ USES

- Assist in identifying conditions that may require subsequent engagement procedures;
- Planning the engagement
- During engagement, to examine and evaluate information to support results/findings



ANALYTICAL AUDIT PROCEDURES

- After evaluating these factors, auditor should consider and use additional audit procedures as necessary, to achieve the engagement objectives.
- Significance of area being examined;
- Assessment of risks and effectiveness of Risk Management in area being examined;
- Adequacy of internal control;
- Availability and reliability of financial &
- nonfinancial information;
- Precision with which the results can be predicted;
- Availability and comparability of information regarding the industry in which the organization operates
- Extent to which other engagement procedures provide support for engagement results.



ANALYTICAL AUDIT PROCEDURES

- When analytical audit procedures identify unexpected results or relationships, auditor should examine and evaluate such results or relationships.
- May include making inquiries with management
- Application of other engagement procedures until auditor is satisfied that results or relationships are sufficiently explained.
- If not, may be indicative of a significant condition such as potential errors, irregularity or illegal acts.



1. COMPARATIVE FS

- **ABSOLUTE DATA**
- **INCREASE/DECREASE (Peso Value)**
- **RATIOS**
- **INCREASE/DECREASE (%)**
- **% TO TOTALS**

2. RATIO ANALYSIS

- ✍ *Financial Ratio* – relationship between 2 quantities on a firm's FS which is derived by dividing 1 item with another item
- ✍ *Financial ratio analysis* – analysis of past performance based on various relationships between FS items usually expressed in terms of ratios
- ✍ **CONVENIENT MEANS TO ANALYZE SCC CONDITION**
- ✍ **INTERPRETS FINANCIAL DATA BASED ON RELATIONSHIP OF FINANCIAL VALUES VS. STANDARDS**

PRINCIPLES OF RATIO SELECTION

- MATERIALITY
- LOGICALLY
INTERRELATED
- SINGLE KEY RATIO
& SUBSIDIARY
RATIOS
- COST VS BENEFIT
- TIMELINESS

LIMITATIONS/PITFALLS OF RATIO ANALYSIS

- ➔ **ISOLATED RATIO**
- ➔ **TOO MANY RATIOS**
- ➔ **NEGATIVE RATIO**
- ➔ **RATIO VS ABSOLUTE FIGURES**
- ➔ **DIFF ACCTG METHODS USED**
- ➔ **LIMITED MANAGEMENT DATA**
- ➔ **STRUCTURAL CHANGES**
- ➔ **DISTORTED PEER RATIOS**
- ➔ **NO HARD & FAST DECISION RULES FOR IMMEDIATE MANAGEMENT USE**

3. TREND ANALYSIS

- ☞ **-Discloses change of position and trends of prior periods.**
- ☞ **Measures the improvement or lack of it in the financial position or operating performance.**
- ☞ **The current ratios are compared with past ratios to determine growth pattern**
- ☞ **PAST=====PRESENT=====FUTURE**

TREND ANALYSIS

XYZ COOP

SELECTED BALANCE SHEET ACCOUNTS

JANUARY 2003 TO JANUARY 2005

(In Million Pesos)	Jan 03	Jan 04	Jan 05	CHANGES	
				Inc/ (Dec)	Inc/ (Dec)
L & D (Net)	12.194	15.034	18.597	2.840	3.563
Cash & DFOB	3.588	4.435	5.627	0.847	1.192
Investments	0.897	0.834	1.137	(0.063)	(0.303)
Fixed Assets	0.620	0.780	0.832	0.160	0.052
Other Assets	16.679	20.303	21.459	3.624	1.156
Total Assets	33.978	41.386	47.652	7.858	6.266

4. INDEX ANALYSIS

- **BALANCE SHEET & INCOME STATEMENT ITEMS ARE EXPRESSED AS AN INDEX RELATIVE TO AN INITIAL BASE YEAR**
- **COMBINATION OF THE COMMON SIZE FS & INDEX ANALYSIS APPROACH PROVIDES ADDITIONAL INSIGHT INTO THE FUNDS FLOW OF A FIRM**

INDEX ANALYSIS

	<u>1999</u>	<u>2000</u>	<u>1999</u>	<u>2000</u>
Interest Income	6.484	7.353	100%	113%
Service Charges	2.138	3.120	100%	146%
Others	0.160	0.303	100%	189%
Total Income	8.782	10.776	100%	123%
Comp./Fringe Benefits	2.391	3.528	100%	148%
Interest on Deposits	0.378	0.428	100%	113%
Interest on Borrowed	1.737	2.093	100%	120%
Depreciation/Amortizat	0.083	0.120	100%	145%
Others	0.957	1.002	100%	105%
Total Expenses	5.546	7.171	100%	129%
Net Income	3.236	3.605	100%	111%

5. COMPOSITE INDUSTRY

☞ COMPARING W/ A PEER & INDUSTRY AVERAGES AT THE SAME TIME

- GIVES INSIGHT INTO THE RELATIVE FINANCIAL CONDITION OR PERFORMANCE OF THE FIRM**
- ONLY BY COMPARING THE FINANCIAL RATIOS OF A FIRM WITH THOSE OF SIMILAR FIRMS CAN ONE MAKE A REALISTIC JUDGEMENT**

Financial Performance Indicators

- I. PORTFOLIO QUALITY (25%)
- II. EFFICIENCY (20%)
- III. STABILITY (30%)
- IV. OPERATIONS (10%)
- V. STRUCTURE OF ASSETS (15%)

