

Tools for Credit Union Risk Based Supervision

No.	Analyst Point of Consideration or Question	Risk Rating					Comments
		Very High	High	Medium	Low	Very Low	
A. BUSINESS RISKS							
	<p>strategy of the credit union. These include the quality of the strategic planning process, the achievability of the strategy, the implications of the strategy, particularly for risk appetite, and the record of accomplishment of implementation.</p> <p>Also it involves risks arising from the characteristics of the business that the credit union is targeting going forward, such as risks from credit union's products, services and members and users as well as the interrelationships between them.</p>						
1.1	Have key performance measures been established for the credit union's business objectives, strategic and business plans?						
1.2	Is there an established frequency for strategic progress updates? Is this frequency sufficient for the size of the credit and the scale of the strategic plan?						
1.3	Is the board satisfied with the manner, frequency and timeliness with which significant issues are brought to its attention?						
1.4	Are adequate supporting materials presented to the board for strategic considerations? (examples financial projections, best and worse scenario analysis, risk assessments, contingency plan, timeframe of implementation)						
1.5	Are the materials for board considerations are presented in easy and consistent format?						
1.6	Does the board consider the establishment of credit union's mission and business objectives as one of its responsibilities?						
1.7	Does the board reflect on its mission in making informed decision.						
1.8	Do the business objectives appropriately balance the desire for sustainable returns, growth, safety and soundness as against the achievement of the mission - improving lives of members.						

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1.9	Does the board has an understanding of the potential effect of the strategic actions on the credit union and the credit union movement in general?						
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1.10	Does the board analyze the impact of the services the credit union provide to its members?						
1.11	Is the strategic planning sessions and its review conducted annually by the Board and senior management?						
1.12	Has the board been provided with sufficient information, and adequate time to independently review the information, to make informed strategic decisions?						
1.13	Does the board reviews the products and services of the credit union as to its direct link to the mission - improvement of members well being?						
1.14	Has the board allocated sufficient resources for implementing the strategic plan?						
1.15	Does the board engaged in monitoring the performance and execution of the strategic plan?						

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2. MARKET, CREDIT and OPERATIONAL RISKS							
	Market Risks: The risk of losses in on and off balance sheet positions arising from movements in market prices. These include the risk appetite of the credit union, the nature of market risk exposures involved in the credit union's products and services, and portfolio characteristics arising from adverse movements in market rates/prices, interest rates, foreign exchange or equity prices. This would apply in savings, loans and financial investments.						
2.1	Has definition of investment limits by asset types for authorized investments including quality, type, term and maturities.						
2.2	Has measurement, monitoring and reporting of risk position of the investments to the board.						
2.3	The exceptions to the policy can only be approved by the board.						
2.4	Has a delegation of authority for the purchase and redemption of investments.						
2.5	Defines the criteria in choosing the appropriate investment i.e. according to priority such as safety of principal, liquidity, income, the needs of the credit union system, and the social, economic and ethical well being of the community.						
2.6	Indicate the appropriate dealers where investment will be placed (example: Central Finance Facility of the Federation, Government bonds, or banks etc.)						
2.7	Set the investment limits (according to percentage) to the approved investment dealers.						
2.8	Indicates the total investment limit in accordance with the required liquidity level based on the standards.						
	Reports						
2.9	Is the report to the board accurate and the investment meet the policy?						

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2.10	Does the investment report to the board reconciled to the General Ledger?						
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2.11	Does the investment report detail the following: type of financial investment, cost at purchase, current market value, yield, maturity, losses/gains?						
2.12	Does the investment report indicates any foreseen material risk that can occur and thus will create risk to the credit union?						
2.13	Is the report suggest mitigation measures to the unforeseen risks to the credit union and that the board also take proper action?						
	<p>Credit Risks. The risks arising from the type and nature of credit activities undertaken by a credit union. These include the risk appetite of the credit union, the nature of counterparty exposures involved in the credit union's products and services, portfolio characteristics and the nature and extent of credit risk mitigation. The challenges posed to a credit union under this risk area:</p> <ul style="list-style-type: none"> - Default probability and low recovery rate of the loan - Loan pricing - Loss reserve/provision - Diversification of loan portfolio 						
2.14	Is the credit policy supported by a Responsible Lending Statement?						
2.15	Are the loan products consistent with the mission and objectives of the credit union i.e. help members improve their financial position?						
2.16	Are there lending limits i.e. loan purpose and percentage?						
2.17	Mortgage loans policy requires:						
2.18	acceptable properties						
2.19	term and amortization periods						
2.20	requirements for appraisals						
2.21	requirements for fire insurance						

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2.22	Is the loan assessment observe the capacity base lending practices?						
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2.23	Does the policy detail the authority levels for loan approvals?						
2.24	Are there considerations regarding restrictions on related party loans (loans to board, committees, staff and their relatives where conflict of interest must be avoided)?						
2.25	Are there permissions for granting preferred rates?						
2.26	Is the credit committee responsible for the compliance with the credit policy and an annual review of credit procedures?						
2.27	Is the loan department responsible in implementing the credit policy in particular the assessment of loans?						
2.28	Is the loan terms will not jeopardize the liquidity position of the credit union?						
	Operational Risk: The risks arising from the type and nature of operational risk involved in the credit union's activities. These include direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.						
2.29	Is the board aware of the major aspects of the credit union's operational risks as a distinct risk category that should be managed, and it shall approve and periodically review this framework.						
2.30	Is the board ensuring that the credit union's operational risk management framework is subject to effective and comprehensive internal audit?						
2.31	Is the Senior Management has the responsibility for implementing the operational risk management framework approved by the Board of Directors.						
2.32	Is the framework consistently implemented throughout the credit union, and all levels of staff shall understand their responsibilities with respect to operational risk management.						

