Combined Annual Report of the Supervisors of the Co-operative Banks Development Agency and the South African Reserve Bank

2012/13

CO-OPERATIVE BANKS DEVELOPMENT AGENCY

South African Reserve Bank

Mission

For the Supervisor in the Co-operative Banks Development Agency (CBDA) to focus primarily on the registration and development of sustainable and responsible co-operative banks and, together with the Supervisor in the South African Reserve Bank (SARB), to promote the soundness of the co-operative banking sector through effective regulation and supervision of co-operative banks in the interests of their members and the economy.

Business philosophy

The Supervisors of co-operative banks, appointed by the CBDA and the SARB, follow a co-ordinated approach to ensure the consistent application of the Co-operative Banks Act, 2007 (Act No. 40 of 2007) (the Act), and to circumvent regulatory arbitrage. The Supervisors' objective is to gain a proper understanding of the operation of co-operative banks, and to apply and, where necessary, adapt international regulatory and supervisory standards to cater for the unique needs of the domestic co-operative banking sector. The Supervisors operate through a relationship of mutual trust and co-operation with all role-players in an effort to promote and enhance the accessibility of sound financial services to all South Africans.

Combined Annual Report of the Supervisors of the Co-operative Banks Development Agency and the South African Reserve Bank 2012/13 for the financial year ended 31 March 2013 in terms of section 52 of the Co-operative Banks Act, 2007 (Act No. 40 of 2007).

ISSN (print): 2223-9154
ISSN (online): 2223-9162

Available on the Internet at: http://www.reservebank.co.za and http://www.treasury.gov.za/coopbank/

CO-OPERATIVE BANKS DEVELOPMENT AGENCY

Contents

South African Reserve Bank

Tables

Box

Appendices

CO-OPERATIVE BANKS DEVELOPMENT AGENCY

Chapter 1: Introduction and Supervisors' overview

1.1 Introduction

As reported in the 2011/12 *Combined Annual Report of the Supervisors of the Co-operative Banks Development Agency and the South African Reserve Bank* (*Combined Annual Report*),[1] the co-operative banking sector is still in its infancy. As a result, the ongoing organic growth of the two registered co-operative banks and their increased compliance with regulatory requirements are essential for restoring confidence in the co-operative financial institution (CFI) sector.[2] Should the proposed amendments to the Co-operative Banks Act, 2007 (Act No. 40 of 2007) (the Act) be passed by Parliament later in 2013, the Co-operative Banks Development Agency's (CBDA) role of regulating and developing co-operative banks will come to an end, and the South African Reserve Bank (SARB) will become the sole supervisor of co-operative banks. This also aligns the regulation of co-operative banks with the shift towards a twin peaks model of financial regulation in South Africa.[3]

The improvement of the regulatory structure that governs CFIs that are not registered as co-operative banks also bodes well for the CFI sector. Centralising the regulation of CFIs within the CBDA was brought about by the issuance of Banks Act Exemption Notice No. 404 of 25 May 2012 (Exemption Notice) in *Government Gazette* No. 35368, dated 25 May 2012. The close working relationship between the supervisory and capacity-building units in the CBDA, and the consolidation of regulatory and developmental functions are seen as positive steps towards building sustainable co-operative banks for the future.

No new co-operative banks were registered during the period under review. Ongoing co-ordination and co-operation between the CBDA and the SARB remain essential to promoting public confidence in the CFI sector. The current organic growth seen in members' deposits and the addressing of developmental needs, rather than overreliance on external funding and grant money, are likely to bring about longer-term growth and sustainability in the CFI and co-operative banking sectors.

In this *Combined Annual Report*, the Supervisor in the CBDA and the Supervisor in the SARB report on the exercise and performance of their powers and functions in terms of section 52 of the Act.

An overview of the organisational developments in the SARB and the CBDA, and the most notable developments in the CFI sector during the year under review, is provided. This is followed by an analysis of the aggregated information of the emerging co-operative banking sector, with Chapter 3 providing an overview of the most prominent regulatory developments during the period under review. Chapter 4 provides details of the Supervisors' report on the implementation of their Co-operation and Co-ordination Plan for the 2012/13 financial year in accordance with section 42 of the Act, as well as the Supervisors' Co-operation and Co-ordination Plan for the 2013/14 financial year.

---

1 Available at http://www.resbank.co.za/Publications/Reports/Pages/CombinedAnnualReport.aspx. and http://www.treasury.gov.za/coopbank/publications.

2 Registered co-operative banks, financial services co-operatives (FSCs) and savings and credit co-operatives (SACCOs) operating under the Exemption Notice comprise the CFI sector in South Africa. *Stokvel*s are, in general, not regarded as CFIs. A *stokvel* is essentially a savings club where members contribute fixed amounts of money on a regular basis, normally either weekly, fortnightly or monthly. The total amount of money collected for the specific period is then paid to members on a revolving basis. Members rarely default on their contributions as they know they will forfeit their turn to receive payment.

3 Refer to the document entitled "Implementing a Twin Peaks Model of Financial Regulation in South Africa" for further information in this regard. The document is available at http://www.treasury.gov.za/comm_media/press/2013/2013020102%20-%20Twin%20Peaks%2001%20Feb%202013.pdf.

South African Reserve Bank

1.2 Organisational developments

1.2.1 Introduction

There are currently separate co-operative banking supervisory units that were established by the CBDA and the SARB to regulate and supervise registered co-operative banks. There is also a capacity-building unit in the CBDA to assist CFIs with meeting the requirements for registration as co-operative banks. The CBDA has also taken over the responsibilities of the Savings and Credit Co-operative League of South Africa (SACCOL) and the South African Microfinance Apex Fund (samaf) to register and regulate CFIs that operate under the Exemption Notice. The current organisational structures for the regulation and supervision of co-operative banks in the CBDA and the SARB are discussed below.

1.2.2 Structure of the Co-operative Banks Development Agency

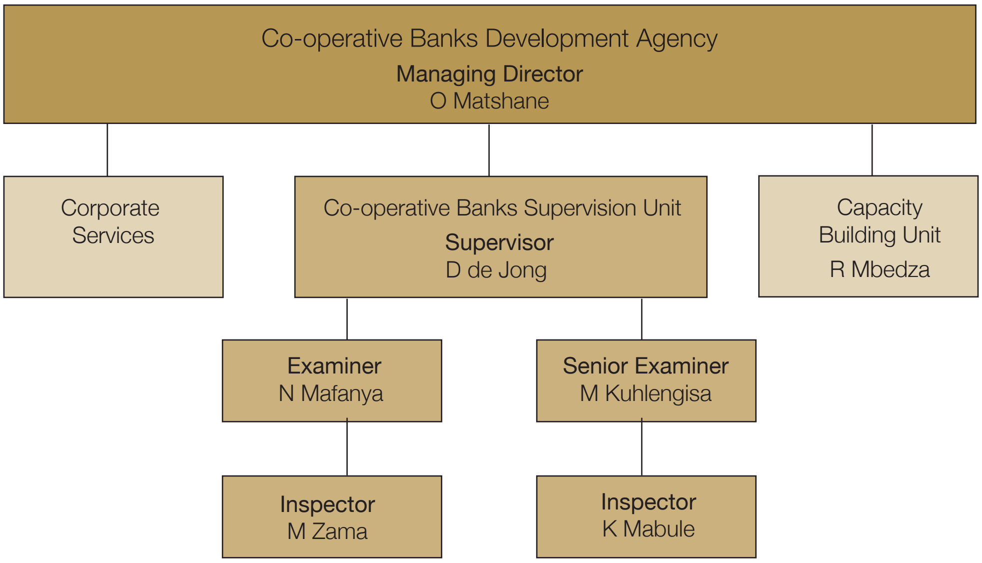
As explained in greater detail in the 2010/11 *Combined Annual Report*, the CBDA was established to accredit representative bodies and support organisations, and to supervise and regulate primary co-operative banks with deposits of between R1 million and R20 million, and with at least 200 members.

While the Minister of Finance has executive authority over the CBDA, the CBDA Board of Directors (the Board) performs the function of accounting officer and ensures effective corporate governance of the CBDA. The Board is then vested with the authority to appoint a CBDA Managing Director (MD) to manage the day-to-day affairs of the CBDA, and a Supervisor of Co-operative Banks to exercise the powers and perform the functions afforded by the Act.

In May 2012 Ms O Matshane was appointed as the MD of the CBDA, taking over from her predecessor, Ms I Goodspeed, who had been seconded to the CBDA from the National Treasury following the resignation of Mr N Mashiya, who in turn had been appointed as Deputy Registrar of Banks and Supervisor of Co-operative Banks at the SARB. The regulatory and supervisory function is located in the supervisory unit of the CBDA. The supervisory unit is headed by the Supervisor, Mr D de Jong, who was appointed with the approval of the Minister of Finance in 2009. The Supervisor is supported by two examiners; Senior Examiner Mr M Kuhlengisa and Examiner Ms N Mafanya. Two inspectors have joined the supervisory team as permanent employees, namely Mr M Zama and Ms K Mabule, with Ms M Mafojane providing administrative assistance to the supervisory unit. The current structure of the CBDA is depicted in Figure 1.