PORTFOLIO QUALITY (25%)

- Portfolio at Risk (15%)
- Allowance for Probable Losses on Loans (APLL)
(5%)
- APLL (1 to 12 months past due)
(5%)

PORTFOLIO QUALITY (25%)

- Portfolio at Risk

Measures the risk of default in the portfolio

$$\frac{\text{Balance of Loans with 1 day missed payments}}{\text{Total Loans Outstanding}}$$

Standard	Score	Equivalent Points
5% or less	5% or less	15
	> 5% to 10%	12
	>10% to 15%	9
	>15% to 20%	6
	>20% to 25%	3
	>25%	0

PORTFOLIO QUALITY (25%)

- Allowance for Probable Losses on Loans (APLL)

Measures the adequacy of the allowance for expected losses on loans

	Standard	Score	Equivalent Pts.
If total amount of allowance > total outstanding balance of loans over 12 months past due using PAR = 100%	100%	APLL (100%)	
		100%	5%
		80% to < 100%	4
		60% to < 80%	3
		35% to < 60%	2
If total amount of allowance < total outstanding balance of loans over 12 months past due using PAR then:		10% to < 35%	1
		< 10%	0

Total Amount of Allowance

Total Outstanding Balance of Loans over 12 Months PD using PAR

PORTFOLIO QUALITY (25%)

- APLL (1 to 12 months past due)

Total Amount of Allowance – Required Amount of Allowance
For Loans over 12 months past due using PAR

– Total Outstanding Balance of Loans 1 to 12 Months Past Due using PAR

Standard	Score	Equivalent Pts.
35%	APLL (35%)	
	35%	5%
	25% to <35%	4
	17% to <25%	3
	9% to <17%	2
	1% to < 9%	1
	< 1%	0

EFFICIENCY (20%)

- ☞ Asset Yield (4%)
- ☞ Operational Self-Sufficiency (4%)
- ☞ Rate of Return on Member's Share (4%)
- ☞ Loan Portfolio Profitability (4%)
- ☞ Cost per Peso Loan (2%)
- ☞ Administrative Efficiency (2%)

EFFICIENCY (20%)

☞ Asset Yield

Measures the ability of the coop's assets to generate income

Undivided Net Surplus

Average Total Assets

EFFICIENCY (20%)

☞ Operational Self-Sufficiency

Measures the ability of the coop to sustain its operations

Interest Income from Loans + Service Fees +
Filing Fees + Fines, Penalties, Surcharges
Financing Costs + Admin Costs



EFFICIENCY (20%)

- Rate of Return on Member's Share
Measures the earning power of member's share capital.

$$\frac{\text{Interest on share capital}}{\text{Average Member's Share}}$$



EFFICIENCY (20%)

☞ Loan Portfolio Profitability

Measures how profitable the loan portfolio is

$$\frac{\text{Interest Income from Loans} + \text{Service Fees} + \text{Filing Fees} + \text{Fines, Penalties, Surcharges}}{\text{Average Total Loans Outstanding}}$$



EFFICIENCY (20%)

☞ Cost per Peso Loan

Measures efficiency in managing the coop's loan portfolio

$$\frac{\text{Financing Costs} + (\text{Admin Costs} - \text{Members' Benefit Expense})}{\text{Average Total Loans Outstanding}}$$


EFFICIENCY (20%)

☞ Administrative Efficiency

Measures the cost of managing the coop's assets

Administrative Costs
Average Total Assets



STABILITY (30%)

- Solvency (10%)
- Liquidity (10%)
- Net Institutional Capital (10%)



STABILITY (30%)

☞ Solvency

Measures the degree of protection that the coop has for member savings and shares in the event of liquidation of the coop's assets and liabilities

$$\frac{(\text{Assets} + \text{Allowances}) - (\text{Total Liabilities} - \text{Deposits} + \text{Past Due Loans} + \text{Loans Restructured} + \text{Loans Under Litigation})}{\text{Deposits} + \text{Share Capital}}$$

STABILITY (30%)

☞ Liquidity

Measures the coop's ability to serve its member's deposit on time

$$\frac{\text{Liquid Assets} - \text{Short Term Payables}}{\text{Total Deposits}}$$



SOLVENCY (30%)

☞ Net Institutional Capital

Measures the level of institutional capital after subtracting the losses

$$\frac{(\text{Reserves} + \text{Allowance for Probable Loan Losses}) - (\text{Past Due Loans} + \text{Loans Under Liquidation} + \text{Problem Assets})}{\text{Total Assets}}$$

OPERATIONS (10%)

- ➔ Growth in Membership (5%)
- ➔ Trend in External Borrowings (5%)

OPERATIONS (10%)

☞ Growth in Membership

Determines the performance of change in a membership vis-à-vis target.

$$\frac{\text{Actual Increase in the Number of Members}}{\text{Target Increase in the Number of Members}}$$



OPERATIONS (10%)

☞ Trend in External Borrowings

Determines the percentage of change in external borrowings

$$\frac{\text{Ending External Borrowings} - \text{Beginning External Borrowings}}{\text{Beginning External Borrowings}}$$



STRUCTURE OF ASSETS (15%)

- ☞ Asset Quality (5%)
- ☞ Asset Structure (10%)

STRUCTURE OF ASSETS (15%)