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2.33	Does Senior Management ensures that the necessary policies, processes and procedures for managing operational risk in all of the credit union's material products, activities, processes and systems are in place.						
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	<i>Does the credit union implement, monitor and reports compliance with the following policies to mitigate operational risks (examine the policies or procedures that would mitigate the following risks):</i>						
2.34	Internal fraud. For example, intentional misreporting of positions, employee theft, and insider trading on an employee's own account.						
2.35	External fraud. For example, robbery, forgery, cheque kiting, and damage from computer hacking.						
2.36	Employment practices and workplace safety.						
2.37	Disregard of credit union policies, strategies, guidelines, rules and regulations, as well as inappropriate or ineffective use of existing control mechanisms by Bank personnel in relation to a particular client, or attempts to create "shortcuts" in order to advance personal agendas.						
2.38	Members, products and business practices. For example, fiduciary breaches, misuse of confidential customer information, and money laundering.						
2.39	Damage to physical assets. For example, terrorism, vandalism, earthquakes, fires and floods.						
2.40	Business disruption and system failures. For example, hardware and software failures, telecommunication problems, and utility outages.						
2.41	Execution, delivery and process management. For example, data entry errors, collateral management failures, incomplete legal documentation, unapproved access given to client accounts, non-client counterparty misperformance, and vendor disputes.						

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2.42	Clear strategies adopted by the Board of Directors and oversight exercised by Senior Management (the President, Vice-Presidents and the Secretary General).						
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2.43	Strong internal operational risk culture (Internal operational risk culture is taken to mean the combined set of individual and corporate values, attitudes, competencies and behavior that determine a firm's commitment to and style of operational risk management) and internal control culture, emphasizing on dual controls?						
2.44	Is there an effective monitoring and internal reporting systems?						
2.45	Is there a contingency and business continuity plans?						
2.46	Is there high standards of ethics and integrity?						
2.47	Does the Board commits to effective corporate governance, including, among others, segregation of duties, avoidance of conflicts of interest, and clear lines of management responsibility, accountability and reporting, as reflected in the credit union's corporate governance documents.						
2.48	Are all levels of staff understand their responsibilities with respect to operational risk management?						
	Litigation/Legal Risk: The risks arising from the type and nature of the credit union's contractual agreements. These include the risk that contracts may not be enforceable under applicable law and that the nature of the product/service may render the credit union particularly vulnerable to litigation.						
	<i>Does the credit union enters into any of the following 4 defective transaction:</i>						
2.50	Transaction which does not allocate rights and obligations for the credit union;						
2.51	Transaction which is or may be determined to be void or unenforceable in whole or with respect to a material part for whatever reason;						

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2.52	Transaction which are to be misleading or false or which fail to disclose material facts or circumstances;						
2.53	Misunderstanding the effect of one or more transactions (for example, believing that a right of set-off exists on a loan)						
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2.55	Collateral arrangements that are, or maybe, defective for whatever reason.						
2.56	Entering into a contract which does not, or may not have an effective or fair dispute resolution procedure.						
2.57	A claim including a defense to a claim or a counterclaim being made or some other event occurring which results in a liability or						
2.58	Failing to take appropriate measures to protect assets owned by the credit union.						
2.59	Are there an existing consequences on non – compliance with regulatory requirements range from fines, increased customer litigation to suspension of activity.						
2.60	Inexistence of confidentiality agreement among Board and staff that might have caused legal risks.						

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3. FINANCIAL							
	<p>3.1 Protection: The risk arising from inadequate protection of assets measured by the adequacy of the allowances for loan losses against the amount of delinquent loans and the allowances for investment losses with the total amount of non-regulated investments. Inadequate loan loss protection produces two undesirable results: inflated asset values and fictitious earnings. Most credit unions are not anxious to recognize loan losses, and much less, to charge 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.</p>						
1	<p>100% Provision for delinquent loans over 12 months: Very Low: 100% with consistent quarterly charge off, Low 100% with quarterly charge off made from time to time, Medium: 99-70% provisions; High 50-69% provision and Very High: 49% below provisions</p>						
2	<p>35% Provision for delinquent loans 1-12 months: Very Low: 35% provisions and quarterly charge off consistently practiced Low: 35% provisions with quarterly charged off consistently observed from time to time Medium: 35% provision; High: less than 35% and no charging off is practiced Very High: No provisions</p>						

