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

2013/14

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 2013/14 for the financial year ended 31 March 2014 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/

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Chapter 1: Introduction and Supervisors' overview

1.1 Introduction

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 profits. The sector's capital-adequacy and liquidity coverage ratios improved significantly. On a year-on-year basis, total assets increased by 23 per cent, loans by 3 per cent, liabilities by 23 per cent, members' deposits by 24 per cent and profit before tax by 135 per cent. Furthermore, the sector's cost-to-income ratio decreased by 33 per cent for the financial year ended 28 February 2014.

In terms of regulatory changes during the past financial year, the Financial Services Laws General Amendment Act, 2013 (Act No. 45 of 2013) (FSLGAA) was passed into law by Parliament on 12 November 2013.[1] This resulted in a number of amendments to the Co-operative Banks Act, 2007 (Act No. 40 of 2007) (the Act), the most significant being the supervision of all registered co-operative banks coming under the sole remit of the South African Reserve Bank (SARB) with effect from 28 February 2014. The supervision of co-operative financial institutions (CFIs) and their development into fully fledged co-operative banks remain with the Co-operative Banks Development Agency (CBDA). This amendment aligns the regulation of co-operative banks with the incoming twin peaks model of financial regulation in South Africa.[2]

The issuance of the latest Banks Act Exemption Notice, No. 404, published in *Government Gazette* No. 35368 dated 25 May 2012 (the Exemption Notice), also centralised the development and supervision of CFIs not registered as co-operative banks within the CBDA, and formalised a close working relationship between the supervisory and capacity-building units in the CBDA. This consolidation of regulatory and developmental functions is seen as a positive step towards building sustainable co-operative banks for the future. This, together with increased prudential compliance of the two existing co-operative banks, bodes well for the sector.

Continued co-operation between the CBDA and the SARB remains essential to improve public confidence in the CFI sector.

This issue is the last *Combined Annual Report of the Supervisors of the Co-operative Banks Development Agency and the South African Reserve Bank (Combined Annual Report)*, where 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.[3]

The report begins with an overview of the organisational developments in the SARB and the CBDA, followed by notable developments in the CFI sector during the year under review. Chapter 2 provides data and analysis of aggregated information of co-operative banks, while chapter 3 outlines the most prominent regulatory developments during the past financial year. Chapter 4 provides details of the Supervisors' report on the implementation of their Co-operation and Co-ordination Plan in accordance with section 42 of the Act for the 2013/14 financial year, and chapter 5 addresses key concerns and challenges for the upcoming year.

1 Published in *Government Gazette* No. 37237 dated 16 January 2014.

2 Refer to the document titled *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/twinpeaks/20131211%20-%20TwinPeaks.pdf.

3 As required prior to the amendments to the Act by the FSLGAA.

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1.2 Organisational developments

1.2.1 Introduction

There were two separate co-operative banking supervisory units regulating and supervising registered co-operative banks until 28 February 2014. Up to this date, the CBDA[4] was responsible for the supervision of all registered co-operative banks with up to R20 million in deposits, while the SARB was responsible for those co-operative banks with deposits exceeding R20 million. The Capacity Building Unit in the CBDA assisted CFIs with meeting the requirements for registration as co-operative banks and continues to do so. The organisational structures for the regulation and supervision of co-operative banks in the CBDA and the SARB up to 28 February 2014 are discussed below.

1.2.2 Structure of the Co-operative Banks Development Agency

The CBDA was established to supervise and regulate primary co-operative banks with deposits of R1 million to R20 million and with at least 200 members.[5]

The structure of the CBDA supervisory unit has remained unchanged since the issuance of the previous *Combined Annual Report* as depicted in Figure 1 on the next page.

The regulatory and supervisory function is located in the supervisory unit of the CBDA. The unit is headed by Mr D de Jong, whose appointment was approved by the Minister of Finance in 2009 to carry out the responsibilities of the Supervisor of Co-operative Banks as appointed by the CBDA. Mr M Kuhlengisa, Senior Examiner, was responsible for the co-operative banking portfolio, assisted by Ms N Mafanya, Examiner, and two Inspectors namely Mr M Zama and Ms K Mabule. Ms M Mafojane assisted with the administrative tasks of the unit since its inception, but resigned in January 2014. During the period under review the responsibilities of the unit were expanded to include the supervision of CFIs in accordance with the Exemption Notice.

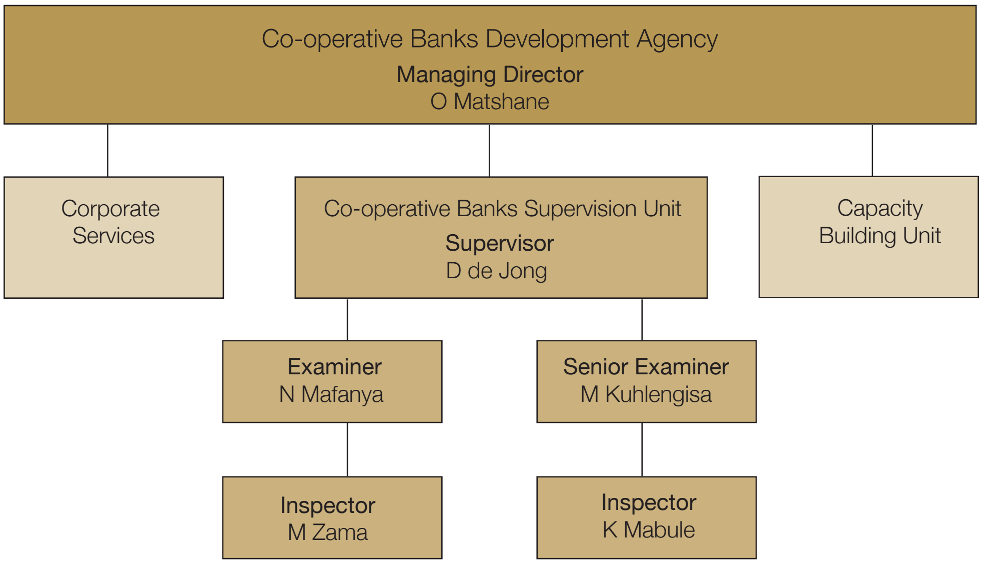
Apart from the supervision of primary co-operative banks with deposits of R1 million to R20 million and with at least 200 members up to 28 February 2014, during the period under review the CBDA was responsible for the regulation and supervision of CFIs that identified themselves by using the names 'Financial Co-operative', 'Financial Services Co-operative' (FSC), 'Credit Union or Savings and Credit Co-operative' (SACCO).