☞ Asset Quality

Measures the percentage of total assets that are not producing income

$$\frac{\text{Non-earning Assets}}{\text{Total Assets}}$$

STRUCTURE OF ASSETS (15%)

Asset Structure

- Measures the percentage of total assets financed by deposits

$$\frac{\text{Total Deposits}}{\text{Total Assets}}$$

- Measures the percentage of total assets invested in the loan portfolio

$$\frac{\text{Net Loans Receivables}}{\text{Total Assets}}$$

- Measures the percentage of total assets financed by members' share capital

$$\frac{\text{Total Members' Share Capital}}{\text{Total Assets}}$$



Mabuhay Coop

Comparative Balance Sheet

End of 2005 and 2004

	2005	2004
ASSETS		
Current Assets		
Cash	P 5,000	P 4,000
Short term Investments	3,000	2,000
Loans (net)	<u>46,000</u>	<u>34,000</u>
Total Current Assets	P <u>54,000</u>	P <u>40,000</u>
Non-Current Assets		
Long-term Investments	P 11,000	P 11,000
Land	10,000	10,000
Furniture, Fixtures & Equipment	70,000	60,000
Transportation	<u>3,000</u>	<u>4,000</u>
Total Non-Current Assets	P <u>94,000</u>	P <u>85,000</u>
TOTAL ASSETS	P 148,000	P 125,000
	=====	=====

Mabuhay Coop

Comparative Balance Sheet

End of 2005 and 2004

	2005	2004
LIABILITIES		
Current Liabilities		
Savings Deposits	P 70,000	P 41,000
Time Deposits	15,000	31,000
Dividends Payable	<u>1,000</u>	<u>2,000</u>
Total Current Liabilities	P 86,000	P 74,000
Loans Payable (Due in 5 Years)	<u>30,000</u>	<u>20,000</u>
Total Liabilities	P <u>116,000</u>	P <u>94,000</u>
 MEMBERS' EQUITY		
Common Share capital		
(2,400 shares P10 par)	P 24,000	P 24,000
Statutory Funds (Reserves)	<u>8,000</u>	<u>7,000</u>
Total Equity	P <u>32,000</u>	P <u>31,000</u>
Total Liabilities and Stockholders Equity	P 148,000	P 125,000
	=====	=====

Compute:

1. Peso increase/decrease for 2004 & 2005
2. Percent increase/decrease for 2004 & 2005
3. What can you infer from the data arrived at from 1 and 2?

CAUTION

☞ IN ANALYZING FINANCIAL STATEMENTS, CONSIDER THE FOLLOWING:

- Seasonal Variations (Christmas, planting season, school opening, etc.)
- Footnotes to financial statements which must be properly evaluated
- Different accounting practices

Pitfalls in Ratio Analysis

1. A ratio can be computed from any pair of numbers
2. A ratio in isolation is meaningless, unless it is compared to other figures or ratios.
3. Difference in financial ratios may also be due to different accounting methods.
4. Limited amount of management data available.

Pitfalls in Ratio Analysis

5. Financial ratios also fail to recognize changes in underlying asset structure and operations of the bank (ex. Revaluation of assets)
6. Industry average could be distorted
Analysis does not guarantee or totally prevent bank failures or banking crisis because of mismanagement or fraud.

WORKSHOP

- ☞ Analyze whether XYZ BANK made the right decision in lending the P1 million loan to SPICE CORP at 20%/annum.

XYZ Bank received an application for a clean loan to Spice Corp. (engaged in shoe business) in the amount of P1 million from Jan. 1, 2006 to Dec. 31, 2006, with the following data:

Spice Corp
Balance Sheet
Dec. 31, 2005

ASSETS		LIABILITIES & EQUITY	
Cash on Hand	P 30,000	Accounts Payable	P 150,000
Accounts Receivable	330,000	Bank Loans	550,000
Inventories	540,000	Accrued Taxes Payable	51,000
Fixed Assets (net)	140,000	Other Liabilities	110,000
Other Assets	<u>160,000</u>	Common Stock	320,000
		Retained Earnings	<u>19,000</u>
 Total Assets	 P1,200,000	 Total Liab & Equity	 P1,200,000
	=====		=====



Spice Corp

Income Statement

For the Period Ending December 31, 2006

Net Sales		P1,500,000
Less: Cost of Goods Sold		<u>920,000</u>
Gross Profit		P 580,000
Less: Other Expenses		
Interest Expense	P110,000	
Selling & Administrative Expenses	250,000	
Other Fixed Expenses	<u>50,000</u>	<u>410,000</u>
Earnings Before Taxes		P 170,000
Less: Income Tax (35%)		<u>59,500</u>
 Net Income		 P 110,500 =====



God Bless!