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3.2	Effective Financial Structure: The risk arising from the imbalance of fund sources and asset investment may result to liquidity problem, reduced income, and slow growth. Credit unions are encouraged to maximize productive assets as the means to achieve sufficient earnings. Since the loan portfolio is the most profitable asset of the credit union, maintaining 70-80% of total assets in the loan portfolio is recommended. Excess liquidity is discouraged because the margins on liquid investments (e.g., savings accounts) are significantly lower than those earned on the loan portfolio. Non-Earning assets are also discouraged because once purchased, they are often difficult to liquidate.						
3	Net Loans to Total Assets is between 70-80%: Very Low: 70-80% of TA and diversified loan portfolio and balanced risk concentration as supported by a policy; Low: 70-80% of TA with diversified loan portfolio; Medium: 70-80% of TA High: equal or below 50% of total assets; Very high: equal or below 50% of total assets and it has been a decreasing trend in the last 3 years						
4	Savings to Total Assets 70-80%: Very Low: 70-80% of TA and a diversified savings with minimum 5 savings products; Low: 70-80% of TA; Medium: 51-69% of TA High: equal or below 50% of total assets; Very high: equal or below 50% of total assets and it has been a decreasing trend in the last 3 years						
5	External Borrowings to Total Assets 0%						
6	Net Institutional Capital to Total Assets is Minimum 10% of total assets: Very Low: >10% of TA; Low: 10% of TA; Medium: 5-9% of TA High: below 4% of total assets; Very high: negative ratio						
		Risk Rating					

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	3.3 Assets Quality: The risk arising from a non-productive or non-earning asset that does not generate income for the credit union. An excess of non-earning assets affects credit union earnings in a negative way.						
7	Total loan delinquency to total loan portfolio is less than 5%: Very Low: 1-3% Low: 4-5%, Medium: 6-9% High: 10-20% Very High: >20% and provision is insufficient						
8	Non-earning Assets to total Assets is less than or equal to 5%: Very Low: <5% and financed by non-earning capital Low: 5% and financed by non-earning capital, Medium: 6-9 % and financed by non-interest bearing capital High: 10-20% and partly financed by earning liabilities and capital Very High: >20% and partly financed by earning capital and liabilities						
9	Financing of Non-Earning Assets is greater than or equal to 200% of Net Institutional Capital plus no-cost funds: Very Low: equal or greater than 200% Low: 150 to 199%, Medium: 100-149% High: 100% Very High: <100%						
	3.4 Rates of Return on Costs: The risks arising from the nature of earnings of the credit union and its capacity to meet the financial costs and operating expenses. The volatility of revenues could pose risks to credit union operation in the future.						
10	Net loan income to Average net loan portfolio is "entrepreneurial rate" or market rate: Very Low: equal to market rate Low: 1% higher than market rate, Medium: 2-3% higher than market rate High: 4-5% higher than market rate Very High: > 5% higher than market rate						
11	Total liquid investment income to average liquid investments is market rate: Very Low: equal to market rate Low: 1% higher than market rate, Medium: 2-3% higher than market rate High: 4-5% higher than market rate Very High: > 5% higher than market rate						

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12	Total financial investment income to average financial investments is market rate: Very Low: equal to market rate Low: 1% higher than market rate, Medium: 2-3% higher than market rate High: 4-5% higher than market rate Very High: > 5% higher than market rate						
13	Total interest cost on savings to average savings deposits is market rates or >inflation rate: Very Low: equal to market rate or 1% greater than inflation rate Low: 2% higher than market rate, Medium: 3-5% higher than market rate High: 6% higher than market rate Very High: > 6% higher than market rate						
14	Total interest cost on shares to average shares is market rates or equal to No. 10: Very Low: equal to market rate or 1% greater than inflation rate Low: 2% higher than market rate, Medium: 3-5% higher or below than market rate High: 6% higher or below than market rate Very High: > 6% higher or below than market rate						
15	Total interest cost on shares to average shares is market rates or equal to No. 14: Very Low: equal to market rate or 1% greater than inflation rate Low: 2% higher than market rate, Medium: 3-5% higher or below than market rate High: 6% higher or below than market rate Very High: > 6% higher or below than market rate						
16	Operating expenses to average assets is 5%: Very Low: equal or below 5% and maintains sufficient number of staff with competitive salaries Low: 5% Medium: 6-8% High: 9-10% Very High: > 10%						

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	3.5 Liquidity: The risk of loss due to inability of a credit union to meet cash obligations. Effective liquidity management becomes a much more important skill as the credit union shifts its financial structure from member shares to more volatile deposit savings.						
17	Liquid investments to short term payables is minimum 15%: Very Low: above 15% of total savings but not exceeding 20% of total assets Low: 15% of total savings but not exceeding 20% of total assets Medium: 10-15% of total savings but not exceeding 20% of total assets High: 5-9% Very High: <5%						
18	Non-earning liquid assets to total assets is less than 1%: Very Low: < 1% of total assets Low: 1% of total assets Medium: 2-3% of total assets High: 4-5% of total assets Very High: >5% of total assets						
	3.6 Signs of Growth: The risk that a credit union may not maintain its asset values if a strong, accelerated growth of assets, accompanied by sustained profitability is not achieved. Growth by itself is insufficient. CURBSS will link the growth to profitability, as well as to the other key areas by evaluating the strength of a credit union.						
19	Growth in membership is greater than 12%: Very Low: > 12% Low: 12% Medium: 5-11% High: <5% Very High: no increase and decreasing in the last 3 years						
20	Growth in Total Assets is greater than inflation rate: Very Low: < 1% of total assets Low: 1% of total assets Medium: 2-3% of total assets High: 4-5% of total assets Very High: >5% of total assets						
	Total Score						