The CBDA's mandate was extended with the publication of the Exemption Notice to include the supervision and regulation of CFIs that were not registered as co-operative banks. In view of these additional responsibilities, which became effective six months from the date of the Exemption Notice, the supervisory unit created additional posts to cater for the additional functions.

Figure 1 Structure of the Co-operative Banks Development Agency



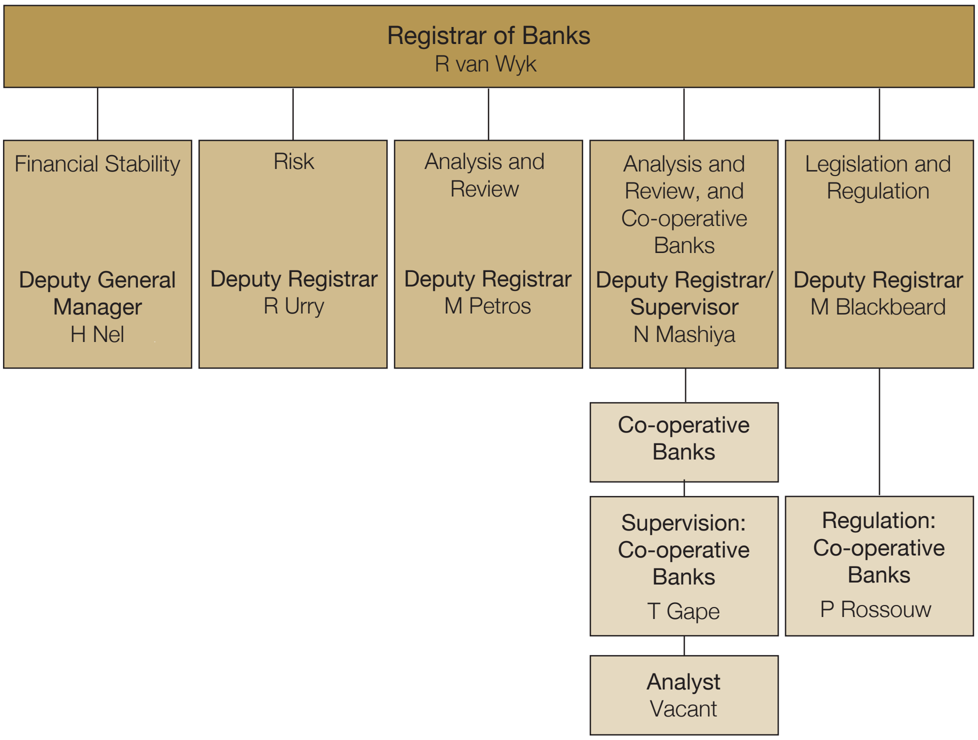
1.2.3 Structure of the South African Reserve Bank

The SARB Supervisor has the authority to exercise the powers and perform the functions afforded by the Act in respect of primary co-operative banks that hold deposits in excess of R20 million, secondary co-operative banks and tertiary co-operative banks.[4] Mr N Mashiya is the SARB Supervisor of Co-operative Banks and Deputy Registrar of Banks. He is assisted by Mr P Rossouw and Dr T Gape, who are responsible for assisting the Supervisor with the respective regulatory and supervisory responsibilities in accordance with the Act. Ms P Masemola, SARB Analyst in respect of co-operative banks, resigned during the period under review and the position is in the process of being filled. It is not expected that the current staff complement will increase during the 2013/14 financial year, although due cognisance is taken of the possibility that the SARB may soon become the sole supervisor of co-operative banks.

4 The members of secondary or tertiary co-operative banks must either consist of at least two or more co-operative banks; two or more CFIs that take deposits; or one co-operative bank and one CFI that takes deposits.

South African Reserve Bank

Figure 2 Structure of the South African Reserve Bank



1.3 The financial co-operatives sector

1.3.1 Introduction

During the period under review CFIs generally made good progress towards complying with the registration requirements of the Act. Two CFIs are expected to meet the requirements for registration as co-operative banks during the 2013/14 financial year. Ditsobotla Primary Savings and Credit Co-operative Bank Limited (Ditsobotla) and OSK Koöperatiewe Bank Beperk (OSK) remained the only registered co-operative banks during the period under review. Following the publication of the Exemption Notice, the CBDA became the sole regulator of CFIs operating in terms thereof, replacing SACCOL and samaf. The major development in the CFI sector during the period under review was the registration of CFIs with the CBDA. The progress made in this regard is highlighted below.

1.3.2 Exemption Notice and the Rules issued in terms of section 45 of the Co-operative Banks Act, 2007

The Registrar of Banks, with the approval of the Minister of Finance, designated the CBDA as the sole regulator of CFIs that are not registered as co-operative banks through the issuance of the Exemption Notice.[5] Following the issuance of the Exemption Notice, the CBDA Supervisor published draft rules for CFIs that apply for registration with the CBDA. The process included the following:

- Adoption of a policy framework and programme for regulation and supervision
- Drafting of rules
- Consultation with samaf, SACCOL and the provincial departments of economic development on the draft rules
- Publication of the draft rules
- Conducting of workshops to explain draft rules and to solicit further comments

5 Further details in this regard are provided in section 3.4 on page 16 of this report.

- Consolidation of comments received after consultation
- Adoption of the Supervisory and Regulatory Rules for Co-Operative Financial Institutions applying for Registration to the CBDA as required through *Government Notice 35368*, No. 404 of May 2012 (CBDA Rules).[6]

The CBDA Rules are drafted in such a manner that the registration processes between the Registrar of Co-operatives and the CBDA are aligned and communication between these two regulators is enhanced.

One of the main requirements for registration as a CFI with the CBDA is that the CFI must have at least 200 members and hold a minimum of R100 000 in share capital. Once registered, licences are only issued on a yearly basis subject to meeting registration conditions which include submitting returns on a quarterly basis. On- and off-site inspections are conducted on an ongoing basis.

1.3.3 Consultation with the co-operative financial sector

The CBDA hosted a series of workshops to familiarise the CFI sector with the new Exemption Notice and to obtain comments on the draft rules issued by the CBDA. The workshops were held in each of the nine provinces. These workshops were well attended by CFIs and *stokvels*. Stakeholders involved with financial co-operatives such as the Small Enterprise Development Agency (SEDA)[7] and the relative provincial departments of economic development also attended some of these workshops. Details of attendance are reflected in Table 1.

Table 1 Workshop attendance

Provinces	No. of workshops	CFIs		Stakeholders		Total
		No. of CFIs	No. of representatives	No. of stakeholders	No. of representatives	
Limpopo	1	13	44	2	4	48
Mpumalanga	1	6	16	2	3	19
North West	1	6	20	2	5	25
Northern Cape	1	5	19	2	5	24
Western Cape	1	8	21	2	4	25
Eastern Cape	1	12	26	6	25	51
KwaZulu-Natal	1	23	38	5	22	60
Free State	1	11	33	2	5	38
Gauteng	2	26	55	4	10	65
Total	10	110	272	27	83	355

On 20 July 2012, after taking into account the public comments received, the CBDA Rules were published. All CFIs that met the minimum criteria were required to submit their applications for registration by no later than 31 December 2012. Notwithstanding the minimum requirements of 200 members and R100 000 of share capital, all FSCs and SACCOs that were previously registered with samaf or SACCOL were considered for registration with the CBDA, provided they were solvent at the time of application and that the CBDA had received their applications in time. The eligible CFIs were registered subject to the condition that the minimum registration requirements had to be met within the stipulated timeframes.

6 Available online at www.treasury.gov.zo/coopbank/.
7 SEDA is an agency of the South African Department of Trade and Industry and was established in December 2004 through the National Small Business Amendment Act, 2004 (Act No. 29 of 2004).