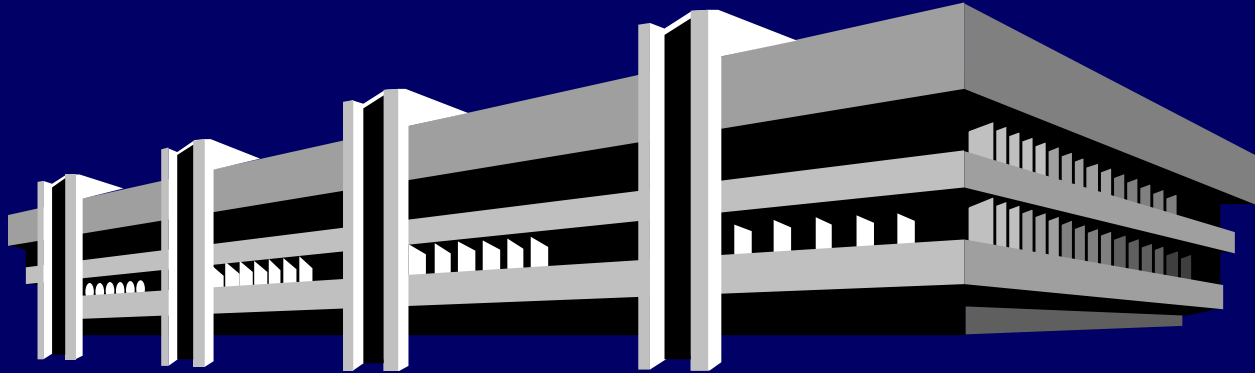


THANK YOU!

Attachment IV. PowerPoint Presentations

I. Examination Planning

EXAMINATION PLANNING/ SCHEDULING



Presented by:

Ms. Christine C. Tan

COURSE OBJECTIVES

1. Be familiar with Examination Planning/Scheduling
2. Be able to distinguish full-scope and limited examination

AGENDA

- * Overview
- * Definition of Supervision
- * Risk-Focused Supervision Procedures
- * Examination Planning
 - * Full
 - * Limited
- * Follow-up
- * Examination Scheduling

OVERVIEW

- A risk-focused program is a forward-thinking approach that allocates resources to the SCCs and areas exhibiting weaknesses or adverse trends. Examiners allot time to reviewing areas containing the most risk to the institution.
- Activities posing the highest risk receive the most scrutiny.



Supervision Defined –

- Shall include not only the issuance of rules, but also the overseeing to ascertain that regulations are complied with, investigating or examining to determine whether an institution is conducting its business on a sound financial basis and inquiring into the solvency and liquidity of the institution.

Supervision Defined –

- Is the ongoing monitoring of a SCC financial and operational condition. During supervision in the risk-focused program, the examiner looks forward at the direction a SCC takes and the decisions it makes.

Supervision

- Examiners monitor their assigned SCC as needed through on-site examination, supervisory contacts and off-site (through submitted regulatory reports and financial statements and periodic trend analysis of selected ratios).
- Supervision on SCCs with more serious financial problems, include follow-up examinations and more frequent monitoring of financial trends and ratios.

Risk-Focused Supervision Procedures

- Risk-focused supervision procedures often include both offsite and onsite activities, including the following:



Risk-Focused Supervision Procedures

- Examination planning;
- Evaluating risk indicators;
- Reviewing offsite monitoring tools and risk evaluation reports;
- Developing the scope of examination;
- Conducting a risk assessment;
- Developing and documenting conclusions and recommendations; and
- Communicating with SCC management.

Examination Defined –

Shall refer to an investigation of an institution by the supervisory authority to determine compliance with laws and regulations. It shall include determination that the institution is conducting its business on a safe and sound basis.

Examination requires full and comprehensive looking into the operations and books of institution

Examination Defined –

- The content of the examination centers on key areas of risk.
- Examiners review due diligence initiated by management for new products and services, the risk-management systems and internal controls in place.
- Examiners may conduct transaction testing to validate their assessment of risk.
- The examiner has discretion in determining areas requiring the most attention and allocating the time and resources accordingly.

Examination Types

● Full Scope

● Limited



Full - scope

- Is a series of procedures used to determine the economic and financial status of SCC
- Focus on key trends, ratios, management and operations
- Examinations are generally performed on an annual basis



Exam Planning

- Is the act of stating what activities must occur in a project and in what order these activities must take place
- Planning >
scheduling>
controlling



Examination Planning Activities

- Examination planning will assist the examiner in assessing the SCC's risk profile and developing a workable risk-focused examination scope.

Examination Planning Activities

- Enable examiners to identify and examine those areas that represent potential, material risk to the SCC's capital, earnings, or ability to continue as a going concern.
- Enable examiners to estimate the time needed for performing the risk assessment and anticipate the need for participation by specialists and or examiners.

Risk Assessment

- Objectives and goals
- Policies, plans, procedures, laws, regulations and contracts that could have a significant impact on SCCs operations and reports
- Organizational information (number and names of employees) key employees, job descriptions and details about recent changes in the organization including system changes)

Risk Assessment

- Budget information, operating results and financial data of the activity to be reviewed
- Results of other engagements, including the work of external auditors, completed or in process
- Correspondence files
- Authoritative and technical literature appropriate to the activity

Examination Planning

- Reviewing prior examination report to identify the SCC's highest risk areas and areas that require follow-up;
- Prior engagement working papers
- Analyzing Financial Performance Report (FPR) trends, using tools such as the following:
 - compares the prior examination quarter-end data to the current quarter-end data; and current (and possibly previous) quarter-end Consolidated Balance Sheet report trends;
- Reviewing the Scoping to identify prior risk assessment, recommended areas of review, resource needs and supervision plans;

Engagement Program

- State the objectives of the engagement
- Set forth the scope and degree of testing required to achieve the engagement objectives in each phase of the engagement
- Identify technical aspects, risks, processes and transactions that should be examined
- State the nature and extent of testing required
- Document the internal auditor's procedures for collecting, analyzing, interpreting and documenting information during the engagement