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4. MEMBERS							
	Type of Members: The risks arising from the characteristics of the current members' base.						
	Balance of membership across different segments of the market?						
1	Spread over all of the following age segment, but with concentration in 26-45, the most productive group for financial service benefit to credit union: 18 to 25, 26 to 45, 46 to 60, over						
2	Spread over all of the following segment and with concentration on segment 5 -8: 1) Professional/Technical 2) Upper Management/Executive 3) Middle Management 4) Sales/Marketing 5) Clerical/Service Worker 6) Tradesman/Laborer 7) Small Entrepreneurs 8) Farmers 9) Unemployed						
3	Strike a balance on gender in membership						
4	Perception that a credit union is still a place where they can get easy loan.						
5	Financial illiteracy of members results to high loan demand and low repayment rate.						
6	Members trust gained because of the leadership not the capacity of the credit union as an institution. (Example: Members decide to put their deposits in the credit union based on the trust they put on the Manager or the Chairman or the Board.)						

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B. CONTROL							
1. TREATMENT OF MEMBERS: The risks arising from the recruitment quality and training procedures for customer service, remuneration scheme for employees and controls over customers' monies and assets when transacting with the credit union. This also refers to the risks arising from the nature of product advertisement issued by the credit union.							
1	Does the credit union guides its members as its financial partner to achieve their life aspirations and goals?						
2	Are the services of the credit unions aims to make it as transparent and accessible as possible and seek to facilitate a mutually acceptable arrangement with its members. This can include helping them find solutions if they are in arrears or unable to make contracted repayments on a loan?						
3	Does the credit union provides borrowers with accurate, comparable, transparent and complete information about the total cost of loans, including fees or commissions as required under applicable law?						
4	Does the credit union never offers members products the they cannot repay or will likely cause the member severe financial hardship?						
5	Does the credit union observes transparency by providing loan applicants with written responses as to why loan applications have been rejected?						
6	Are staff or board members should never accept any compensation from a potential borrower in exchange for granting of a loan? Is this clearly stated in the Code of Business ethics of the credit union?						

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7	Is lending only on what the members can afford to repay. It is being followed strictly, detailed and sensible loan criteria process, including the use of credit scoring, credit reference checking and affordability verification to make a full assessment of a person’s capacity to repay.						
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8	Does the credit union helps its members stay fully informed, providing them with the information they need to be confident when making a financial decision? Disclosures on interest rates, fees and other charges on loans will be made clearly in writing and in a form the member or potential member understands.						
9	Does the credit union acts with integrity, following ethical and legal selling practices and giving its members information that helps them make informed decisions about our products and services?						
10	Does the credit union promotes loans that have initial low prices, but later reset at higher rates without fully informing the member.						
11	Does the credit union made it clear to its staff to observe ethical standards in collecting loans from members by not harassing, physically or verbally abusing or oppressing a person?						
12	Is it clear to Board and staff that part of its role as responsible lender is to educate its members to ensure they are confident when making a financial decision and to avoid compromising						
13	Does the credit union has balance of membership across different segments of the market?						

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2. ORGANIZATION: The risks arising from the structure of the credit union and the relationship among entities. These include the nature of the legal and ownership structure, management arrangement, reliance on centralized functions, financial health and activities of subsidiaries and affiliates.							
1	Is the mission of the credit union suggest that it can undertake non-financial business?						
2	Is there a policy stating that capitalization on non-financial business should be funded by capital outside the shares and savings?						

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3	INTERNAL CONTROL: 1) The risks arising from the nature and effectiveness of the systems and procedures in place to identify, measure, monitor and control the risk of the business in an appropriate and timely manner. These include credit risk, market risk, operational risk, legal risk and new product risk. 2) The risks arising from the nature of management information and controls over the ICT infrastructure. These include the adequacy, accuracy, relevance, timeliness, procedure for implementation and procurement and security framework as well as the effectiveness and efficiency of the ICT infrastructure. 3) The risks arising from the nature and effectiveness of the compliance and internal audit functions. These include its mandate, structure, staffing, methodology and effectiveness, as well as the nature of policies, procedures and controls and their implementation						
A.	Cash in the Credit Union						
1	Are checks endorsed for deposit only immediately upon receipt?						
2	Are bank deposits prepared by an employee who is not a teller, and made within the time limits provided in the credit union						
3	Does someone prepare a daily list of all cash and checks immediately upon receipt?						
4	Are duplicate deposit slips and copies of check retained in the files?						
5	Is the person who has custody of actual cash and checks different from the person recording them and acknowledging?						
6	Are all cash and checks deposited intact and on a timely basis?						
7	Are cash over and short items recorded accurately each day, and are such items reviewed frequently by management?						
8	Are cash receipts balanced daily and entered as of the day on which they are received?						