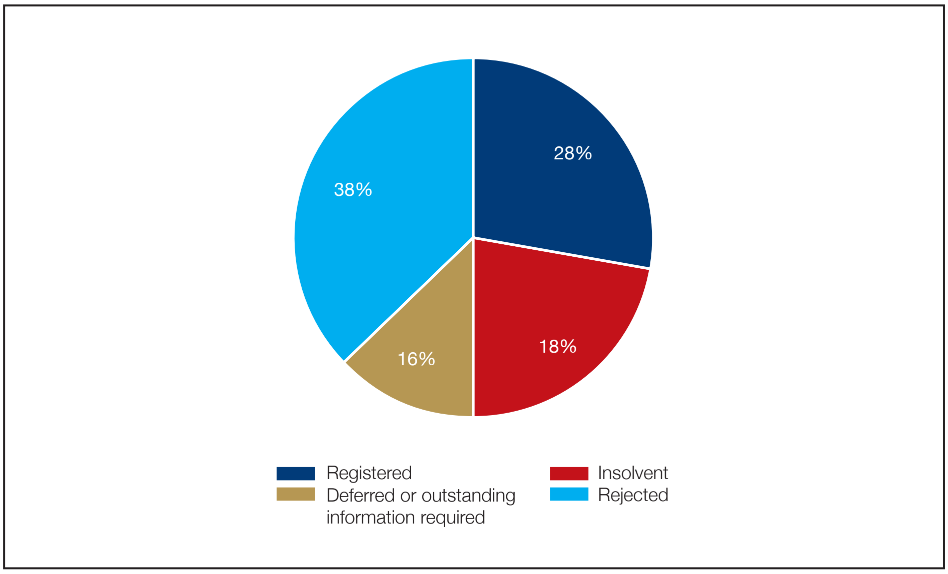
South African Reserve Bank

This dispensation was not extended to *stokvels* previously registered as co-operatives with samaf. These institutions will only be considered for registration by the CBDA as CFIs once they have 200 registered members and hold at least R100 000 in share capital. In the interim such *stokvels* are required to deregister as co-operatives and register with one of the *stokvel* self-regulatory bodies as required by the Exemption Notice.

1.3.4 Applications received

By 31 March 2013, 50 applications had been received for registration as CFIs with the CBDA. A summary of the results of these applications is provided in Figure 3.

Figure 3 Summary of applications received



Fourteen applications were approved for registration as CFIs for the financial year ended 31 March 2013 and the CBDA issued them with annual registration certificates, effective from 1 March 2013. Re-registration is subject to these CFIs' ongoing compliance with the Exemption Notice and the CBDA Rules, which primarily require CFIs to be solvent at all times, maintain a minimum of R100 000 in share capital and 200 members, and submit their quarterly returns on a timely basis.

Registered CFIs are subjected to on-site inspections and, where deemed necessary, additional conditions are imposed or infringement notices are issued by the CBDA.

Two applicants were declined due to the fact that they exceeded the maximum deposit threshold of R30 million as stipulated in the Exemption Notice and were referred to the SARB. However, their applications previously lodged with the SARB for registration as co-operative banks were also declined as they did not meet the minimum registration requirements in this regard.

Nineteen applications were declined as they did not meet the minimum registration requirements of 200 members or R100 000 in share capital. They were advised to register as *stokvel*s with the National Stokvel Association of South Africa (NASASA) or any other self-regulatory body approved in writing by the Registrar of Banks as required by the Exemption Notice. They were also instructed not to use the words 'financial co-operative', 'financial services co-operative' or 'savings and credit co-operative' as part of their name.

A further nine applications were declined due to the CFIs being insolvent. The CBDA Supervisor considered the World Council of Credit Unions (WOCCU) guidelines on computing solvency. The solvency ratio measures how a CFI's balance sheet (adjusted for provisions for bad debts) covers member savings and shares in the event of a liquidation or windup. The adjustment for provisions for bad debts in the solvency ratio ensures that CFIs that make higher loan provisions benefit from a stronger solvency ratio. The CBDA Supervisor's minimum acceptable solvency threshold is 100 per cent for registration purposes. In view of the fact that most of these insolvent applicants have been operating for more than five years and given that they are liquid enough to continue with their daily operations, the CBDA Supervisor is in the process of scheduling meetings with these CFIs to discuss their particular circumstances on a case-by-case basis.

Decisions regarding eight applications were deferred pending the receipt of outstanding information such as audited financial statements and management accounts. These CFIs were given deadlines by which to submit the outstanding information, with failure to do so potentially resulting in the rejection of their applications and their subsequent deregistration as co-operatives.

1.3.5 Co-operative financial institutions eligible for registration as co-operative banks

The number of eligible CFIs[8] declined by 14,28 per cent from 21 to 18 during the period under review. Two CFIs reported on in the prior year are in the process of winding down, while the Central Finance Facility (CFF)[9] is being liquidated. Nevertheless, the CFI sector's deposits increased by 5,51 per cent to R198 million over the period under review, which can be attributed to the growth in deposits by the two registered co-operative banks.

Table 2 Consolidated statistics for co-operative banks and eligible CFIs

Institution	Number	Membership	Total deposits (Rand)	Total loans (Rand)	Total assets (Rand)
Co-operative banks	2	1 830	61 324 970	48 416 122	69 420 533
Eligible CFIs	7	12 369	90 029 754	74 079 486	98 106 138
Other CFIs	9	17 700	46 949 767	21 214 500	47 669 078
Total	18	31 899	198 304 491	143 710 108	215 195 749

8 Eligible CFIs are those that meet the minimum requirement of 200 members and R1 million held in deposits in terms of the Act.

9 The CFF was a financial co-operative established for members to invest funds and where members could apply for loans to meet liquidity demands.

South African Reserve Bank

1.3.6 Registration of co-operative banks

During the period under review six applications were received for registration as co-operative banks. After scrutinising the applications and requesting outstanding information, pre-registration assessments could only be conducted at three of the six CFIs, which included on-site assessments and presentations to the Review Committee.[10] Of the remaining three applications, two were kept in abeyance pending the submission of the relevant CFIs' latest audited financial statements as there were inconsistencies in the management accounts received. The remaining application was declined due to the applicant's high loan delinquency, the likely adverse effect its delinquency ratio would have on its capital-adequacy ratio and the high reliance placed on grant income as these factors were detrimental to the relevant CFI's sustainability in the longer term.

10 The Review Committee is an internal committee and its membership includes the Supervisors of Co-operative Banks at both the SARB and the CBDA.

CO-OPERATIVE BANKS DEVELOPMENT AGENCY

Chapter 2: Co-operative banking-sector overview

2.1 Introduction

This chapter provides an overview of the financial performance of the two co-operative banks comprising the co-operative banking sector for the financial year ended 28 February 2013.[11]

During the year under review, the co-operative banking sector experienced significant growth in its asset base, which was largely supported by growth in deposits, the injection of capital and the retention of surplus funds (profits). The co-operative banking sector's capital-adequacy ratio decreased slightly, while the liquidity ratio remained constant. On a year-on-year basis, total assets increased by 13 per cent, loans increased by 16 per cent, liabilities increased by 12 per cent, members' deposits increased by 11 per cent and profit before tax increased by 52 per cent.

2.2 Membership and shareholding

Co-operative banks' shares are held by their members, who are both the co-operative banks' owners and customers. During the period under review, members' shares increased by 62 per cent year on year due to growth in membership and capital injection. It should be noted that a member's share can only be withdrawn when his or her membership is terminated.[12]

The co-operative banking sector had a total of 1 830 members at the end of February 2013 (February 2012: 1 573), representing an increase of 16 per cent from the previous year. The value of paid-up shares amounted to R487 320 at the end of February 2013 (February 2012: R300 725) and comprised 7 per cent of the co-operative banking sector's total capital.

Table 3 Membership and share capital

	Period		
	2011/12	2012/13	Percentage change
Number of members	1 573	1 830	16,3
Share capital	R300 725	R487 320	62,0

2.3 Balance-sheet analysis

The total assets of the co-operative banking sector grew from R61 million in February 2012 to R69 million at the end of February 2013 (Table 4). Gross loans increased from R42 million in February 2012 to R48 million at the end of February 2013, while liquid assets increased from R16 million to R17 million over the same period. Total deposits increased from R56 million in February 2012 to R61 million at the end of February 2013. The growth in deposits was mainly as a result of marketing campaigns adopted by the institutions and increased confidence of community members. Liabilities, excluding deposits, increased by R1 million due to a loan from samaf.

11 Further information on the financial performance of the two registered co-operative banks prior to registration was provided in Appendix C of the 2011/12 *Combined Annual Report*.

12 It is also important to note that section 24(1) of the Co-operatives Act, 2005 (Act No. 14 of 2005) determines that despite any provisions contained in its constitution, if a co-operative bank determines that the repayment of shares would adversely affect its financial wellbeing, it may direct that the repayment be deferred for a period not exceeding two years after the effective date of the notice of withdrawal.

Table 4 Balance sheet

	Period		
	2011/12	2012/13	Percentage change
Assets			
Loans	41 897 699	48 416 122	15,6
Liquid assets	15 668 178	17 011 904	8,6
Fixed assets	1 392 651	1 448 754	4,0
Investments	1 876 431	2 162 501	15,2
Other assets	381 240	381 252	0,0
Total assets	61 216 199	69 420 533	13,4
Liabilities and capital			
Liabilities	55 784 975	62 662 374	12,3
Deposits	55 509 853	61 324 970	10,5
Other liabilities	275 122	1 337 404	386,1
Capital	5 431 224	6 758 159	24,4
Members' shares	300 725	487 320	62,0
Retained income	1 158 285	2 118 526	82,9
Reserves	3 972 214	4 152 313	4,5
Total liabilities and capital	61 216 199	69 420 533	13,4

Of the co-operative banking sector's gross loans, 84,6 per cent were long-term loans as at the end of February 2013 (Figure 4). Loans supported by collateral in the form of deposits, mortgage bonds or guarantees accounted for 93 per cent of gross loans, while 7 per cent of the co-operative banking sector's loans were unsecured at the end of February 2013.