Audit Process

1. Pre-Audit

2. Audit

3. Post-Audit

Audit Process

1. Preliminary survey (PS)
2. Audit Program
3. Fieldwork
4. Reporting
5. Follow-up/monitoring

Audit Process

1. Pre-Audit

- Opening audit project
- Short term audit planning (scope & objectives)
- Entrance conference
- PS
- Audit program development
- Working paper (WP) preparation

2. Audit

- Fieldwork
- Observation, testing
- Examination
- Working paper
- Final audit report
- Major findings/exceptions

3. Post-Audit

- Exit conference
- Management response
- Correction of audit findings
- Closing audit project
- Customer satisfaction survey
- Project quality review
- Follow-up

SCOPE

- Is the boundary of the audit
- Addresses the period and number of locations/branches to be covered

Determining the Scope

- Consider significant needs of potential users of reports
- Obtain understanding of area to be audited
- Legal and regulatory requirements
- Internal control assessment
- Sources of data to be used as audit evidence
- Significant findings/recommendations from previous audit that will affect current objectives
- Work of other auditors/experts

Developing the Scope

- Examiners should strive to avoid repeating the work of these professionals (e.g., internal audit reports, CPA audit working papers, board meeting discussions, etc.)
- Examiners may identify new areas of risk throughout the contact; therefore, the examiner-in-charge should remain flexible and adjust the preliminary scope as needed.

Audit Objectives

- Broad statements developed by the auditor to define what the engagement intends to accomplish
- Means to attain engagement objectives

Full Scope Examination Objectives

- ▶▶ Evaluate the SCC's financial soundness;
- ▶▶ Appraise the quality of management and their adherence to regulations and agreements;
- ▶▶ Determine the asset quality and degree of risk that the credit portfolio poses to the integrity of the SCC;
- ▶▶ Determine management plans to correct the problems; and
- ▶▶ Follow-up

Preliminary Survey

- Requesting an organizational chart of the SCC along with a list of committees;
- Interviewing SCC management staff in key operational areas, including the CEO, Internal Auditor, staff involved in planning (strategic business plans); and
- Meeting with the supervisory committee and/or external auditors to discuss the audit and verification processes (in some instances, telephone or email contacts may suffice).

PRELIMINARY SURVEY

Onsite planning tasks include:

- Interviewing key management staff about various topics including new products and services and future plans for new products and services;
- Reviewing management's due diligence process for a new activity;
- Reviewing the annual audit working papers and the audit plan communicating audit work performed in pre-determined, high risk areas to the appropriate team members;
- Reviewing the list of internal audits completed to date and the internal audit planning matrix for the year, identifying internal audit reports needed by team members for review at the onset of their examination work;
- Reviewing the strategic business plan;

Onsite planning tasks include:

- Reviewing the budget and assumptions;
- Reviewing the board minutes:
 - Identifying discussions about potential risk areas and discussions about products, services, and planned changes to those products and services; &
 - Identifying revisions to applicable policies and associated changes in practices;
- Reviewing recently adopted new policies and revisions to policies and procedures, providing the information to the team examiners assigned to the various risk areas; and
- Reviewing other applicable internal SCC documents, such as material contracts, engagements, pending litigation, new field of interest



Limited Examination

- ▶▶ Addresses the issues/concerns raised by:
 - a. Borrowers
 - b. Stockholders
 - c. Members of the BOD

Time Frame

- ▶▶ Depends on the problem/issue

Scheduling

- ▶▶ Follows planning and is defined as the act of producing project timetable in consideration of the plan and costs.



Exam Scheduling

- ▶▶ When?
- ▶▶ Who?
- ▶▶ How many?

WORKSHOP

DEPARTMENT	ASSETS	ANNUAL COST	PROBABILITY OF LOSS
Production A	P 50,000	P 700,000	10%
Production B	5,000,000	10,000,000	1%
Production C	1,000,000	1,000,000	1%
Purchasing	50,000	150,000	10%
Marketing	50,000	500,000	10%
Shipping	60,000	100,000	50%
Security	10,000	100,000	90%

WORKSHOP

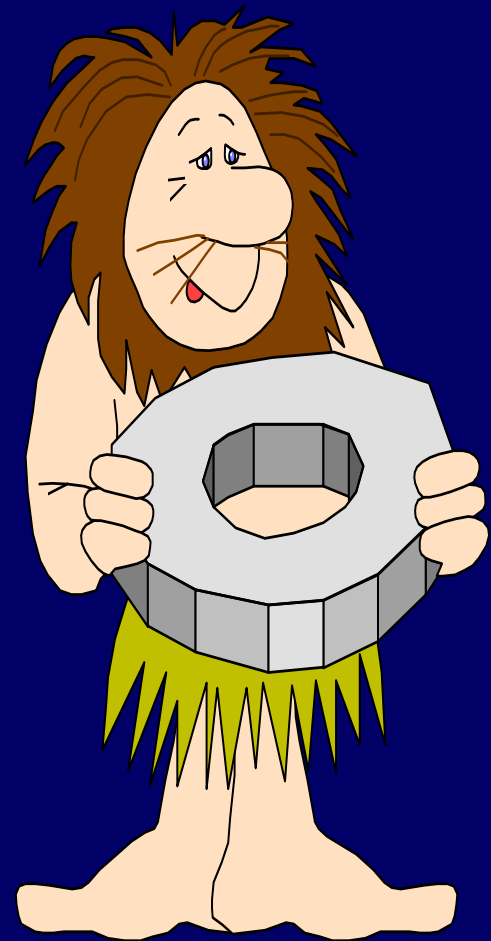
DEPARTMENT	ASSETS	ANNUAL COST	PROBABILITY OF LOSS
Production A	P 50,000	P 700,000	10% P 70,000
Production B	5,000,000	10,000,000	1% 100,000
Production C	1,000,000	1,000,000	1% 10,000
Purchasing	50,000	150,000	10% 15,000
Marketing	50,000	500,000	10% 50,000
Shipping	60,000	100,000	50% 50,000
Security	10,000	100,000	90% 90,000

All the departments except two are on the potential list of auditee because of the risk analysis performed by the auditor.