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9	Are adequate precautions taken to prevent credit union funds from being commingled with personal funds of personnel?						
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10	Are adequate safekeeping facilities provided for all cash and other liquid assets in the custody of the credit union?						
11	Are currency shipments received and counted under dual controls?						
12	Are dual controls established for vault cash?						
13	Does each teller have bait money?						
14	Do all tellers have sole access to their own lockable cash drawer, and are all spare keys kept under appropriate control?						
15	Do all tellers have their own controlled cash drawer in the safe or vault to store cash supply during non-working hours?						
16	Is each teller's cash verified periodically on a surprise basis by a supervising employee or internal/external auditor?						
17	Is there appropriate receipting for transfers of funds between cash drawers of employees or tellers?						
18	Are tellers prohibited from processing their own cheques and processing transactions on their own personal credit union						
19	Are the cash supplies assigned to tellers kept at levels in accordance with credit union policy?						
20	Are maximum limits established for tellers cashing cheques or disbursing share withdrawals without approval?						
21	Are teller differences required to be reported to management according to credit union policy?						
22	Are cash drawers counted for tellers who were absent more than one business day?						
B.	Cash in Banks						
23	Is the cash account reconciled promptly each month with the statement received from the credit union's financial institution?						
24	Are adjusting entries to the account reconciled cleared in a timely manner?						
25	Are cheques that have been outstanding for a six month period of time transferred to accounts payable, and is a procedure in place to follow-up on such cheques?						

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B.	Treasury Operations (Cashier)						
40	Is any one individual prohibited from holding both combinations to any of the dual custody treasury compartments?						
41	When the custodianship of the treasury changes, is the treasury reconciled and fully documented with both staff members signing the reconciliation in full?						
42	Does the Treasury Officer Cash Book reconciled with the general ledger, and is the verification process documented?						
43	Is the treasury reconciled (bundle count) by a supervisor in the presence of the Treasury Officer, once per week to the general ledger and Cash Book and is the count documented?						
C.	Surprise Cash Counts						
44	Are surprise cash counts conducted on each teller drawer at odd times during the month on a regular basis?						
45	Are surprise cash counts (complete cash reconciliations) conducted on the treasury in the presence of the Treasury Officer, by a supervisor on a regular basis?						
46	Is a general ledger printout showing the teller's or treasury officer's balance attached to the surprise cash count?						
D.	Personal Accounts						
	<i>Are the following pieces of information obtained for all new membership files? Complete Schedule B – AML Review for Proceeds of Crime (Money Laundering) Terrorist Financing Act requirements for account records.</i>						
47	Signature card						
48	Operation of Account Agreement						
49	Does an independent staff member perform a sample audit on new accounts every month to ensure that the accounts are legitimate? (This audit should include verifying telephone numbers and addresses.)						
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50	Are new accounts monitored (flagged on the data system) for at least 90 days for any unusual activity which could cause the credit union a loss (i.e. kiting, money laundering,						
51	Is there a computer-generated report which highlights any member name or address change including on-line						
52	Does an independent staff member perform a sample audit on these changes every month to ensure that they are legitimate changes? (This audit should include verifying telephone numbers and addresses.)						
E. Controls and Limits							
53	Is there a policy preventing staff members from processing transactions on their own accounts (e.g. savings, loans, mortgages, etc.) and those of their immediate family members?						
54	Policy which prohibits staff members from approving loans and mortgages in their own name and the names of their immediate family members?						
55	Is there a Fraud and Dishonest policy signed by each staff member?						
56	Is there a Code of Conduct Policy (which encompasses conflict of interest, confidentiality and ethical conduct policies) signed by each staff member?						
F. Accounting Controls							
	<i>Are the following accounts reconciled monthly including all accounts with a nil balance, and are copies available for review purposes? Are all outstanding items investigated and promptly cleared for the following reconciliations?</i>						
57	Are the subsidiary ledgers of members' loans reconciled with the General Ledger? And that internal audit department check it on monthly basis.						
58	Are the subsidiary ledgers of members' deposits reconciled with the General Ledger? And that internal audit department check it on monthly basis.						
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59	Are the subsidiary ledgers of members' shares reconciled with the General Ledger? And that internal audit department check it on monthly basis.						

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60	Are the subsidiary ledgers of asset accounts reconciled with the General Ledger and its physical count? Is there an annual inventory conducted?						
61	For personal expenses incurred, are there properly documented expense forms submitted by all employees, directors and officers of the credit union?						
62	Are the expenses of the CEO/General Manager signed or a spending account pre-approved by the Board prior to reimbursement? (Where pre-approved, a copy of the board resolution must be available for review.)						
63	Are the monthly financial statements scrutinized and are significant variances to the budget investigated for unusual or unexplained transactions and presented to the board?						
64	Are the general ledger computer transaction listings reviewed daily and signed by a senior manager or are large variances						
65	Does the credit union have an internal audit program that is based on an effective written audit plan that is appropriate to the size and complexity of the credit union?						
66	Is the internal auditor free to report any suspicious activity to any member of the Audit Committee or Board, without fear of						
67	Does a senior manager randomly review at least 10 % of all employee's deposit, loan and mortgage accounts monthly looking for unusual and suspect entries, and are these reviews						
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		Very High	High	Medium	Low	Very Low	
G.	Loans						
	Policy						
68	Are Credit Committee meetings held in accordance with the policy?						
69	Do loan officers operate within approved limitations?						
70	Does the Audit/Credit Committee verify a random sample of all newly approved loans?						