Figure 4 Composition of gross loans

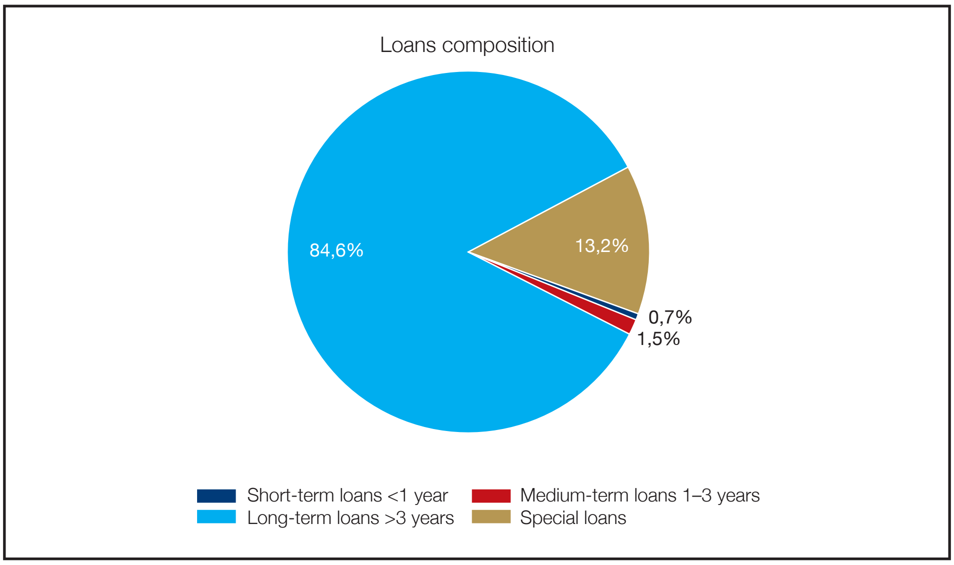
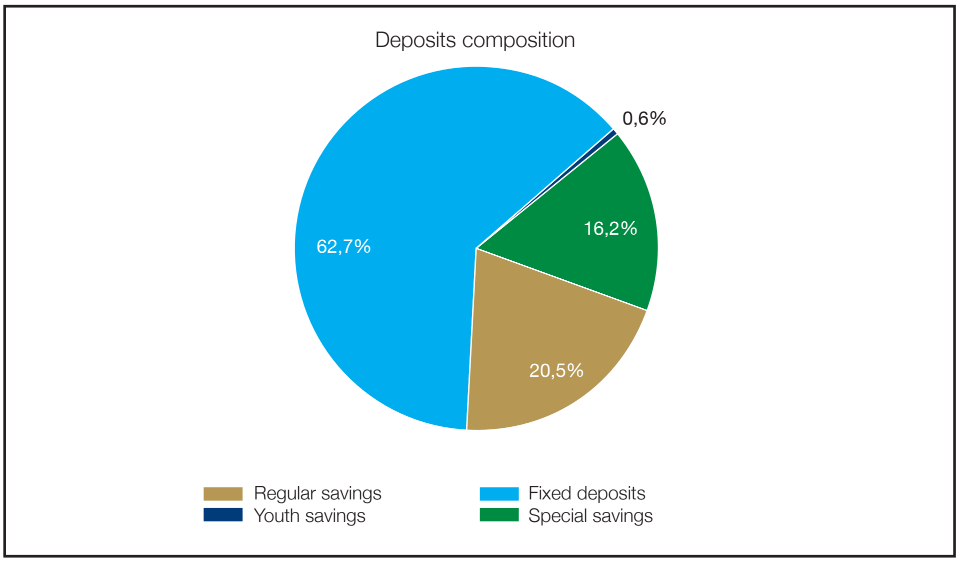


Figure 5 reflects the composition of the co-operative banking sector's deposits as at 28 February 2013, with fixed deposits constituting 63 per cent of total deposits, with maturity dates of up to six years. Regular savings, which can be withdrawn on demand, constituted 21 per cent of the co-operative banking sector's total deposits at the end of February 2013. Youth savings are deposits of people under the age of 21, and special savings are deposits that have been accumulated during the year and are normally withdrawn either at the end or the beginning of the year to pay for seasonal expenses such as school fees, textbooks and holidays.

Figure 5 Composition of deposits



2.4 Asset quality

Delinquent loans accounted for 7,3 per cent of the co-operative banking sector's gross loans at the end of February 2013 (February 2012: 8,5 per cent).

Table 5 Risk classification of loans

	29 February 2012		28 February 2013	
	Amount	Percentage	Amount	Percentage
Non-delinquent loans	38 347 947	91,5	44 877 490	92,7
Delinquent loans between 1 and 6 months	1 668 540	4,0	1 160 388	2,4
Delinquent loans between 6 and 12 months	1 168 845	2,8	1 295 588	2,7
Delinquent loans >12 months	712 367	1,7	1 082 656	2,2
Total loans	41 897 699	100	48 416 122	100

South African Reserve Bank

Figure 6 Composition of delinquent loans

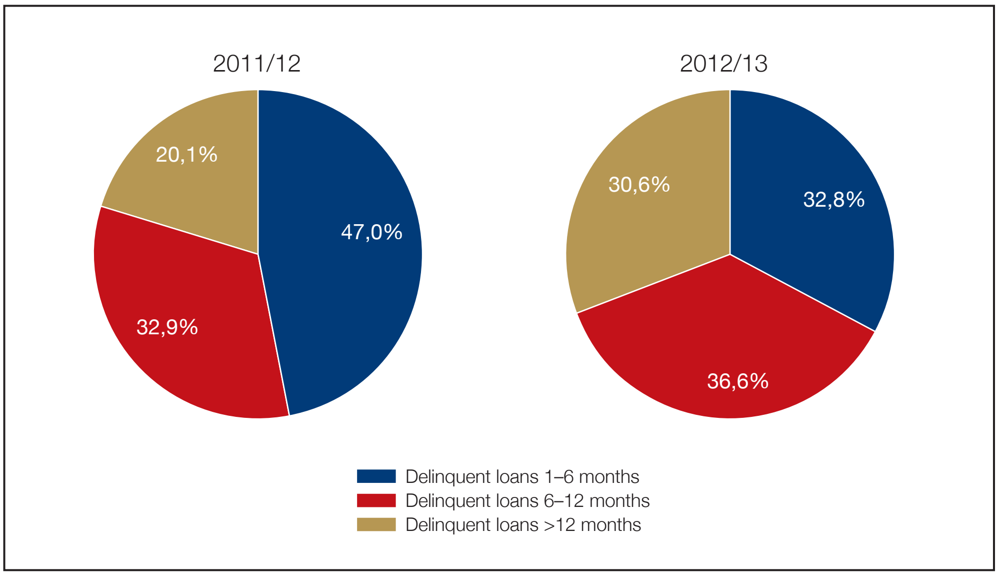


Table 6 Provisions for delinquent loans

	Delinquent loans	Regulatory requirements (Per cent)	Provision required	Actual provision
Total loans	44 877 490	2	968 322	968 322
1–6 months	1 160 388	35	406 136	406 136
6–12 months	1 295 588	50	647 794	647 794
>12 months	1 082 656	100	1 082 656	1 082 656
Total	**48 416 122**		**3 104 908**	**3 104 908**

2.5 Capital and capital adequacy

Total capital comprised share capital, retained earnings and reserves during the period under review. Total capital increased by 24 per cent from R5,4 million as at 29 February 2012 to R6,5 million at the end of February 2013. The increase in capital can be attributed to increased member shares and the retention of profits. Due to a decrease in qualifying capital,[13] the co-operative banking sector's capital-adequacy ratio[14] decreased from 5,8 per cent at the end of February 2012 to 4,9 per cent at the end of February 2013. This was as a result of the patronage payment[15] of R312 839 to members from reserves and a further reduction of qualifying capital of R258 309 as the Supervisor only recognised 50 per cent of the re-valuation reserves for purposes of calculating the capital-adequacy ratio.

13 Regulation 4.2 of the Regulations relating to Co-operative Banks (the Regulations) only allows members' shares, reserves held in terms of section (3)(1)(e) of the Act, retained income (non-distributable reserves created or increased by appropriations of surpluses, but excluding loan loss provisioning), and non-distributable reserves of a permanent nature as approved by the Supervisor in writing to qualify as capital for purposes of calculating the capital-adequacy ratio.