Production A is on the list because the president thinks too many bottlenecks occur in that department. The Marketing Department is on the list because the chief of security received an anonymous call accusing a marketing manager of receiving substantial kickbacks from a media outlet. Internal control seems adequate. Except for marketing which department should you likely subject to operational (nonfinancial) audit?

Coop Name	Date last Examined	Resources	Overall Risk	PESOS Rating
A	05.31.2005	P10,000,000	Medium	95%
B	10.31.2006	5,000,000	High	70
C	06.30.2005	20,000,000	Low	97
D	11.30.2006	50,000,000	High	50

THANK YOU



Attachment IV. PowerPoint Presentations

J. Report of Examination

Report of Examination

Name of SCC

As of _____

Presented by:

Atty. Wilfredo B. Domo-ong

Background

- Location
- Date of Establishment
- Number of Branches
- Area of Operation

Objectives and Scope of Examination

- Basis for Examination
- Coverage of Examination

Overall Conclusion

- Level of Capital; Compliance with Minimum Requirements
- Liquidity Position
- Results of Operation

General Evaluation

- Financial Condition
- Balance Sheet Structure
- Loan Portfolio
- Major Source of Income/Major Expenses
- Extra Ordinary Credits/Income
- Selected Financial Ratios

Risk Management Analysis

- Overall Risk Profile
- Adequacy of Internal Control
- Adequacy of Monitoring and Information Systems

Key Management and Major Stakeholders

- Board of Directors
- Other Key Management Officers
- Major Shareholders
- Major Creditors

COOP PESOS Rating

- COOP PESOS Rating for the Current Examination
- Current Rating vs. Those of Peers and Last Year's Rating

Major Findings/Exceptions

- List of Major Violations of Laws
- List of Major Violations of Rules and Regulations
- Applicable Sanctions

Recommendations

- List of Recommendations

Annexes

A. List of Findings, Exceptions and Recommendations

B. Financial Highlights

C. Loan Portfolio and Other Risk Assets

- Credits Classified by Industry
- Credit Accommodations to DOSRI
- Qualitative Appraisal of Risk Assets
- Large Lines and Concentration of Credit
- List of Top 20 Borrowers

D. Investments

E. Interest Rate and Maturity Matching

F. List of Directors and Key Management Officers

Attachment IV. PowerPoint Presentations

K. Administrative Actions

ADMINISTRATIVE ACTIONS

Presented by:

Ms. Christine C. Tan

SESSION OBJECTIVES

After this Session, the participants should be familiar with:

- conditions that may warrant administrative actions and
- administrative actions against SCC which exhibited serious problems

OUTLINE

- Conditions that may warrant administrative action
- Administrative actions
 - Definition
 - Kinds
- Areas of consideration

Conditions that warrant administrative actions

- Unsafe and unsound practices
- Serious violations of rules, regulations, agreements, directives
- Problem/s noted in at least one on-site examination
- SCC officials/management unwillingness to take corrective actions

Administrative Actions?

- Those actions that the regulatory authority can take or enforce against a problematic SCC in order to reverse negative trend or improve operational results
 - remove erring officials
 - impose sanctions/fines
 - take over management of SCCs in appropriate cases

Are these actions necessary?

- Time consuming and expensive
- Reputation Risks

Examiners and management should try to resolve the problems through off and on-site supervision.

Problems resolved should be properly documented (it could be part of the examination report) and will lay the ground work for corrective action.

Corrective Actions

- What action is needed to solve the problem
- Persons responsible
- Time frame
- Should be documented (DOR or PCA)

Administrative actions

- Letter of Understanding and Agreement
- Cease and Desist Order
- Monetary penalties
- Removal of officials
- Prohibitions
- Establishment of reserves
- Mergers
- Conservatorship
- Receivership/Liquidation
- Revocation of license

Letter of Understanding and Agreement

- Least serious of the actions
- Used when the document of resolution (DOR) is ineffective
- Contents similar to DOR/PCA
- Signed by SCCs
directors/management
- Regular monitoring

Cease and Desist

RA 6938

- Section 67 – Involuntary Dissolution
- A coop may be dissolved by order of a competent court after due hearing on the grounds of:
 - 1. violation of any law, regulation or provisions of its by-laws; or
 - 2. insolvency.

Monetary penalties

- Right to assess monetary penalties
- Depend on the severity of the violations/actions

Monetary Penalties

RA 6938

- Article 48 - Dealings of Directors, Officers or Committee Members
- Article 49 – Disloyalty of a Director
- Article 50 - Illegal Use of Confidential Information
- Article 124 – Penal Provisions
- A director, officer or committee member who violates the provisions of above-mentioned provisions shall upon conviction suffer a fine of not less than P5,000 nor more than P500,000 or imprisonment of not less than 5 years but not more than 10 years or both at the court's discretion.