Tools for Credit Union Risk Based Supervision

71	Is a complete delinquency report prepared each month and reviewed by the Board of Directors?						
72	Does approval for the charge-off of all uncollectible loans and amounts appear in the Board minutes?						
73	Are reports on recoveries of charged-off loans regularly made to the Board?						
74	Does the credit union continue to attempt to collect charged off loans?						
75	Are adequate measures in effect to prevent loans from being disbursed by the person approving the loan?						
	Documentation						
76	All credit applications signed by the member/co-signor or guarantor						
77	Are loan documentation legally binding i.e. loan application, promissory notes, mortgages etc..						
78	Are loan documents and securities are maintained in secured environment.						
79	Are loans substantiated by a credit analysis based on capacity of members to pay						
	Delinquency						
80	Is the credit policy supported by a detailed delinquent loans collection procedure?						
81	Is the collection procedure sufficient to ensure the quality of loan portfolio?						
82	Is the credit policy indicates the criteria and frequency of loans charged off or written off?						
No.	Analyst Point of Consideration or Question	Risk Rating					Comments
		Very High	High	Medium	Low	Very Low	
83	Is there a control record of the loans that have been charged off (out of balance sheet accounts)?						
84	Are there efforts to collect loans that have been charged off?						
85	Does the policy define the levels of authority for loan charge off and write off?						
86	Policy indicates rules for renegotiation of loans: criteria, payment extensions, and how many times allowed						

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87	Policy indicates criteria on when to take legal action on loans that have been delinquent.						
88	Is there a policy or procedure that delinquent loans must be reported and recognized based on the portfolio at risk?						
89	Is there a policy or procedure stating that allowance for loan loss should be adequately provided based on the PEARLS standards (Protection against loan losses is deemed adequate if a credit union 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.)						
90	Is there a "watch list" for renegotiated loans?						
91	Is the staff member who approved the loan different from the staff member who disburses the loan proceeds?						
92	Are staff members forbidden from auditing the loans they have approved?						
93	Is there a report on loans taken by Directors, officers, staff and related interests (DOSRI) including its details: amounts, terms and loan status?						
No.	Analyst Point of Consideration or Question	Risk Rating					Comments
		Very High	High	Medium	Low	Very Low	
	General Internal Controls						
94	Are officials and employees required to take vacations at least annually?						
95	Are employees trained to perform each other's duties, and those duties rotated occasionally wherever possible?						
96	Is the salary scale approved by the Board of Directors?						
97	Is possession of the combination for safe or vault limited to essential officials or employees?						

Tools for Credit Union Risk Based Supervision

98	Is the combination changed when a person with knowledge of it leaves the credit union?						
99	Are door locks changed each time a person with access to keys leaves the credit union?						
100	Are the proper authorizations changed when an employee leaves or is terminated? (i.e., bank authorization cards, wire transfer cards, borrowing authority, etc.)						
101	Are complete financial statements posted each month where they may be read by the members?						
102	Have the Board and committees held meetings as required by regulations?						
	Minutes of Board, Credit Committee and membership:						
103	a. Are they prepared promptly in permanent form?						
104	b. Are they read and approved at the next meeting?						
105	c. Are they signed by the appropriate officials?						
106	Have the operations been reviewed to determine that all contingent liabilities are recorded on the books of the credit						
107	Does the blanket surety bond meet the minimum standards required by the credit union?						
108	Verify with the insurance carrier that insurance is in force. Are coverage's within Board policy?						
109	Are transactions involving member insurance claims confirmed with the insurance company and the beneficiaries?						
No.	Analyst Point of Consideration or Question	Risk Rating					Comments
		Very High	High	Medium	Low	Very Low	
110	Are the annual examination report, auditors report, and the Audit Committee audit report reviewed and discussed by the Board of Directors promptly after completion and actions taken to correct noted exceptions and violations?						
111	Do the Board and committees report to the membership at the annual meeting?						
112	Has the scope of the procedures been expanded to review additional activities? (i.e., share drafts, credit cards, safe deposit						
	Electronic Data Processing						