The Minister of Finance has executive authority over the CBDA, with the CBDA Board of Directors (the Board) performing the functions of accounting officer and oversight of effective corporate governance of the CBDA, among others. The Board is vested with the authority to appoint a CBDA Managing Director (MD) to manage the day-to-day affairs of the CBDA. The current Managing Director, Ms O Matshane, was appointed in May 2012.

4 As highlighted in the 2012/13 *Combined Annual Report*, the CBDA has replaced the Savings and Credit Co-operative League of South Africa (SACCOL) and the South African Microfinance Apex Fund (samaf) in registering and regulating CFIs that operate under the Exemption Notice.

5 This aspect was explained in greater detail in the 2010/11 *Combined Annual Report*.

Figure 1 Structure of the Co-operative Banks Development Agency

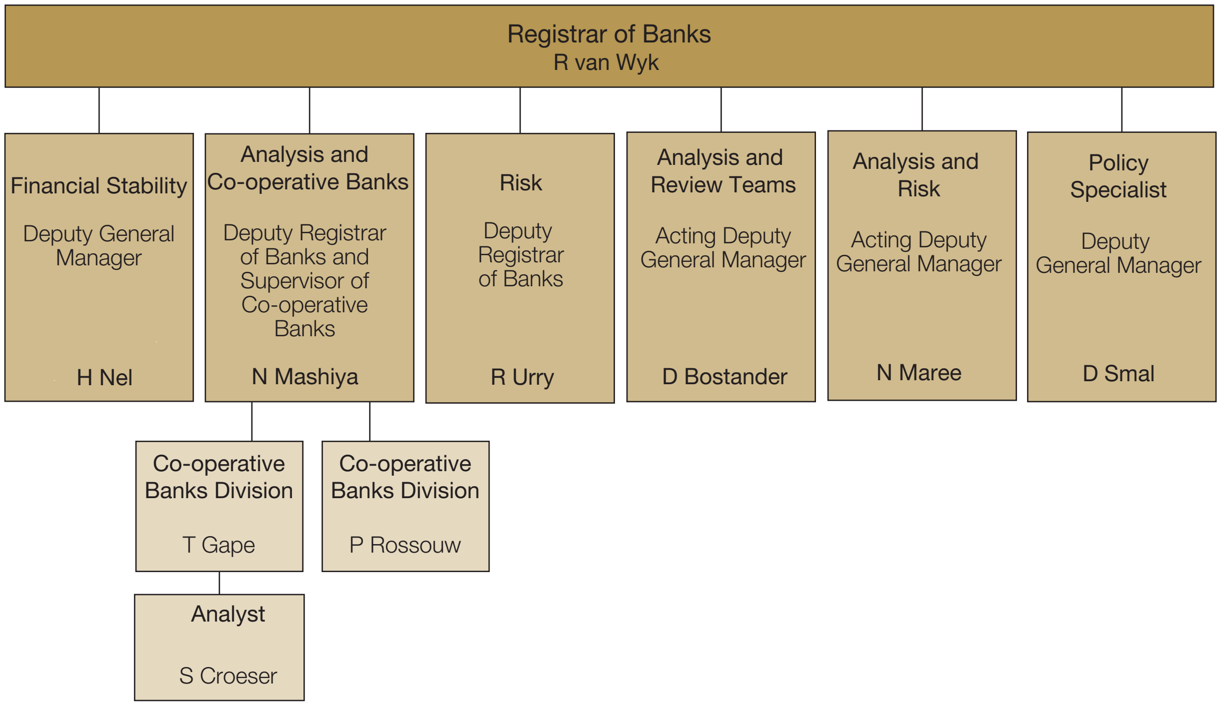


1.2.3 Structure of the South African Reserve Bank

The SARB Supervisor has the authority to exercise the powers and perform the functions afforded by the Act. Mr N Mashiya is the SARB Supervisor of Co-operative Banks and Deputy Registrar of Banks in terms of the Banks Act, 1990 (Act No. 94 of 1990) (the Banks Act). He is assisted by Mr P Rossouw and Dr T Gape, who are responsible for regulatory and supervisory responsibilities, respectively, in accordance with the Act. Mr S Croeser was appointed in August 2013, replacing the previous Analyst who has since resigned.

With the proposed implementation of the twin peaks model of financial regulation in South Africa, it is anticipated that there will be changes to the SARB's co-operative banks division. Suitable staff arrangements will be made to cater for the relevant duties and responsibilities, taking due cognisance that the SARB became the sole supervisor of co-operative banks with effect from 28 February 2014.