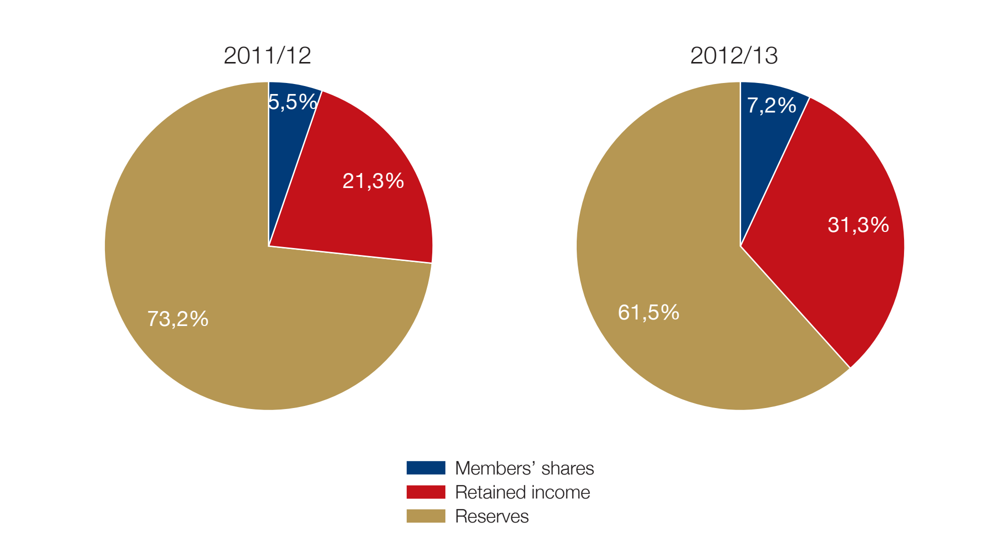
14 The capital-adequacy ratio is calculated by subtracting the amount of provision made for delinquent accounts from total capital and expressing it as a percentage of total assets.

15 Similar to a dividend payment but, generally, in proportion to the value of transactions conducted by a member with a co-operative during a specified period.

Table 7 Capital-adequacy ratio

	Period and percentage		Percentage change
	2011/12	2012/13	
Required capital-adequacy ratio	6,0	6,0	0
Capital-adequacy ratio	5,8	4,9	-0,9

Figure 7 Composition of capital



2.6 Liquidity

Liquidity is essentially the cash and other liquid financial assets that co-operative banks hold. Such assets can easily be converted into cash to meet the co-operative banks' short-term obligations. Liquidity is therefore crucial to the continued viability of co-operative banks. The co-operative banking sector's average liquidity ratio exceeded the minimum regulatory requirement of 10 per cent of total deposits,[16] closing unchanged at 28 per cent at the end of February 2013 compared to the end of February 2012. Both registered co-operative banks met the minimum liquidity ratio requirement during the period under review.

2.7 Profitability

The co-operative banking sector's income before tax increased by 55,5 per cent from R487 873 at the end of February 2012 to R758 658 at the end of February 2013. The growth was largely due to an increase in loans granted. The return-on-assets and return-on-equity ratios increased to 1,0 per cent and 11,1 per cent respectively at the end of February 2013 (February 2012: 0,5 per cent and 6,1 per cent respectively). The co-operative banking sector's cost-to-income ratio decreased from 93 per cent in February 2012 to 91 per cent at the end of February 2013 due to an increase in income.

16 The Regulations prescribe that a co-operative bank must hold a minimum of 10 per cent of total deposits in prescribed investments with a tenure not exceeding 32 days and convertible into cash at any time, without incurring any penalty or being subject to a discount rate substantially higher than the average rate that applies to liquid assets with a similar term.

2.7.1 Income

The total income of the co-operative banking sector increased by 16 per cent from R7,0 million in February 2012 to R8,1 million at the end of February 2013. This was primarily due to an increase in interest on loans by 16,7 per cent from R6,3 million in February 2012 to R7 million at the end of February 2013. Interest income accounted for 92 per cent of the co-operative banking sector's total income for the 2012/13 financial year (2011/12: 91 per cent). The increase in interest income is attributable to the expansion in the amount of credit extended to members.

2.7.2 Expenses

Total expenses increased by 12,5 per cent from R6,5 million in February 2012 to R7,3 million at the end of February 2013. Operating expenses, which include salaries and wages, governance, marketing, administration, auditing and depreciation, increased from R2,3 million in February 2012 to R2,6 million at the end of February 2013.

Table 8 Income and expenditure

	2011/12	Percentage of total income	2012/13	Percentage of total income
Interest income	6 330 985	90,6	7 385 555	91,5
Interest expenses	3 487 669	49,9	3 972 344	49,2
Net interest income	2 843 316		3 413 211	
Non-interest income	658 782	9,4	687 678	8,5
Operating income	3 493 097		4 100 889	
Provision for loans	671 155	9,6	765 378	9,5
Operating expenses	2 343 070	43,1	2 576 853	41,4
Personnel	1 149 134	16,4	1 370 353	17,0
Governance	402 469	5,8	415 175	5,1
Marketing	74 009	1,1	138 467	1,7
Administration	614 914	8,8	498 223	6,2
Auditing	95 508	1,4	119 384	1,5
Depreciation	7 036	0,1	35 251	0,4
Total expenses	6 501 894	93,0	7 314 575	90,6
Operating profit/Income before tax	487 872	7,0	758 658	9,4

2.8 Performance rating

The Supervisors apply the Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity (CAMEL) rating system to assess the soundness of co-operative banks. Both co-operative banks were assigned overall ratings of '3', denoting 'satisfactory', at the end of February 2013.

2.9 Inherent risks

The inherent risks associated with the co-operative banking sector include credit, liquidity, interest rate, operational, legal and compliance, strategic and reputational risk. During the period under review, co-operative banks improved their information systems, and risk management policies and strategies in order to meet regulatory and reporting requirements. Co-operative banks also put in place risk mitigation strategies. Generally, the risk management processes and procedures of co-operative banks appeared to be adequate and effective during the period under review.

2.10 Compliance with regulatory requirements

Both registered co-operative banks were non-compliant with the prudential requirements of section 4(1)(d) of the Regulations, and one was not compliant with section 5 of the Regulations. Section 4(1)(d) prohibits co-operative banks from accepting a deposit from a single member or related person in excess of 25 per cent of its capital, while section 5 prohibits a co-operative bank from investing more than 25 per cent of its capital with a single person or related person or grant a loan to any member or related person without approval from the Supervisor. The respective Supervisors, however, condoned the co-operative banks' non-compliance in this regard as the relevant deposits had been accepted and the relevant loans had been granted before registration. The relative investments were invested with registered commercial banks.

South African Reserve Bank

Chapter 3: Regulatory developments

3.1 Introduction

The main regulatory developments during the period under review relate to the Financial Services Laws General Amendment Bill, 2012 (the Omnibus Bill), the Co-operatives Act Amendment Bill (the Bill)[17] and amendments to the Exemption Notice.

3.2 The Financial Services Laws General Amendment Bill, 2012

As mentioned in section 1.1 of this report, it is expected that the Act will be amended to move the supervisory function of the CBDA to the SARB. It is likely that the amendments will be enacted during 2013. A detailed amendment of the Act may subsequently become necessary should Part 10 of the Omnibus Bill be approved by Parliament.[18] The Omnibus Bill is currently being debated by the Portfolio Committee for Finance.[19]

3.3 The Co-operatives Act Amendment Bill

The Bill has been tabled in Parliament to amend the Co-operatives Act. The latest debate on the Bill took place on 28 November 2012. The proposed amendments to the Co-operatives Act seek to introduce, *inter alia*, additional regulations for the co-operative sector to encourage growth.[20]

3.4 Exemption notices

The Small Enterprise Finance Agency was established as a result of a merger between Khula Enterprise Finance Limited (dedicated to the development and sustainability of small businesses in South Africa) (Khula), samaf and the small business lending portfolio of the Industrial Development Corporation. Samaf and Khula had previously granted loans through banks and financial intermediaries, which would then on-lend the funds to small businesses, including FSCs. Following the merger of samaf with the aforementioned entities and due to the fact that SACCOL is accordingly in the process of being liquidated, FSCs were left without regulatory bodies.

In order to ensure that CFIs remain regulated and supervised, the Registrar of Banks, with the approval of the Minister of Finance, designated the CBDA as the regulatory and supervisory authority of all CFIs that do not meet the minimum requirements of the Act to register as co-operative banks. The exemption notices relating to FSCs and SACCOs that were previously regulated by samaf and SACCOL were replaced by the Exemption Notice, which replaced the earlier Exemption Notice No. 887, published in *Government Gazette* No. 31342 dated 22 August 2008, and Exemption Notice No. 1176, published in *Government Gazette* No. 29412 dated 1 December 2006.