Tools for Credit Union Risk Based Supervision

113	Does the credit union has adequate policies and procedures in place to be in compliance with all IT Security Compliance						
114	Are records backed up daily?						
115	Are daily backup records removed to off-site locations?						
116	Is the physical access to the computer system restricted to authorized persons only?						
117	Is access to the computer system restricted, so as to prevent entering of unauthorized transactions?						
118	Are file maintenance and exceptions reports monitored by Audit personnel/Audit Committee on a regular basis?						
119	Are written contingency operation plans in place to provide protection in event of catastrophic loss of EDP system?						
120	Is access to the credit union data/accounting system controlled through an effective password, key or card access system?						
121	Are employees strictly prohibited from sharing any password assigned to them?						
122	Does the credit union have a password hierarchy which restricts employees from posting to accounts other than those related to their job?						
No.	Analyst Point of Consideration or Question	Risk Rating					Comments
		Very High	High	Medium	Low	Very Low	
	Security Program						
123	Is a written security program in place?						
124	Are security devices installed and in operation and procedures followed?						
125	Are adequate measures in place to minimize exposure to robbery, burglary, and embezzlement?						
126	Are vital records kept in fire-resistant containers?						
127	Is the file of members' signature cards properly maintained?						
128	Are members' mailing addresses kept current?						
129	Are proper controls in place handling of "Do Not Mail" and "No Forwarding Address" accounts?						

Tools for Credit Union Risk Based Supervision

No.	Analyst Point of Consideration or Question	Very High	High	Medium	Low	Very Low	Comments
4. GOVERNANCE - BOARD AND MANAGEMENT: The risks arising from the nature of the board composition, quality of top management, and human resources. These include the role and effectiveness of the board, non-executive directors and board committees, management responsibilities and delegation as well as recruitment, training, remuneration, disciplinary procedure and availability of resources for staff.							
Board of Directors							
A	Decision Making						
1	Does the meeting agendas reflect the interest and inputs of board and management.						
2	Does the management reports, proposals and presentations received by the board are timely and provide the information required to make sound decisions.						
3	Are reports, proposals, and presentations of committees or representatives of the board are timely and provide the information required to make sound decisions.						
4	Are there adequate reference materials are available to the board to assist in board orientation, training and decision-making.						
5	Are the Board members use parliamentary procedure to facilitate discussion and decision-making.						
6	Does the board has access to independent advisors to assist in its deliberations, when deemed appropriate?						
7	Does the board avoids its responsibility to make decisions in a timely manner?						
8	Does the board reviews the implementation of the decision they made?						
B.	Participation						
9	Is the attendance record indicates high level of participation by the board and committees.						
10	Is the board acts as a cohesive group. It is not dominated by a small group of directors.						

Tools for Credit Union Risk Based Supervision

No.	Analyst Point of Consideration or Question	Risk Rating					Comments
		Very High	High	Medium	Low	Very Low	
11	Do all Directors regularly attend the credit union board meetings?						
	Is the Board Chairman						
12	a) keeps order and enforces rules of procedures adequately;						
13	b) ensures the participation of all directors;						
14	c) is aware of the items coming up on the agenda and their implications and communicates this to the other directors adequately; and						
15	d) maintains a healthy level of communication/counseling with General Manager/CEO.						
16	Does the board maintains a climate of freedom of expression.						
17	Does the board operates in an atmosphere of trust and caring, which encourages freedom of expression and harmonizing						
18	Does the board has an anticipatory attitude. It shows leadership by bringing issues to light. It plays an active versus passive role.						
19	Can the board demonstrate the exercise of independence through consistent constructive challenges to senior management?						
20	Does the board participates in the operation and control of the national federation/league and other related organizations?						
C.	Advisory						
21	Is there a healthy level of communication/counseling with the General Manager/CEO?						
22	Does the board has an adequate sense of autonomy from the CEO and other senior management?						
23	Does the board is well enough informed to understand the reports presented?						
24	Does the board follows the principle of self-governance. Its actions are not unduly influenced by the personal feelings or interests of individual directors.						
No.	Analyst Point of Consideration or Question	Risk Rating					Comments
		Very High	High	Medium	Low	Very Low	

Tools for Credit Union Risk Based Supervision

25	Does the board is aware of the distinction between the board's roles and responsibilities and those of management and plays an active role in board-management team building.						
D.	Trustee						
26	Are the Audit Committee members and all Directors supplied with copies of examination reports (e.g. external auditor's management reports, federation's inspection reports, certification reports, etc.) for review purposes?						
27	Do the Audit Committee and all Directors ensure that there is appropriate follow-up on outstanding issues identified by the reports?						
28	Does the board is active in the establishment of plans, policies and objectives for the credit union?						
29	Does the board evaluates performance in relation to the plans, policies and objectives of the credit union on a timely basis, and initiates corrective action if necessary?						
30	Does the board provides for the continuity of the credit union by seeing capable executives are continually available. A management succession plan is in place.						
31	Has the board formulated an overall risk philosophy and risk tolerance levels?						
32	Has the board ensured that senior management has developed and implemented the credit union's enterprise risk management (ERM) framework?						
33	Does the board periodically review and approve the ERM framework?						
34	Are issues that may have a positive or negative impact on the credit union's reputation and brand carefully considered in the board's assessment of the risk management process?						
35	Has the board reviewed and approved policies that clearly quantify acceptable risk, and that specify the quantity and quality of capital required for the safe operation of the credit union?						
		Risk Rating					