Figure 2 Structure of the South African Reserve Bank



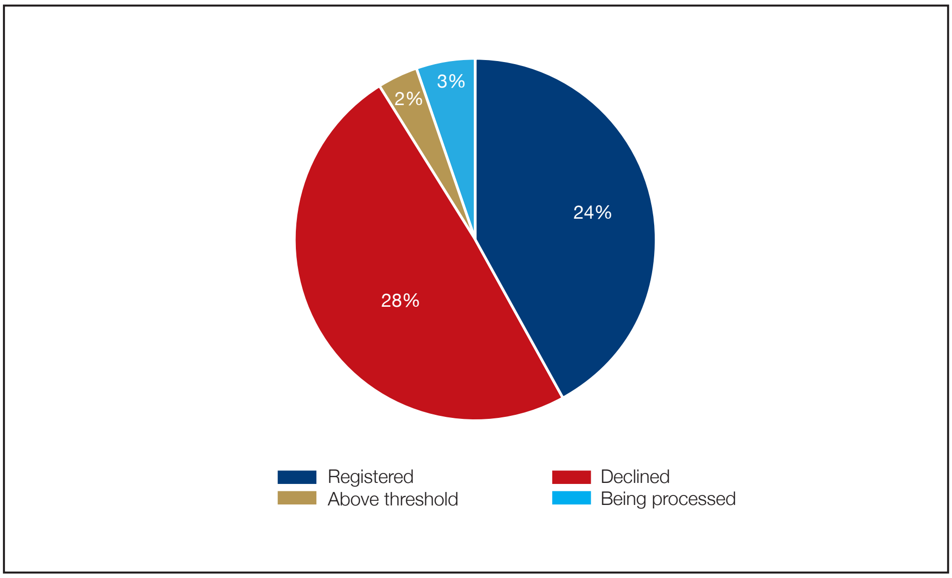
1.3 The co-operative financial institutions sector

1.3.1 Registration of co-operative financial institutions

This year, the CBDA completed its first full supervisory cycle of the CFIs sector. This entailed ongoing assessment of new CFIs, conducting pre-registration on-site assessments of applicants, reviewing quarterly off-site assessments of returns, and conducting on-site assessments and inspections of registered CFIs within one year after registration.

As at 31 March 2014, a total of 57 CFIs had applied for registration in terms of the Exemption Notice. A total of 24 CFIs were subsequently registered after meeting the requirements for registration, bringing the total number of registered CFIs under the CBDA Supervisor as at 31 March 2014 to 25, including Ditsobotla Co-operative Bank. This is summarised in Figure 3 on the next page.

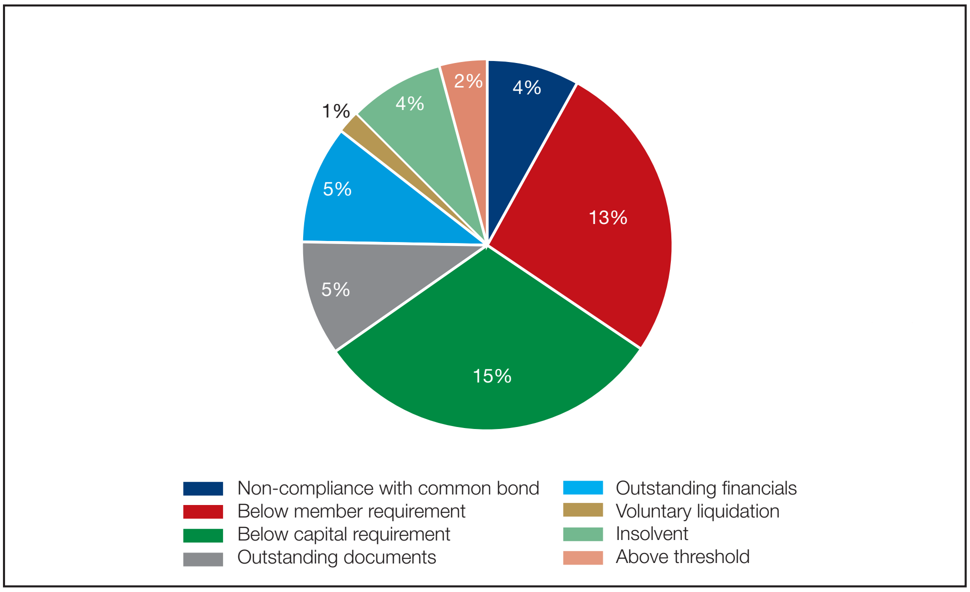
Figure 3 Status of CFIs as at 31 March 2014



Two applicants were referred to the SARB as they exceeded the maximum deposit threshold of R30 million as stipulated in the Exemption Notice. Discussions are still under way with regard to bringing these CFIs within the regulatory ambit.

During the period under review, the majority of applicants not registered with the CBDA were declined because they failed to meet the minimum registration requirements of holding R100 000 in deposits and having a minimum of 200 members. The remaining applicants were declined because they did not meet one or more of the requirements as highlighted in Figure 4.

Figure 4 Reasons for declining applicants



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1.3.2 Status of insolvent co-operative financial institutions

Seven applicants were declined as they were deemed insolvent. Recognising that most applicants had been operating for more than five years, the CBDA discussed with each of these CFIs their current position with a view to determine a basis for registration. Subsequent to the meetings held with the respective CFIs, three of these institutions were registered during the course of the year under review after either providing the Supervisor with written guarantees of support from host companies and unions, or subsequently complying with the minimum solvency requirements.

The four remaining insolvent CFIs, however, continued to operate, taking deposits without registration. They are therefore in violation of the Exemption Notice and the Banks Act, and have been reported to the SARB for the matter to be resolved.

1.3.3 On-site inspections

The CBDA supervision framework for CFIs takes due cognisance of the nature and size of institutions, with the deliberate intention to ensure that CFIs are not faced with an unnecessarily disproportionate regulatory burden. As a result, the CBDA decided to take a two-pronged approach to regulate CFIs, with small CFIs (i.e., less than R1 million in deposits) being subjected to a less onerous compliance programme. Larger CFIs are subjected to more rigorous risk-based supervision with the intention of preparing them for registration as co-operative banks.

During the period under review a total of 18 on-site inspections were conducted, including two of the registered co-operative banks, and six compliance assessments.[6]

1.3.4 Compliance with the Exemption Notice

As at 31 March 2014, registered CFIs were generally in compliance with the requirement to submit quarterly financial reports. In instances where CFIs had failed to comply, infringement notices were duly issued to the affected institution, with a total of 12 infringement notices being issued. Most infringements notices were issued as a result of late submissions. A number of CFIs were issued with infringement notices for falling below the required insolvency threshold.