In terms of the Exemption Notice, the CBDA was designated as the regulator of CFIs that are not registered as co-operative banks. The main objectives of the Exemption Notice are to centralise the regulation and supervision of CFIs in order to minimise regulatory arbitrage; optimise the use of supervisory expertise and resources; minimise the regulatory burden on CFIs; alleviate confusion in the CFI sector; and to achieve the developmental objectives of the Act. *Stokvels* remain in the domain of NASASA or such self-regulatory bodies as approved by the Registrar of Banks in writing.

---

17 As redrafted by the Portfolio Committee on Trade and Industry (National Assembly) after considering the Co-operatives Amendment Bill (B17-2012) and the Co-operatives Second Amendment Bill (B18-2012).

18 Refer to section 3.3 of the 2011/12 *Combined Annual Report* for further details in this regard.

19 Appointed by the National Assembly from among its members, this committee processes legislation and conducts oversight over the Department of Finance.

20 Refer to section 3.4 of the 2011/12 *Combined Annual Report* for further details in this regard.

Designating the CBDA as the sole regulatory authority of all CFIs has had a positive effect on the CBDA in performing its function of developing financial co-operatives as prescribed by section 55 of the Act. Developments are under way to re-establish a representative body to provide the necessary assistance to CFIs. (See Box 1 for further details in this regard.)

As mentioned in section 1.3.4 of this report, two CFIs applied for registration with the CBDA in terms of the Exemption Notice, but they exceeded the prescribed deposit limit of 30 million. In order not to act beyond the scope of its supervisory powers, the CBDA declined the two said institutions' applications and referred the matter to the SARB for further action. Since these two CFIs did not yet meet the requirements of the Act to be registered as co-operative banks and in view of the evidence indicating that they appeared to be sustainable, a proposal was made to increase the limit stipulated in the Exemption Notice to R40 million to bring them within the regulatory ambit of the law. This proposal is currently under consideration.

Box 1 Development needs and progress made with regard to providing a secondary co-operative representative body

The Act requires the CBDA to promote the establishment of representative bodies and support organisations, to register and regulate representative bodies, and to accredit and regulate support organisations.

Second-tier support, such as representative bodies, is seen as a key enabler towards building and growing a self-sustaining CFI sector. International experience has shown that in a best-case scenario, strong second-tier representative bodies would displace the need for direct government support in the CFI sector as it begins to take care of itself. Government's role then shifts to focus on creating an enabling and protective legislative environment.

It is envisaged that support organisations will play a major role in assisting the CBDA with achieving its objectives of strengthening and growing the CFI sector as partners in development.

Establishment of a co-operative representative body

Subsequent to the demise of the Financial Solutions and the Financial Services Association in 2006, and the resolution by South African credit co-operatives in 2011 to dissolve SACCOL, which was the only remaining representative body with the legal mandate to serve as a regulatory and support organisation for SACCOs, the CBDA supported an initiative by SACCOL to unify the CFI sector under a new unified national association of all CFIs, including co-operative banks, SACCOs and FSCs.

After broad consultation with FSCs, SACCOs, SACCOL, samaf and the provincial departments of economic development from the nine provinces, which culminated in a national discussion at the CBDA Indaba in October 2012, a national financial co-operative association was established in October 2012. NACFISA was registered in March 2013 with the CIPC. NACFISA's aim is to unite, represent, support, serve member CFIs, and promote co-operative values, principles and good governance to enable member CFIs to be successful and financially self-sufficient. NACFISA furthermore intends to

- bring together all CFIs, co-operative banks, SACCOLs and FSCs;
- represent its members at regional, national and international levels; and
- provide a range of services to support the activities of its members, including
  - technical and other assistance to strengthen and expand the financial co-operative sector;
  - education and training; and
  - technology and expertise transfer.

South African Reserve Bank

Chapter 4: The Supervisors' Co-operation and Co-ordination Plan

4.1 Introduction

Section 42 of the Act provides that "the Supervisors appointed under sections 41(1) and 41(2) of the Act must co-operate with each other and co-ordinate their approach to exercising their powers and functions in terms of the Act to ensure the consistent application of this Act" and that the Supervisors must "engage with each other in activities of research, publication, education, staff development and training; engage with each other in staff exchanges or secondments and provide technical assistance or expertise to each other". These extracts essentially form the basis for the Supervisors' Co-operation and Co-ordination Plan.

4.2 Supervisors' Co-operation and Co-ordination Plan

In terms of section 52 of the Act, the Supervisors must also report on the implementation of the Co-operation and Co-ordination Plan referred to in section 42 of the Act. Appendix A provides details on activities regarding the implementation of the Supervisors' Co-operation and Co-ordination Plan for the period ending 31 March 2012.

The joint activities that were conducted include
- bi-weekly co-ordination meetings;
- meetings with stakeholders, interested parties and regulatory authorities;
- comments on relevant proposed financial regulation bills;
- issuance of statutory reports and guidance notes;
- review of compliance with international standards;
- assessment and evaluation of applications; and
- co-ordination of manuals and administrative systems.

Appendix B depicts the details of the Supervisors' Co-operation and Co-ordination Plan for the period ending 31 March 2014.

4.3 Participation in local and international forums

The Supervisors are expected to participate in the activities of international bodies and authorities whose main purpose is to develop, advance and promote the sustainability of co-operative banks, and to co-operate with these international bodies and authorities in respect of matters relating to co-operative banks.[21] While the Supervisors' participation in the relevant events is listed in Appendix B, the following forums should be highlighted:[22]

4.3.1 African Confederation of Co-operative Savings and Credit Associations Regulatory Framework Workshop held in Nairobi, Kenya, from 12 to 14 June 2012

The conference was hosted by the African Confederation of Co-operative Savings and Credit Associations (ACCOSCA), which is a non-governmental, pan-African confederation of national associations of financial co-operatives throughout Africa. The rapid growth of financial co-operatives in Africa has led to a rising need for prudential regulatory oversight to safeguard stakeholders' interests.

21 As prescribed by section 55(2) of the Act.
22 Apart from one forum, the Supervisors were invited to attend these forums at no cost.

Under the theme of "Working Together Towards an Effective Regulatory Policy for Co-operative Financial Institutions", the workshop aimed to address gaps in the regulation of financial co-operatives in Africa. The workshop's objectives were also to create a better understanding of regulatory frameworks, compliance, risk management and related knowledge and skills in an effort to foster growth in the CFI sector, and to establish a more efficient regulatory environment to promote transparency and good governance.

The Supervisor of the CBDA, Mr D de Jong, was invited to give a presentation on "Identifying Early Warning Signs Negating CFIs' Performance". Other presentations covered topics such as:

- Legislative lessons learnt from a study tour of regulatory framework implementation;
- Understanding the reaction of CFIs towards regulatory frameworks;
- Tools that are used to regulate CFIs;
- Building proper checklists for regulatory reforms;
- The necessity of regulatory reforms and obstacles encountered during implementation; and
- Whether standardised regulatory reforms are suitable for all countries.

4.3.2 The Alliance for Financial Inclusion held in Cape Town, South Africa, from 26 to 28 September 2012

The respective CBDA and SARB Supervisors, Messrs de Jong and Mashiya, attended a forum hosted by the Alliance for Financial Inclusion (AFI), which is a network of policymakers from developing countries working together to create more inclusive financial systems. The forum brought together senior representatives of more than 80 developing and emerging nations' regulatory institutions from across the globe, along with financial inclusion policy experts and practitioners from the AFI's partner institutions. The agenda covered technical discussions on the quality of financial access and usage. It also included a high-level debate on the potential impact that financial inclusion may have on the lives of the global unbanked population.[23] Mr N Mashiya was one of the speakers and he presented a paper on the topic of the "South African Experience in Financial Inclusion".

4.3.3 The CBDA Financial Co-operatives Indaba held in Durban, South Africa, from 16 to 19 October 2012

The theme of the indaba was "Financial Co-operatives: Building Better Communities". The indaba offered CFIs an opportunity to network and to increase their knowledge regarding best practices for growing sustainable and compliant CFIs. The indaba was attended by staff and board members of CFIs, CFI representative bodies and development agencies engaged with FSCs. Furthermore, panellists were from the local, international and government sectors, which offered delegates a wide range of expertise on financial co-operatives.

The indaba's objectives were to:

- raise awareness of the fact that 2012 had been declared the "International Year of Co-operatives" by the United Nations;
- contextualise financial co-operatives in the financial sector;
- provide a networking forum for financial co-operatives;
- provide financial co-operatives with a learning platform of technical skills and experience of their local, regional and global counterparts; and
- present an update on best practice regarding financial co-operatives.

---

23 The unbanked population typically refers to people without bank accounts. Such people normally live in remote areas and are not part of mainstream society or living in relative poverty. Such people are unable to get access to finance primarily due to a lack of collateral.

