YETFU SONKHE SAVINGS & CREDIT COOPERATIVE SOCIETY

RISK CLASSIFICATION & ASSET PROVISION POLICY & PROCEDURES MANUAL

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1.0 SCOPE

The guideline aimed at ensuring that Yetfu Sonkhe Savings and Credit Cooperative Society, which in this policy shall be referred to as ***the Society***, has adequate provision against losses arising from perceived risks. The aim is to timeously inform management to make decisions to mitigate undue losses.

1.1 Policy Objectives

1.1.1 To ensure that all loans granted are classified and provided for according to the regulatory framework and in accordance with the loan policy.

1.1.2 Ensure that ***the Society*** has adequate provision against possible losses arising from its lending activities.

1.1.3 To classify the loan portfolio of ***the Society***.

1.1.4 Asset classification and provisioning are properly coordinated.

1.1.5 To ensure that the quality of ***the Society's*** loan portfolio guarantees operational success.

1.1.6 To make sure that ***the Society*** complies with regulatory requirements.

1.2 Regulatory framework

The board and management of the Society shall submit to FSRA a Risk Classification of Assets and provisioning report in accordance with FSRA reporting guidelines.

1.3 Review of credit portfolio

The Society shall review ***the performance of all loans*** every quarter and will ensure that:

1.3.1 Loan granting and lending conforms to the approved ***Loans and Savings Policy***.

1.3.2 Problem accounts are adequately identified and classified in accordance with the classification criteria prescribed ***in appendix 1***.

1.3.3 Appropriate and adequate level of provision for potential loss are always made and maintained.

1.4 Maintaining Provision *for bad debts*

1.4.1 The provision for ***bad debts*** shall be established through charges against ***profits***.

1.4.2 Any subsequent recovery will be credited to the ***bad debts' recovery income account***.

1.4.3 The Board of Directors shall make allocations of funds to create reserves to protect ***the Society*** from possible losses.

1.5 Provision Adequacy

1.5.1 The Board of Directors and the Manager have the responsibility ***of making*** an adequate provision for loan losses.

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1.5.2 ***The*** Credit Committee is responsible for reporting to the board, providing adequate and updated information on ***non-performing*** loans ***during the quarterly Board Meetings.***

1.6 Delinquency

1.6.1 One missed loan repayment shall be considered to be delinquent if the total principal balance ***and***/interests are not serviced ***on*** their due date.

1.6.2 ***Where-in the entire instalment for the month was not fully recovered, first preference shall be allocated to the interest.***

1.6.3 ***Any portion of the instalment that is unpaid, shall be deemed delinquent.***

1.7 Basis of classification

1.7.1 ***The Society*** shall classify its loan portfolio based on performance and in accordance with terms provided in the loan contract.

1.7.2 Where loan interest payments are due, loan classification will be based on the defaulted interest payments.

1.7.3 All loans shall be classified into five categories on the basis of the following criteria:

LOAN CATEGORY	DESCRIPTION
Performing Loans	Loans which are well documented and performing according to contractual terms.
Watch Loans	Loans whose principal/interest have remained unpaid for 1 - 30 days or where one installment is outstanding.
Substandard Loans	Loans not adequately protected by the current repayment capacity and the principal / interest remain unpaid between 31 - 180 days or where to six installments have remained outstanding.
Doubtful Loans	Loans not adequately protected by the current repayments capacity and the principal / interest have remained unpaid between 181 – 360 days or where seven to twelve installments have remained outstanding.
Loss Loans	Loans which the Society considers uncollectible / of such little value that their value continuous recognition as receivable assets is not warranted, not adequately protected and have remained unpaid for more than 360 days or where more than twelve installments have remained unpaid.

Source: FSRA Act no: 2 of 2010 ***as amended***

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1.8 Loan Restructuring

A loan will be reclassified by the ***Society*** if a sustained record of performance is maintained for six months/six instalments have been made from the last date of restructuring.

1.9 Accrued interest

Penalties on non-performing loans shall be suspended once a loan is classified as substandard and shall not be treated as income.

1.10 Loan Loss allowances

1.10.1 ***The Society*** shall provide for delinquent loans ***as per the table below:***

LOAN CATEGORY	DESCRIPTION
Performing loans	1%
Watch loans	5%
Substandard loans	25%
Doubtful loans	50%
Loss Loans	100%

Source: FSRA Act no: 2 of 2010 ***as amended***

1.10.2 Without prejudice to the classification sequence for provisioning, prescribed above, ***the Society*** shall provide fully for accounts deemed uncollectable at any time.

2.0 LOAN WRITE-OFF

2.1 General policy

2.1.1 Executive Management of the Society shall continually review all non-performing loans in order to assess any remedial action that can be taken.