CFIs are issued with annual licences which are renewable subject to ongoing compliance with registration requirements. One of the requirements is the submission of annual financial statements together with the renewal application. Compliance with this condition has been subject to delays due to the time it takes to have the annual financial statements in place and to ensure they are tabled at the CFIs' annual general meetings (AGMs). The Supervisor, in consultation with the CFI sector, is considering reviewing the licensing cycle to better align it with the reporting cycle of the CFIs.

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

Institutions eligible for registration as co-operative banks are CFIs that have met the Act's regulatory threshold of more than 200 members and R1 million in deposits. The number of eligible CFIs declined to 12 during the period under review, mainly due to non-registration by the CBDA of insolvent CFIs. As a result, the CFI sector's membership and deposits decreased by 8 and 2 per cent respectively over the period under review.

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6 On-site inspections are a detailed risk-based assessment of the larger CFIs, while compliance assessments are more simplified compliance reviews.

Table 1 Consolidated statistics for co-operative banks and eligible CFIs as at 28 February 2014

Institution	Number	Membership	Total deposits (Rand)	Total loans (Rand)	Total assets (Rand)
Co-operative banks	2	2 047	76 080 613	50 041 154	85 105 522
Eligible CFIs*	12	25 793	46 425 844	25 553 329	61 799 064
Other**	2	1 468	72 551 914	63 146 928	76 069 422
Total	16	29 308	195 058 369	138 741 410	222 974 005

* This category includes Sebenza, Ziphakamise, KZN Ladies, Boikago, KwaMachi, Lotlhakane, Mmetla Khola, Motswedi, Nehawu, Cebisa, Webbers and Mathabatha

** This category refers to the two CFIs that were above the R30 million threshold

1.3.6 Registration of co-operative banks

During the year under review, the supervisory team reviewed two applications held in abeyance from the previous reporting period due to outstanding audited financial statements. During the course of their registration assessments, concerns were raised about the self-sustainability of the institutions and their applications were subsequently declined.

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 2014. Increases and decreases indicate year-on-year fluctuations for the period under review,[7] unless explicitly stated otherwise.

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 profits. The capital-adequacy and liquidity ratios improved significantly. On a year-on-year basis, the co-operative banking sector's total assets increased by 23 per cent and loans by 3 per cent. Liabilities increased by 23 per cent driven by the increase in members' deposits of 24 per cent. The sector also posted a healthy growth of profit before tax of 135 per cent, driven by substantial increases in non-interest revenue and lower provisions compared to the previous year.

2.2 Membership and shareholding

In order to transact with a co-operative bank, customers must first become members by meeting the eligibility criteria and then purchasing shares in the co-operative bank. This results in members becoming both customers and owners of the co-operative bank.[8]

The co-operative banking sector had a total of 2 047 members at the end of February 2014 (February 2013: 1 830), representing an increase of nearly 12 per cent from the previous year. Share capital amounted to R646 730 at the end of February 2014 (February 2013: R487 320), comprising nearly 8 per cent of the co-operative banking sector's total capital.

Table 2 Membership and share capital

	Period		
	2012/13	2013/14	Percentage change
Number of members	1 830	2 047	11,9
Share capital	R487 320	R646 730	32,7

2.3 Balance-sheet analysis

Assets and liabilities recorded solid growth in the co-operative banking sector in the year under review. Total assets increased from R69 million to over R85 million, mainly driven by growth in loans and liquid investments. Growth in liabilities was primarily through customer deposits, which accounted for about 99 per cent of total liabilities. Capital increased in line with the rest of the balance sheet and comprised primarily retained earnings and reserves. Table 5 below provides further detail on the co-operative banking sector's balance sheet as at 28 February 2014.

7 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*.

8 It should be noted that members of co-operative banks do not have a right to the co-operative bank's accumulated retained earnings and reserves, but each member's share value is paid back at nominal value when membership is terminated. 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 3 Balance sheet

	Period		Percentage change
	2012/13	2013/14	
Assets			
Loans	48 416 122	50 041 154	3,4
Liquid assets	17 011 904	30 796 436	81,0
Fixed assets	1 448 754	1 259 001	-13,1
Investments	2 162 501	2 315 804	7,1
Other assets	381 252	693 127	81,8
Total assets	69 420 533	85 105 522	22,6
Liabilities and capital			
Liabilities			
Deposits	61 324 970	76 080 613	24,1
Other liabilities	1 337 404	878 437	-34,3
Total liabilities	62 662 374	76 959 050	22,8
Capital			
Members' shares	487 320	646 730	32,7
Retained income	2 118 526	2 221 490	4,9
Reserves	4 152 313	5 278 252	27,1
Total capital	6 758 159	8 146 472	20,5
Total liabilities and capital	69 420 533	85 105 522	22,6

Of the co-operative banking sector's gross loans, 86 per cent were long-term loans as at the end of February 2014 (Figure 5). Loans secured by collateral in the form of either deposits, mortgage bonds or guarantees accounted for 98 per cent of gross loans, with only 2 per cent of the co-operative banking sector's loans being unsecured.