The indaba attracted 220 delegates comprising 150 CFI delegates and 70 stakeholders from government departments, development agencies and local, regional, and international speakers and practitioners.

Keynote presentations were given by the CBDA MD, Ms O Matshane on the "Past, Present and Future"; Mr E Darko from Ghana's Credit Union Association presented on "Fundamentals and Innovations in Financial Co-operatives"; Mr G Ombado of ACCOSCA presented on "Effective Risk Oversight at the CFI Board level"; Mr C Ademba from Kenya's SACCO Societies Regulatory Authority presented on the "Scope of Board Accountability in Financial Co-operatives"; and Ms A Okwanyo of the University of the Netherlands presented on "Women and Youth: Opportunity for Transformative Co-operatives".

Breakaway sessions were held and shorter stakeholder to presentations were also made. Mr T Masela of the SARB presented on the topic "Access the National Payment System", while Mr T Moloto of the National Treasury presented an "Update on CFI Retail Bonds".[24] Representatives of the Banking Sector Education and Training Authority, the Banking Association of South Africa, the German Co-operative Development Agency and various provincial departments of economic development presented their views on their organisations' respective programmes and involvement in the CFI sector.

In view of the fact that the United Nations declared 2012 as the "International Year of Co-operatives", an awareness creation march was held through the streets of Durban on 28 October 2012, which coincided with Credit Union Day. The march started at Botha's Park and ended at the eThekwini Municipality's offices, where a declaration was handed over to the Speaker of the House. The entire CBDA supervisory team participated, and contributed towards the hosting and running of the CBDA's flagship event.

24 Refer to section 4.3.3 of the 2011/12 *Combined Annual Report* for more detail on retail bonds.

Chapter 5: Issues requiring particular attention during 2012/13

5.1 Supervisory functions of the CBDA and the SARB

With the proposed transfer of the supervisory function of co-operative banks to the SARB in terms of the Omnibus Bill as mentioned in section 3.2 of this report, the focus of the CBDA will shift primarily towards its new mandate of regulating CFIs that operate outside the ambit of the Act, but in compliance with the Exemption Notice. Attention will be given to ensure the smooth migration of the current supervisory function of the CBDA over Ditsobotla to the SARB. Members of the SARB already joined the CBDA during on-site examinations conducted at Ditsobotla in anticipation of the enactment of the Omnibus Bill.

Once enacted, Supervisors will no longer be required to submit their Co-operation and Co-ordination Plan as required in terms of section 42(3) of the Act. This will necessitate the drafting of a memorandum of understanding (MoU) to ensure ongoing co-operation and co-ordination between the SARB Supervisor of Co-operative Banks and the CBDA Supervisor of CFIs. Insight into the performance of CFIs that are not registered as co-operative banks and recommendations from the SARB Supervisor regarding the registration of additional CFIs, being the potential co-operative banks of the future, will probably be included in such an MoU.

5.2 Deposit insurance

In view of the National Treasury's intention that all prudential regulation be conducted through one regulatory agency as per the proposed twin peaks model of financial regulation in South Africa, it is envisaged that a similar arrangement would be agreed to for deposit insurance. A decision on deposit insurance for co-operative banks will therefore be finalised once a decision on national deposit insurance has been made.

5.3 Appeals board

Similar to deposit insurance, the National Treasury aims to avoid duplication as far as possible by not having multiple appeals boards. The prospect of a single appeals board to service all financial deposit-taking institutions is therefore currently being considered. To date, it has not yet been necessary to refer any of the Supervisors' decisions taken in terms of the Act on appeal. The establishment of an appeals board specifically for co-operative banks is therefore not regarded as urgent and the matter will be considered in the light of the possible establishment of a single appeals board. However, should it become necessary to establish such an appeals board, it will be established in accordance with the Act.

5.4 Review of the co-operative regulatory framework

Following the registration of the two co-operative banks, and given the time that has lapsed since the promulgation of the Act and publication of the Regulations, the Supervisors deemed it necessary to evaluate the existing prudential framework. Some prudential requirements appear to be inadequate or inappropriate, while others are deemed to be either too stringent or too lenient. With a better understanding of the operations of co-operatives and their unique set of values and needs, it has become necessary to review current prudential requirements.

South African Reserve Bank

A working committee consisting of members from the SARB, the CBDA and the National Treasury has accordingly been established to review the current regulatory framework. The committee is in the process of comparing the current regulatory framework with international best practice and standards. Duly taking into account the various risks and needs of the co-operative banking sector, it aims to establish a set of prudential requirements that is not only aimed at increasing sustainability, but also at stimulating growth and confidence in the co-operative banking sector.

Appendix A: Report on the implementation of the Supervisors' Co-operation and Co-ordination Plan for the period ending March 2013

<table>
<tr><td colspan="2">Report on the Implementation of the Supervisors' Co-operation and Co-ordination Plan for the period ending March 2013 as required in terms of section 42(3) of the Act</td></tr>
<tr><td>Description</td><td>Implementation</td></tr>
<tr><td colspan="2">Section 42(1): Co-ordination of Supervisors' approach in exercising their powers and functions in terms of the Act</td></tr>
<tr><td>1. Conduct regular meetings between the Supervisors (or designated members) on at least a monthly basis to ensure a co-ordinated approach in the exercising of powers. Conduct ad hoc meetings whenever necessary.</td><td>• Supervisors conducted bi-weekly meetings.
• Supervisors liaised on an ongoing basis through electronic media or telephonically regarding matters of mutual interest.
• Ad hoc meetings were held whenever necessary to ensure close co-ordination and similar approaches by the Supervisors in the exercising of their duties.</td></tr>
<tr><td>2. Co-ordinate and co-operate with each other regarding the publication and issuance of Rules, guidance notes and directives to co-operative banks.</td><td>• No guidance notes and directives were issued to co-operative banks.
• No directives have been issued to date.</td></tr>
<tr><td>3. Reach consensus on proposed amendments to the Act, Regulations and Rules for subsequent approval and publication by the Minister of Finance.</td><td>• A task team chaired by Dr T Gape is revising the regulatory requirements for co-operative banks.</td></tr>
<tr><td>4. Reach consensus on the issuance of guidelines on the application and interpretation of the Act, and on the issuance of circulars containing information relating to co-operative banks.</td><td>• No guidelines were issued.</td></tr>
<tr><td>5. Consider applications to register as co-operative banks in a co-operative manner.</td><td>• The panel, consisting of both Supervisors and their team members, considered four pre-registration assessment reports of applicant CFIs. The panel also made recommendations to the Supervisor concerned for consideration.</td></tr>
<tr><td>6. Attend Regulatory Oversight and Advisory Committee (ROAC) meetings and other committees concerned to co-ordinate efforts between the Registrar of Co-operatives, the CBDA Board and the Supervisors.</td><td>• There was no need for a meeting.</td></tr>
<tr><td>7. Establish the necessary procedure and strategy when co-operative banks migrate between SARB and CBDA supervision in accordance with section 41(3) and (4) of the Act.</td><td>• The necessary procedure and strategy when co-operative banks migrate between the SARB and the CBDA supervision in accordance with section 41(3) and (4) of the Act will be attended to when it becomes necessary.</td></tr>
<tr><td>8. Co-operate in a crisis situation in order to establish and facilitate the actions and the timely decision-making process of the authorities responsible for the management and resolution of the crisis, including the CBDA Deposit Insurance Fund, once established.</td><td>• The Supervisors have finalised the "problem banks resolution framework" to co-operate in a crisis situation in order to establish and facilitate the actions and the timely decision-making process of the authorities responsible for the management and resolution of the crisis. The framework will be finalised once the CBDA Deposit Insurance Fund has been established.</td></tr>
<tr><td colspan="2">Section 42(2)(a): Engaging with each other in activities of research, publication, education, staff development and training</td></tr>
<tr><td>1. Co-ordinate discussions regarding compliance by co-operative banks with other financial regulatory authorities such as the FSB, the FIC and the NCR.</td><td>• Discussions were held with the FIC regarding requirements to comply with the Exemption Notice. The debate is continuing and the Exemption Notice is likely to be amended.</td></tr>
<tr><td>2. Provide feedback to each other on matters of mutual interest and concern after the attendance of conferences, workshops and seminars, both locally and internationally.</td><td>The following were attended:
• African Confederation of Co-operative Savings and Credit Associations regulatory framework workshop held in Nairobi, Kenya, from 12 to 14 June 2012.
• The Alliance for Financial inclusion (AFI) held in Cape Town, from 26 to 28 September 2012.
• The CBDA Financial Co-operatives Indaba held in Durban, KwaZulu-Natal Province, from 16 to 19 October 2012.</td></tr>
</table>