Monetary Penalties

RA 6939

- Section 3 (o) – Powers, Functions and Responsibilities
- Exercise such other functions as may be necessary to implement the provisions of the coop laws
- Section 5 (d) – if coop fails to make, publish or file a copy of the report within 30 days from receipt of such notice, any member of the coop or the Government may petition the court for *mandamus* to compel the coop and its officers to make, publish and file such report and require coop to pay all expenses of the proceeding including counsel fees.

Fines

RA 6938

- Article 78 – Fines
- By-laws of coop may prescribe a fine on unpaid subscribed share capital subject to the guidelines which the CDA may issue.

RA 6939

- Section 3 – Imposable Fine
- In the absence of a provision in the by-laws or the membership or subscription agreement, or a general assembly policy, the BOD shall determine the reasonable fine and the terms and conditions to be imposed on the due and unpaid subscribed share capital without prejudice to other impositions and sanctions as it may determine.

Removal

RA 6938

- Article 51 – Removal
- An elective officer, director, or committee member may be removed by a vote of 2/3 of the voting members present and constituting a quorum, in a regular or special general assembly meeting called for the purpose. The person involved shall be given an opportunity to be heard at said assembly.

Establishment of reserves

- Requiring the establishment of special reserves to protect the interest of members
- To prevent further deterioration in the financial condition

Merger

- Two or more SCCs join together and operate as one – to continue and improve its services to members

Conservatorship

- The CDA will take immediate possession and control of the business and assets of the SCC and may operate it until
 - it allows the SCC to operate on its own
 - merger or liquidation
- To prevent further dissipation of the assets of the SCC

Liquidation

- To reduce the loss to the insurance fund
- To satisfy the demands of creditors
- Can be voluntary or involuntary

Revocation of license

RA 6938

Article 68 – Dissolution by Order of the Authority

Order of revocation can be due to –

- Obtaining registration by fraud
- Existing for an illegal purpose
- Willful violation, despite notice by the CDA of the provisions of this Code or its by-laws
- Willful failure to operate on a cooperative basis
- Failure to meet the required minimum number of members in the cooperative

Dissolution

RA 6938

- Article 69 - Failure to organize and operate
- If coop has not commenced business and operation within 2 years after the date shown on its certificate of registration or has not carried on business for 2 consecutive years, the CDA shall send formal inquiry and failure of coop to promptly provide justifiable cause shall warrant CDA to strike off its name from the register.

What is the appropriate action?

- Areas of Consideration
 - Financial condition
 - Interest of members in continuing the SCC
 - Ability of management to run the SCC effectively
 - Local economic conditions
 - Creditors' interests

Thank you!
God bless!!

Attachment IV. PowerPoint Presentations

L. Mergers and Consolidations

Merger/ Consolidation, Comptrollership, Receivership and Liquidation

Presented by:

Ms. Christine C. Tan

SESSION OBJECTIVES

After this Session, the participants should be familiar:

- with the specific administrative actions (particularly on merger and consolidation, comptrollership, receivership and liquidation)
- be able to distinguish the difference between merger and consolidation

Merger and consolidation

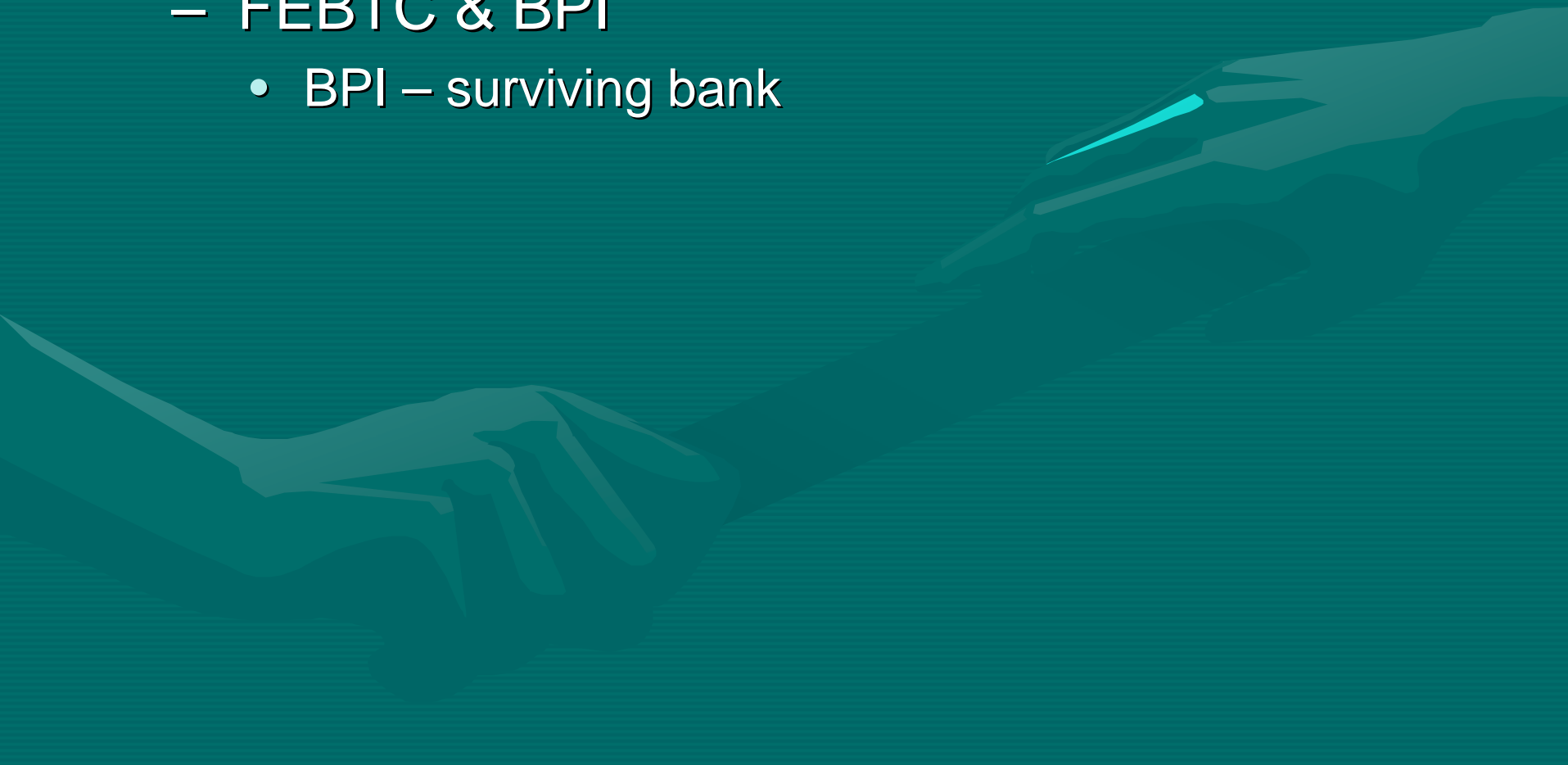
- Two or more SCCs join together and operate as one – to continue and improve its services to members
- viable alternative when an SCC can not feasibly continue operations
 - insolvent
 - loss of membership/sponsor
 - loss of interest in the field of membership