Figure 5 Composition of gross loans

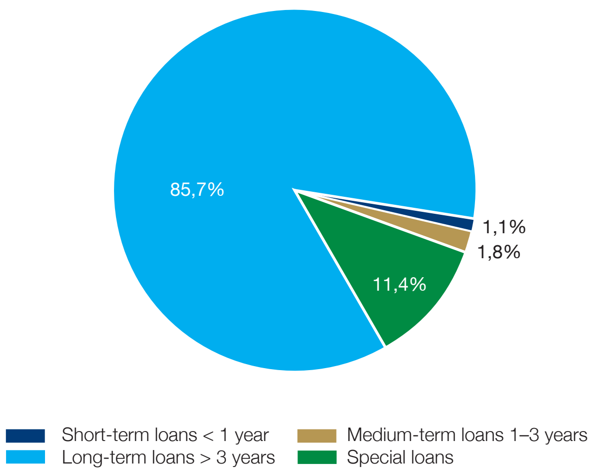

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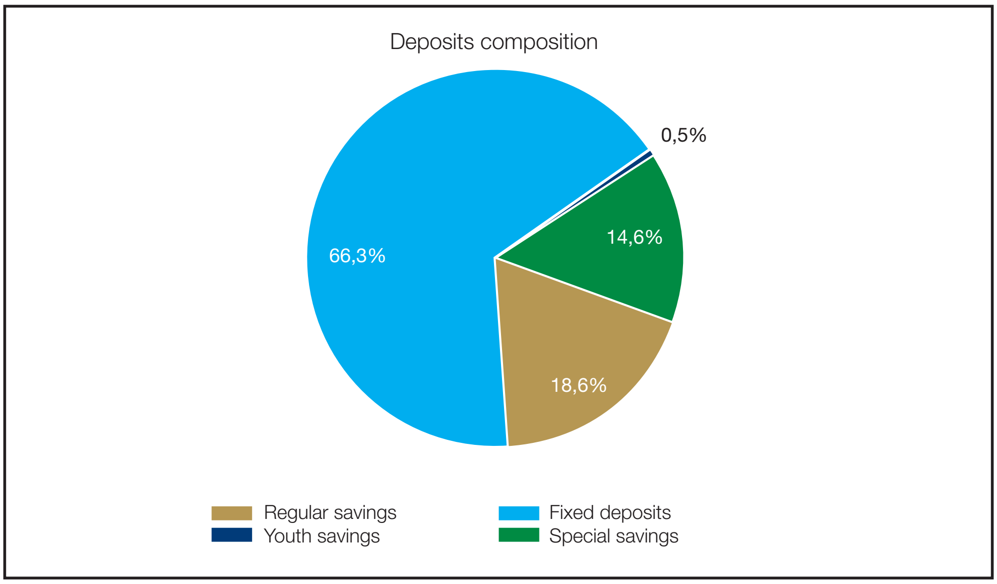
Figure 6 reflects the composition of the co-operative banking sector's deposits as at 28 February 2014. Fixed deposits, which are deposits with maturity dates of up to six years, constituted the vast majority of customer deposits. Special savings, which are funds that have been accumulated during the year for a particular purpose such as school fees or seasonal expenses, and regular savings, which are withdrawable on demand, comprised 11 per cent. Youth savings, which are savings of people under the age of 21, made up only a fraction of the total savings in the co-operative banking sector.

Figure 6 Composition of deposits



2.4 Capital and capital adequacy

Total capital comprises members' share capital, retained earnings and reserves. Total capital increased by more than 20 per cent from R6,8 million as at 28 February 2013 to R8,1 million at the end of February 2014. Growth is attributable to increased member share capital and increased reserves. As a result, the co-operative banking sector's capital-adequacy ratio[9] increased from 4,9 per cent at the end of February 2013 to 6,2 per cent at the end of February 2014.

Table 4 Capital-adequacy ratio

	Period and percentage		Percentage change
	2012/13	2013/14	
Required capital-adequacy ratio	6,0	6,0	0
Capital-adequacy ratio	4,9	7,3	2,6

9 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. 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.

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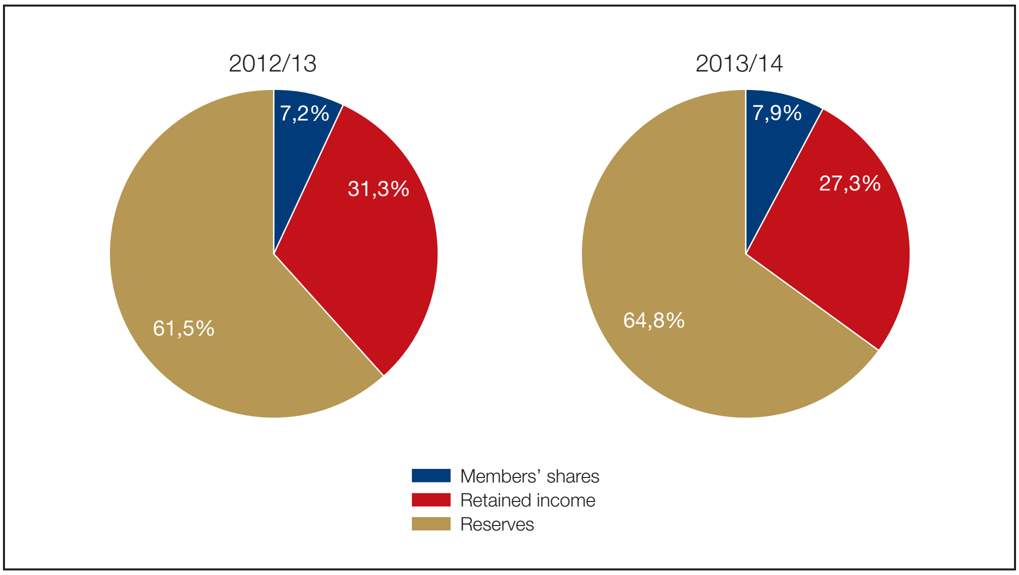
Figure 7 Composition of capital for the 2012/13 and 2013/14 financial years



2.5 Liquidity

Liquidity is the cash and other liquid financial assets that co-operative banks hold to meet its commitments as and when they fall due. Effective liquidity management, which includes both quantitative and qualitative elements, is 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,[10] and was slightly above 39 per cent at the end of February 2014 (February 2013: 28 per cent). Both registered co-operative banks met the minimum liquidity ratio requirement during the period under review.

2.6 Asset quality

Delinquent loans accounted for 6,4 per cent of the co-operative banking sector's gross loans at the end of February 2014 (February 2013: 7,3 per cent). The sector continued to provide sufficiently for potential losses in accordance with regulatory requirements during the period under review.