Tools for Credit Union Risk Based Supervision

No.	Analyst Point of Consideration or Question	Very High	High	Medium	Low	Very Low	Comments
36	Does the board have the experience and competence to establish the criteria for the selection of the CEO and the approval of candidates for other senior management positions?						
37	Is there an up-to-date statement of qualifications for the CEO?						
38	Has the board established performance assessment criteria for the CEO and senior management?						
39	Are those criteria aligned with the delegated responsibilities and accountability of the CEO?						
40	Has the board clearly communicated its information requirements and reporting expectations related to the oversight of senior management responsibilities?						
41	Is the board satisfied that it is allocating sufficient time for the oversight of the credit union's business objectives and business strategies?						
42	Are the succession plans for the CEO and other key senior management personnel up-to-date?						
43	Does the board have the experience to assess competently and critically the performance of the CEO and review the quality of the performance assessments of other senior management personnel by the CEO?						
44	Is the board satisfied that senior management's performance evaluation criteria are aligned with the sustainable achievement of the credit union's business objectives and provide incentives to conduct the operations in a sound and prudent manner?						
45	Is the board satisfied that the criteria for the assessment of the CEO and senior management are applied competently and objectively?						
46	Does the board maintains a healthy level of communication with the membership?						
47	Does the board continually reviews the services provided by the credit union to its members?						
		Risk Rating					

Tools for Credit Union Risk Based Supervision

No.	Analyst Point of Consideration or Question	Very High	High	Medium	Low	Very Low	Comments
48	Does the Board contribute towards people's confidence in the Credit Union by keeping my financial affairs in order (e.g. The members of the Board are not in arrears or in breach of any loan agreement; He/She is a member in good standing)?						
49	Does the Board treats the confidential business of the Credit Union in strict confidence (Board signs a confidentiality agreement)?						
50	Does the board projects an image of competence and responsibility, contributing towards people's confidence in credit union?						
51	Does the board is an instrument of strength, growth and change?						
52	Is there a director training and orientation program in place and current and new directors are provided with, and take advantage, of director development activities?						
53	Are all new Directors advised of their duties and responsibilities as set out in the Credit Unions and the regulations?						
54	Are all new Directors enrolled or completed the Credit Union Directors Competency Program or continuing professional development?						
Senior Management							
56	Is there timely and meaningful reporting to the board about significant issues (including the basis on which issues are determined to be significant) and the actions taken or planned to address them?						
57	Does senior management facilitate the decision-making role of the board?						
58	Does senior management set out and analyze options for the board, including those directed by the board, and make well-supported recommendations?						
59	Do senior management's briefings to the board include all significant points of view and all significant and reasonable options?						
		Risk Rating					

Tools for Credit Union Risk Based Supervision

No.	Analyst Point of Consideration or Question	Very High	High	Medium	Low	Very Low	Comments
60	Is the board provided by the senior management with an explanation about the importance of managing (i.e. the consequences of not effectively managing) specific significant risks to the achievement of the credit union's business objectives and business strategy?						
61	Do the CEO and senior management possess an appropriate range of skills, qualifications and experience to fulfill its responsibilities? Specifically, to implement the strategic direction of the credit union (which may include subsidiaries) and to implement an effective control environment that effectively manages the risks exposures of the credit union?						
62	Are there management development programs available for the credit union's future senior managers? Programs could include educational components, technical components, but most importantly, should include senior management mentoring initiatives.						
No.	Analyst Point of Consideration or Question	Risk Rating					Comments
		Very High	High	Medium	Low	Very Low	
5. BUSINESS & COMPLIANCE CULTURE: The risks arising from the nature of the organization's relationships with the regulator, other regulators and recent regulatory history. These include the adequacy, relevance, reliability and timeliness of financial and regulatory reporting.							
	Relationship with regulators						
1	Is the credit union following all the requirements set by the regulatory agency for credit unions on a timely manner.						
2	Is there a full compliance with the statutory requirements for credit union?						
3	Know the extent of director's duties & responsibilities under:						
	1. Common Law						
	a. Truth in Lending						

Tools for Credit Union Risk Based Supervision

	b. Customer Protection Law						
	c. Income Taxation-Withholding Taxes on Employees and Services Contracted						
	d. Trade Practices Act (Permit)						
	e. Environmental Protection Act (Permit)						
	f. Workplace Health and Safety Acts (Permits)						
	g. Labor Law: Minimum wage and required staff benefits and “Equal Employment Opportunity”						
	h. Banking Laws						
	2. Accounting Standards						
	a. Management Assertions on the Financial Statements (Existence or Occurrence, Completeness, Valuation or allocation, rights & obligation and Presentation & Disclosure)						
	b. Sufficient and appropriate internal controls adopted within the organization						
	c. Annual Financial Audit						
	Declaration of Interests or conflict of interests to the Board						
No.	Analyst Point of Consideration or Question	Risk Rating					Comments
		Very High	High	Medium	Low	Very Low	
4	Do the Board and senior management have knowledge and understanding of the Credit Union’s rules and ensure where possible that they are modernized and written. Laws, regulations, circulars						
5	When in doubt seek proper and sensible advice from competent lawyers who have an understanding of the business environment. It will be much easier that a Director was engaged in honest informed risk taking if it was based on sound legal advice.						