2.1.2 All loans classified as losses must be written off.

2.1.3 The Manager will constantly review the portfolios in order to determine the possibility of collection and ***recommend write-offs where loans are deemed to be uncollectable.***

2.1.4 ***All non-performing loans, from substandard, will be handed over to the Society's Attorney's to take over the loan collection arrangement.***

2.1.5 The Manager is responsible for continually tracking each of the loans ***handed over to*** the ***Society*** attorneys responsible for these cases and they will prepare bi-monthly reports thereon. This report shall include the collection status of the loan as well as any change occurring in the collection activity. This report will be sent to the Board of Directors for review.

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2.2 Write-off of Loans to related persons

2.2.1 Loans ***for*** persons related ***(spouse and children)*** to the staff of the Society ***shall*** not be eligible to write off.

2.3 Loan write-offs

2.3.1 The Society shall write-off a loan/part of a loan from its statement of financial position when it loses control of the contractual rights over the loan or when all or part of the loan is deemed uncollectable or where there is no realistic prospect of recovery. These circumstances will be deemed by the Society to have arisen where, ***but not limited to***:

(i) A court has ruled against the Society

(ii) All forms of securities/collateral have been realised, but proceeds failed to cover the entire facility.

(iii) The Society is unable to collect or there is no collateral.

(iv) A borrower is declared bankrupt.

(v) Efforts to collect the debt are abandoned for any other reason.

(vi) The member is deceased and there is no collateral.

2.3.2 The procedure for write-off is detailed in the Society's loan policy.

2.3.3 ***The*** recovery made from any account previously written-off shall be credited to the loan losses account in the financial statements and shall not be recognised as income in the ***same*** year it is ***re***covered.

2.3.4 ***Loans (individual)*** write-off, of which balance is not more than 1% of the Society's reserves, will be authorised by the ***Executive Committee, and by the*** Board of Directors ***for loans above the 1%.***

2.4 Record of written-off loans

2.4.1 Loans in ***arrears*** for more than one year and which are fully provisioned shall be written off and shall have the following documentation:

(i) Report from the Credit Committee on the ***status*** of the loan transaction, containing balances of principal and interest owed, the specific provision created guarantees, and ***the recommendation to write off; or***

(ii) ***Recommendation report from the Executive Committee.***

(iii) Report by the Supervisory Committee regarding whether/not the loan that is going to be written off is linked to any staff of the ***Society.***

(iv) ***Resolution*** by the Board of Directors in the respective minutes.

2.4.2 The reports and documents shall be filed in the ***members'*** files.

3.0 REPORTS

3.1 Quarterly report to the Credit Committee and the Board of Directors

The Manager shall prepare a quarterly report for the Credit Committee and the Board of Directors that will describe the:

(i) status of all ***non-performing*** loans ***with*** significant amounts,

(ii) write-offs made and the possible write-offs expected.

3.2 Reports to the Annual General Meeting

The write-off of loans whose balances are equal to or greater than 1% of *the Society* reserves shall be disclosed at the Annual General Meeting by the Chairman of the Board of Directors.

4.0 LOANS TO BORROWERS WITH WRITTEN-OFF LOANS

The Society shall not grant loans to ***returning members*** who ***had their*** loans written off ***unless the loans have been fully recovered.***

5.0 POLICY REVIEW AND ADOPTION

5.1 ***To*** ensure continued relevance of this Risk Classification and Assets Provision Policy, the Board of Directors shall review this policy from time to time, as and when necessary.

5.2 This policy was adopted by the Board of Directors in a meeting held on the ***08th May 2025 and effective 1st July 2025.***

We, the undersigned, individually and collectively, give commitment to the implementation of this Policy by appending our signatures on behalf of the Society.

Mboni Dludlu	[signature]	01-08-25
Chairman	Signature	Date
Gcina Zwane	[signature]	06.08.2025
V. Chairman	Signature	Date
Vusi N. Malubane	[signature]	2025/8/4
Secretary	Signature	Date
Lungile S. Dlamini	[signature]	05/08/2025
Treasurer	Signature	Date

Appendix 1

Form 3A: Loan Classification and Provisioning

NAME OF SOCIETY	
FINANCIAL YEAR END	
START DATE	
END DATE	

PORTFOLIO AGEING REPORT					
		A	**B**	**C**	**D**
NO:	**CLASSIFICATION**	**No: of A/Cs**	**Outstanding Loan Portfolio**	**Required Provision**	
			(SZL)	**%**	**(SZL)**
1	Performing			1%	
2	Watch			5%	
3	Substandard			25%	
4	Doubtful			50%	
5	Loss			100%	
Subtotal					
NO:	**Reschedule / Renegotiated Loan**	**No: of A/Cs**	**Outstanding Loan Portfolio**	**Required Provision**	
			(SZL)	**%**	**(SZL)**
1	Performing			1%	
2	Watch			5%	
3	Substandard			25%	
4	Doubtful			50%	
5	Loss			100%	
Subtotal		-	-		-
GRAND TOTAL		-	-		-

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