Table 5 Risk classification of loans

	28 February 2013		28 February 2014	
	Amount	Percentage	Amount	Percentage
Non-delinquent loans	44 877 490	92,7	46 821 493	93,6
Delinquent loans between 1 and 6 months	1 160 388	2,4	1 849 218	3,7
Delinquent loans between 6 and 12 months	1 295 588	2,7	256 243	0,5
Delinquent loans >12 months	1 082 656	2,2	1 114 200	2,2
Total loans	48 416 122	100	50 041 154	100

10 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.

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Figure 8 Composition of delinquent loans

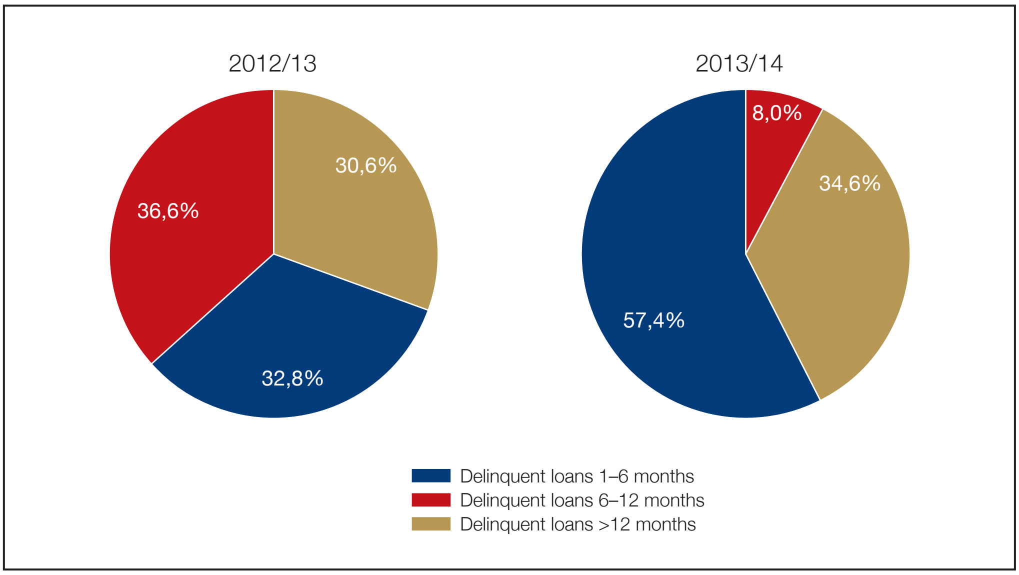

Table 6 Provisions for delinquent loans

	Delinquent loans	Regulatory requirements (Per cent)	Provision required	Actual provision
Total loans	50 041 154	2	1 000 823	1 000 823
1–6 months	1 849 218	35	647 226	647 226
6–12 months	256 243	50	128 122	128 122
>12 months	1 114 200	100	1 114 200	1 114 200
Total			2 890 371	2 890 371

2.7 Income statement analysis

2.7.1 Profitability

The co-operative banking sector's income before tax increased by 135,8 per cent from R758 658 at the end of February 2013 to R1 788 783 at the end of February 2014. The growth is attributable to two factors: firstly, non-interest revenue increased considerably over the period under review, and secondly provisions over and above the regulatory requirements were not held, unlike in previous years. As a result, the co-operative banking sector's return-on-assets and return-on-equity ratios improved to 2,1 per cent and 21,9 per cent respectively at the end of February 2014 (February 2013: 1,0 per cent and 11, 1 per cent respectively), while the cost-to-income ratio decreased to 60,9 per cent over the same period (February 2013: 91,0 per cent).

2.7.2 Income

The total income of the co-operative banking sector increased by 19 per cent from R8,1 million at the end of February 2013 to R9,6 million at the end of February 2014. As discussed above, this was driven primarily through improved non-interest income. Interest income accounted for 77 per cent of the co-operative banking sector's total income for the 2013/14 financial year, down from 92 per cent in 2012/13.

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2.7.3 Expenses

Total expenses increased slightly from R7,3 million in February 2013 to R7,8 million in February 2014, with interest expenses increasing by 27 per cent year on year. Operating expenses, which include salaries and wages, governance, marketing, administration, auditing, provision on problem assets and depreciation, increased from R2,6 million at the end of February 2013 to R2,8 million at the end of February 2014.

Table 7 Income and expenditure

	2012/13		2013/14	
	Rand	Percentage of total income	Rand	Percentage of total income
Interest income	7 385 555	91,5	8 249 153	86,0
Non-interest revenue	687 678		1 345 216	14,0
Total income	**8 073 233**		**9 594 370**	
Interest expenses	3 972 344	49,2	5 025 770	52,4
Operating income	**4 100 889**		**4 568 600**	
Provision for loans	**765 378**	**9,5**	**0**	**0,0**
Operating expenses	**2 576 853**	**31,9**	**2 779 817**	**29,0**
Personnel	1 370 353	17,0	1 456 333	15,2
Governance	415 175	5,1	306 585	3,2
Marketing	138 467	1,7	95 558	1,0
Administration	498 223	6,2	802 067	8,4
Auditing	119 384	1,5	119 275	1,2
Depreciation	35 251	0,4	0	0,0
Total expenses	**7 314 575**	**90,6**	**7 805 587**	**81,4**
Operating profit/Income before tax	**758 658**	**9,4**	**1 788 783**	**18,6**

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 2014.

2.9 Inherent risks

The inherent risks associated with the co-operative banking sector include credit risk, liquidity risk, interest rate risk, operational risk, legal and compliance risk, strategic risk and reputational risk. During the year under review, co-operative banks improved their information systems, and risk management policies and strategies in order to meet regulatory and reporting requirements.

Chapter 3: Regulatory developments

3.1 Introduction

The main regulatory developments relate to the FSLGAA.