South African Reserve Bank

Report on the Implementation of the Supervisors' Co-operation and Co-ordination Plan for the period ending March 2013 as required in terms of section 42(3) of the Act	
Description	Implementation
Section 42(2)(a): Engaging with each other in activities of research, publication, education, staff development and training	
3. Submit joint statutory reports to the Minister on the following basis: – The 2012/13 *Combined Annual Report* to be submitted by 31 May 2013. This report will incorporate the implementation of the Co-operation and Co-ordination Plan for the period from 1 March 2012 to 28 February 2013 in terms of section 42(3) of the Act. The possibility of incorporating the report of the SARB Supervisor in terms of section 52 of the Act into the annual report relating to banks and mutual banks will be considered.	• This was done as undertaken.
4. In accordance with regulation 7(a), submit joint quarterly feedback reports regarding the performance and operations of co-operative banks on the following basis: – Quarter ending 31 May 2012 to be submitted by 31 July 2012. – Quarter ending 31 August 2012 to be submitted by 31 October 2012. – Quarter ending 30 November 2012 to be submitted by 31 January 2013. – Quarter ending 28 February 2013 to be submitted by 30 April 2013.	• This was done as undertaken.
5. Encourage research relating to co-operative banks, whether conducted by the CBDA or the SARB, or by third parties or institutions/persons appointed as consultants.	• A joint project is currently under way to explore the regulatory framework for co-operative banks.
6. Provide relevant training to staff members of the SARB and the CBDA supervision units.	• Staff members from the SARB's Bank Supervision Department and the CBDA provided presentations.
Section 42(2)(b): Engaging with each other in staff exchanges or secondments	
1. In order to learn from each other and to gain knowledge in the process, the Supervisors' Co-operation and Co-ordination Plan includes the joint conducting of examinations, assessments or inspections of proposed or registered co-operative banks, and the joint conducting of training workshops and road-shows. No staff exchanges or secondments are envisaged.	• The SARB and the CBDA conducted joint examinations.
Section 42(2)(c): Provide technical assistance or expertise to each other	
1. Conduct joint pre-registration assessments of proposed co-operative banks.	• Three joint pre-registration assessments were conducted in respect of applications received.
2. Collaborate with each other on the design and implementation of on-site examination processes of co-operatives banks.	• The design of an on-site examination manual was updated.
3. Collaborate with each other on the design and implementation of off-site examination processes of co-operative banks.	• The design of the off-site examination process was updated. • An electronic portal, designed specifically for co-operative banks hosted by the SARB is now facilitating off-site returns.
4. Share information on the methods of analysis of the various co-operative banks.	• Share information on the methods of analysis of the various co-operative banks.
5. Issue the necessary Rules and guidance notes, following the outcome of the self-assessment exercise conducted during the 2011/12 financial year, which was based on the Basel Committee's Core Principles.	• This has been postponed and will be done once the project to review the regulatory framework has been finalised.

CO-OPERATIVE BANKS DEVELOPMENT AGENCY

Appendix B: Supervisors' Co-operation and Co-ordination Plan for the period ending March 2014

Supervisors' Co-operation and Co-ordination Plan for the period from 1 April 2012 to 31 March 2014 as required in terms of section 42(3) of the Act
Section 42(1): Co-ordination of Supervisors' approach in exercising their powers and functions in terms of the Act
1. Conduct regular meetings between the Supervisors (or designated members) on at least a monthly basis to ensure a co-ordinated approach in the exercising of powers. Conduct ad hoc meetings whenever necessary.
2. Co-ordinate and co-operate with each other regarding the publication and issuance of Rules, guidance notes and directives to co-operative banks.
3. Reach consensus on proposed amendments to the Act, Regulations and Rules for subsequent approval and publication by the Minister of Finance.
4. Reach consensus on the issuance of guidelines on the application and interpretation of the Act, and on the issuance of circulars containing information relating to co-operative banks.
5. Consider applications to register as co-operative banks in a co-operative manner.
6. Attend ROAC meetings and other committees concerned to co-ordinate efforts between the Registrar of Co-operatives, the CBDA Board and the Supervisors.
7. Establish the necessary procedure and strategy when co-operative banks migrate between SARB and CBDA supervision in accordance with section 41(3) and (4) of the Act.
8. Co-operate in a crisis situation in order to establish and facilitate the actions and the timely decision-making process of the authorities responsible for the management and resolution of the crisis, including the CBDA Deposit Insurance Fund, once established.
Section 42(2)(a): Engaging with each other in activities of research, publication, education, staff development and training
1. Co-ordinate discussions regarding compliance by co-operative banks with other financial regulatory authorities such as the FSB, the FIC and the NCR.
2. Provide feedback to each other on matters of mutual interest and concern after the attendance of conferences, workshops and seminars, both locally and internationally.
3. Submit joint statutory reports to the Minister on the following basis: The 2012/13 *Combined Annual Report* will be submitted by 31 May 2013. This report will incorporate the implementation of the Co-operation and Co-ordination Plan for the period from 1 March 2012 to 28 February 2013 in terms of section 42(3) of the Act. In accordance with regulation 7(a), submit joint quarterly feedback reports regarding the performance and operations of co-operative banks on the following basis: – Quarter ending 31 May 2013 to be submitted by 31 July 2013. – Quarter ending 31 August 2013 to be submitted by 31 October 2013. – Quarter ending 30 November 2013 to be submitted by 31 January 2014. – Quarter ending 28 February 2013 to be submitted by 30 April 2014.
4. Encourage research relating to co-operative banks, whether conducted by the CBDA or the SARB, or by third parties or institutions/persons appointed as consultants.
5. Provide relevant training to staff members of the SARB and the CBDA supervision units.
Section 42(2)(b): Engaging with each other in staff exchanges or secondments
1. In order to learn from each other and to gain knowledge in the process, the Supervisors' Co-operation and Co-ordination Plan includes the joint conducting of examinations, assessments or inspections of proposed or registered co-operative banks, and the joint conducting of training workshops and road-shows. No staff exchanges or secondments are envisaged.
Section 42(2)(c): Provide technical assistance or expertise to each other
1. Conduct joint pre-registration assessments of proposed co-operative banks.
2. Collaborate with each other on the design and implementation of on-site examination processes of co-operatives banks.
3. Collaborate with each other on the design and implementation of off-site examination processes of co-operative banks.
4. Share information on the methods of analysis of the various co-operative banks.
5. Issue the necessary Regulations Rules and guidance notes, following the findings of the revision of the co-operative banks regulatory requirements.

South African Reserve Bank

Abbreviations

ACCOSCA	African Confederation of Co-operative Savings and Credit Associations
AFI	Alliance for Financial Inclusion
CAMEL	Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity
CBDA	Co-operative Banks Development Agency
CFF	Central Finance Facility
CFI	Co-operative Financial Institution
CPIC	Companies and Intellectual Property Commission
FSC	financial services co-operative
MD	managing director
MoU	memorandum of understanding
NACFISA	National Association of Co-operative Financial Institutions of South Africa
NASASA	National Stokvel Association of South Africa
ROAC	Regulatory Oversight and Advisory Committee
SACCO	savings and credit co-operative
SACCOL	Savings and Credit Co-operative League of South Africa
samaf	South African Microfinance Apex Fund
SARB	South African Reserve Bank
SEDA	Small Enterprise Development Agency
WOCCU	World Council of Credit Unions

Glossary

Combined Annual Report	*Combined Annual Report of the Supervisors of the Co-operative Banks Development Agency and the South African Reserve Bank*
Co-operatives Act	Co-operatives Act, 2005 (Act No. 14 of 2005)
Co-operatives Amendment Bill	Co-operatives Amendment Bill (B-2010) published in *Government Gazette* No. 33942, dated 21 January 2011
Deposit Insurance Fund	Deposit Insurance Fund in terms of section 25 of the Co-operative Banks Act, 2007 (Act No. 40 of 2007)
Ditsobotla	Ditsobotla Primary Savings and Credit Co-operative Bank Limited
Exemption Notice	Banks Act Exemption Notice (No. 404 of 25 May 2012)
Khula	Khula Enterprise Finance Limited
National Assembly	Portfolio Committee on Trade and Industry
Omnibus Bill	Financial Services Laws General Amendment Bill, 2012
OSK	OSK Koöperatiewe Bank Beperk
the Act	Co-operative Banks Act, 2007 (Act No. 40 of 2007)
the Bill	Co-operatives Act Amendment Bill
the Board	Board of Directors [of the Co-operate Banks Development Agency]
the CBDA Rules	Supervisory and Regulatory Rules for Co-Operative Financial Institutions applying for Registration to the CBDA as required through *Government Notice 35368*, No. 404 of May 2012.
the Regulations	Regulations relating to Co-operative Banks issued in terms of section 86 of the Co-operative Banks Act, 2007 (Act No. 40 of 2007)

CO-OPERATIVE BANKS DEVELOPMENT AGENCY