Merger

- Shall refer to the absorption of one or more existing cooperatives by another cooperative which continues the combined purposes of the absorbed companies
 - One of the SCCs becomes the surviving entity
 - absorbs the members, creditors, assets and liabilities

Merger

- Example:
 - FEBTC & BPI
 - BPI – surviving bank



CONSOLIDATION

- Shall refer to an amalgamation by agreement between 2 or more cooperatives whereby their purposes, rights, obligations, franchises, privileges and properties are combined in a single, new cooperative.
- a new entity is formed
- Legal existence of proponents terminated

Consolidation

- Example:
 - Equitable Bank & PCIBank
 - Equitable PCIBank – surviving bank
 - Various rural banks in Davao
 - One Network Bank

Merger and consolidation

- Voluntary
 - Solvent SCC
 - Initiated by affirmative votes of members
 - Without “hands on” assistance from CDA

Merger and consolidation

Article 21

- No merger or consolidation shall be valid unless approved by 2/3 or all the members eligible to vote of each of the constituent coop at separate general assembly meetings. The dissenting members shall have the right to exercise their right to withdraw their membership pursuant to Articles 31 and 32.

Merger and consolidation

- Section 2 – Plan of merger or consolidation
- A plan of merger or consolidation and its attendant resolution may be initiated by the BOD or the general assembly. If initiated by the BOD, plan shall be approved by a majority of the directors. Plan may likewise be initiated by at least 10% of the total members with voting rights, of each coop.

Merger or consolidation

- The CDA shall issue the guidelines governing the procedure of merger or consolidation of coops.
- Shall be effective upon issuance of certificate of merger or consolidation by CDA.

Effects of Merger & Consolidation

1. Constituent coops shall become a single coop which in the case of merger, shall be the surviving coop and in case of consolidation shall be the consolidated coop;
2. Separate existence of the constituent coops shall cease, except that of the surviving or the consolidated coop;

Effects of Merger & Consolidation

3. Surviving or consolidated coop shall possess all the rights, privileges, immunities and powers and shall be subject to all the duties and liabilities of a coop organized under the Code;
4. Surviving or consolidated coop shall possess all the assets, rights, privileges, immunities and franchises of each of the constituent coops;

Effects of Merger and Consolidation

5. Surviving or consolidated coop shall be responsible for all the liabilities and obligations of each of the constituent coops in the same manner as if such surviving or consolidated coop had itself incurred such liabilities or obligations.

Comptrollership

- Assigning a COMPTROLLER who will oversee the operations of the SCC
- Terms of reference – set by CDA
- Will report on the matters/affairs of the SCC regularly to the board

Liquidation

- Section 2. Cooperative Liquidation
- Every coop whose charter expires by its own limitation or whose cooperative existence is terminated by voluntary dissolution or is terminated by appropriate judicial proceedings shall nevertheless be continued as a body coop for a period of 3 years after the time when it would have been dissolved.

Receivership & Liquidation

- Resorted to when the SCC will incur more losses to the detriment of its members and creditors if it were to continue operations
- SCC is insolvent
- Placing the assets and affairs of the SCC in the hands of the receiver (Coop board of liquidators & appointed liquidators)

Liquidation

- take control and inventory SCC assets
 - Examine & value the assets
 - sell/dispose assets
 - allocate sales proceeds to creditors
 - complete the liquidation process

Dissolution

- Voluntary dissolution where no creditors are affected
- Voluntary dissolution where creditors are affected
- Involuntary dissolution (competent court)
- Dissolution by order of the CDA
- Dissolution for failure to organize and operate

Thank you!
God bless!!