3.2 The Financial Services Laws General Amendment Act, 2013

Section 10 of the FSLGAA amended the Act and came into effect on 28 February 2014. The effect of the amendments includes the following:

- The definition of a 'co-operative bank' was amended to provide clarity and to circumvent the establishment of co-operative banks that are profit driven for the benefit of a few individuals and therefore not seeking to achieve co-operative objectives.
- Improvement of supervision of large exposures of co-operative banks.
- Provision of clarity and simplification of the registration of support organisations.
- Provision for the SARB to be the sole supervisor of primary, secondary and tertiary co-operative banks.
- Retention of the powers of the CBDA to provide, in consultation with the Supervisor, financial support to co-operative banks through loans or grants and to assist, in consultation with the Supervisor, co-operative banks with liquidity management. See Box 1 for an overview of development work done by the CBDA during the period under review.
- Clarification that the CBDA Board consists of the MD and not less than six but not more than ten non-executive members appointed by the Minister of Finance.
- The allowance for co-operative banks to submit financial information to the Supervisor certified as correct by the MD and no longer by the auditor of the co-operative bank.

Box 1 Overview of development work done by the CBDA

The CBDA's Capacity Building Unit is responsible for supporting, promoting and developing CFIs and promoting the establishment of representative bodies and support organisations. In fulfilling this responsibility, the Capacity Building Unit determines the training needs for the co-operative banking sector and develops appropriate capacity enhancement programmes in conjunction with relevant stakeholders such as representative bodies, BANKSETA, other national and provincial development agencies, and institutions of higher learning.

The following notable developments regarding enhancing institutional capacity and strengthening support for the CFI sector occurred during the year under review:

i) Representative body operating and providing services to the co-operative banking sector

The National Association for Co-operative Financial Institutions of South Africa (NACFISA) finalised board appointments and started providing services to its member CFIs, offering registration support and bookkeeping services. NACFISA and the CBDA co-facilitate regular member education sessions whereby CFI members are educated regarding the roles and responsibilities of members with the aim to encourage active participation in CFI activities.

ii) CFI Technical Analyst Internship programme

The CBDA together with NACFISA embarked on an internship programme with the assistance of BANKSETA. The programme started in November 2013 and accepted ten interns who rotate between the relevant units of the CBDA and NACFISA. The interns have thus far attended the Certificate Course in Co-operative Financial Institutions Management at the University of Pretoria and they continue to undergo rigorous on-the-job training. The one-year internship programme is aimed at strengthening CBDA support and performance monitoring programmes, building knowledge and creating awareness about co-operative banking, increasing youth participation and generating a skills pool for the co-operative banking sector.

iii) Mentorship and Coaching programme

The programme, which commenced in December 2013, provides direct technical assistance to CFIs, focusing on improving operational efficiency, ensuring regulatory reporting compliance and maintaining financial stability. At the core of the programme is a holistic diagnostic assessment of the CFI which covers governance, management, general business environment, human resource management, financial management and reporting, credit management, and management information systems. The findings and turnaround strategy, developed by CBDA, are then tabled to the board and general membership. As part of implementation, the CFI will be assigned a mentor for a period of approximately six months to a year as informed by the turnaround strategy. To date, eight diagnostic assessments have been conducted and the CBDA team has started presenting the findings and turnaround strategies to the CFI boards and members.

Other development activities within the CFI space are the banking platform project which is progressing well and the member education programme which is quickly gaining momentum, educating members about their roles and responsibilities. The 2014/15 financial year will see the implementation of training programmes for the Supervisory and Credit Committee members using the newly developed materials. The training programmes will enable these committees to discharge their mandates efficiently and effectively.

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

4.1 Introduction

Prior to amendment of the Act, section 42 made provision 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". However, this section of the Act has been repealed with effect from 28 February 2014, thus rendering it unnecessary to submit such plans in future.

4.2 Supervisors' Co-operation and Co-ordination Plan

In terms of section 52 of the Act, prior to the amendment of the Act, the Supervisors had to report on the implementation of the Co-operation and Co-ordination Plan referred to in section 42 of the Act. The Act was amended with effect from 28 February 2014 and therefore Appendix A provides details on activities regarding the implementation of the Supervisors' Co-operation and Co-ordination Plan for the period under review.

The joint activities that were conducted include:

- holding monthly co-ordination meetings;
- hosting meetings with stakeholders, interested parties and regulatory authorities;
- commenting on relevant proposed financial regulation bills;
- issuing statutory reports and guidance notes;
- reviewing compliance with international standards;
- assessing and evaluating applications; and
- co-ordinating manuals and administrative systems.

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.[11] In this regard, the following forums should be highlighted:[12]

4.3.1 International Credit Union Regulators' Network roundtable, hosted by the World Council of Credit Unions, San Diego, United States, 15–17 April 2013

The International Credit Union Regulators' Network (ICURN) is an independent international network of credit union regulators in more than 30 countries and jurisdictions. ICURN's mission is to promote greater international co-ordination among regulators of CFIs through the sharing of information of common interest, initiating research on financial co-operatives and their oversight, identifying best practices and providing direct access to an exclusive forum for thought leaders worldwide on issues critical to sound credit union regulation. The regulators' network brings together regulators from around the globe into an invitation-only forum for discussion.

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

The topics discussed at this year's round table included:

- future prospects and strategies for credit unions;
- successful policymaking versus regulating;
- how to assess corporate governance;
- strategies for capital formation; and
- credit union risk management case studies.

Mr D de Jong presented a paper on "How to assess corporate governance" based on his experience as a co-operative banks supervisor in South Africa. The format of the roundtable discussions included a third day of the conference being dedicated to an educational session based on the United States of America's National Association of State Credit Union Supervisors' renowned accreditation programme for credit union examiners.

4.3.2 African Confederation of Co-operative Savings and Credit Associations 3rd Africa SACCO Regulatory Framework Roundtable held in Lilongwe, Malawi, 19–21 June 2013

Under the theme "Benchmarking co-operative financial systems in Africa", Mr D de Jong and Ms N Mafanya of the CBDA attended the regulatory roundtable framework workshop aimed at addressing the existing gaps in the regulation of financial co-operatives in Africa. The roundtable aims, through improving the regulatory and supervisory framework, to strengthen governance of SACCOs in Africa, and to encourage the formation of SACCO regulation to improve the safety and soundness of CFIs.

Mr De Jong was invited to participate as a facilitator during a session to discuss "A risk for members is a risk for Saccos: board oversight role in supervision" and to provide a status report on the co-operatives regulatory environment in South Africa.

Other sessions that took place at the roundtable included a discussion of the following:

- Why is capitalisation and deposit mobilisation necessary in regulatory regime?
- Challenges in the capitalisation of SACCOs.
- Why we regulate, and in whose interests does supervision work?
- How do managers approach supervision?
- Role of the apex in monitoring implementation of regulatory framework.
- Is the current regulation achieving the objectives for which it was set?
- Interactive discussions on technological needs, organisational culture and regulatory implementation.

4.3.3 World Council of Credit Unions Annual Congress, Ottawa Convention Center, Ottawa, Canada, 14–17 July 2013

The World Council of Credit Unions (WOCCU) 2013 annual conference was held in Ottawa, Canada from 14 to 17 July 2014. WOCCU designed the conference to help credit union practitioners better prepare for the shifting credit union landscape and gain practical insight into new ways of doing business. The key session topics included the following:

- World Council's Young Credit Union People programme, which was a networking and educational session for credit union leaders aged 35 and younger. During this session online communications expert Shel Holtz shared insights on credit union branding through social media.
- "Future of money – where mobile technology is taking us" and "Understanding anti-fraud programs and controls".
- Panel discussion on "Challenging the barriers to credit union growth".
- "Social media and the financial sector".

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The conference was attended by 2 376 attendees from 61 countries, with Mr Kuhlengisa from the CBDA representing South Africa.

4.3.4 2013 Co-operative Financial Institutions Indaba and 14th Saving and Credit Co-operative Associations of Africa Congress, Sun City Resort, Rustenburg, North West Province, South Africa, 28 October to 1 November 2013

The 2013 CFI Indaba and 14th Annual Saving and Credit Co-operative Associations of Africa Congress, with the theme "Technology: accelerating financial inclusion using the co-operative model", was held at the Sun City Resort in Rustenburg, North West Province, South Africa from 28 October to 1 November 2013. The event was held in partnership with the African Confederation of Co-operative Savings and Credit Associations, the North West Department of Economic Development, Environment, Conservation and Tourism, and NACFISA. The objectives of the congress were:

- to promote efficiency in co-operatives by advocating for the adoption and usage of information technology;
- to engage stakeholders in promoting and supporting initiatives that could lead to a wholly inclusive co-operative sector; and
- to follow up on the International Year of Co-operatives agenda through national sectorial bodies in Africa.

The event was attended by the boards of directors, chief executive officers and senior managers of small, medium and large CFIs and development financial institutions. Senior government and development agencies' officials involved in promoting and supporting the sector were also in attendance, while members of academia and officials from research institutions, co-operative universities and colleges, also participated in the congress. Approximately 550 delegates from 21 African states attended the conference, including 200 South African stakeholders and CFI representatives. The SARB was represented by Mr N Mashiya and Mr S Croeser, while all CBDA staff, as co-hosts, attended in a supporting role. Mr De Jong co-presented on a panel discussion on "Who should regulate and when is it the right time to regulate? Is it one size fits all? Who should bear the cost of regulation?".

Chapter 5: Issues requiring particular attention during 2014/15

5.1 Supervisory functions of the CBDA and the SARB

With the transfer of the supervisory function of co-operative banks to the SARB in terms of the FSLGAA on 28 February 2014, the focus of the CBDA shifted primarily towards its mandate of regulating CFIs that operate outside the ambit of the Act, but in compliance with the Exemption Notice. While attention was given to ensure a smooth migration of the supervisory function of the CBDA over Ditsobotla to SARB, ongoing co-operation is essential.

A meeting was held in April 2014 at Ditsobotla's premises where both supervisors were present, as well as the management, staff and Board members of Ditsobotla. The CBDA Supervisor discussed key findings to date and the future developmental role that the CBDA envisaged. The SARB Supervisor discussed the SARB's expectations going forward and handed Ditsobotla the new registration certificate, reflecting the SARB as the new supervisory authority.

With effect from 28 February 2014, however, the Supervisors will no longer be required to submit their Co-operation and Co-ordination Plan as section 42(3) of the Act was deleted. Co-operation and co-ordination between the SARB Supervisor of Co-operative Banks and the CBDA Regulator of CFIs, however, remain important to ensure, among other things, sufficient insight into the performance of CFIs that are not yet registered as co-operative banks and insight by the SARB Supervisor regarding the registration of new CFIs by CBDA, being the potential co-operative banks of the future. It is envisaged that a memorandum of understanding will be entered into between these regulatory authorities to ensure ongoing co-ordination and co-operation.

5.2 Review of the co-operative regulatory framework

As reported in the 2012/13 *Combined Annual Report*, 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. The working committee consisting of members from the SARB, the CBDA and the National Treasury is in the process of reviewing the current regulatory framework. The intention is to encourage co-operative banks to adapt a more risk-based approach and to design appropriately sophisticated capital-adequacy requirements for co-operative banks. Attention will now be given to amending the Regulations.

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Appendix A: Report on the implementation of the Supervisors' Co-operation and Co-ordination Plan for the period ending 31 March 2014

Supervisors' Co-operation and Co-ordination Plan for the period from 1 April 2013 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.	• Supervisors conducted monthly 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.
2. Co-ordinate and co-operate with each other regarding the publication and issuance of Rules, guidance notes and directives to co-operative banks.	• No guidance notes and directives were issued to co-operative banks. • No directives have been issued to date.
3. Reach consensus on proposed amendments to the Act, Regulations and Rules for subsequent approval and publication by the Minister of Finance.	• A task team chaired by Dr T Gape finalised their proposal regarding the regulatory requirements for co-operative banks.
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.	• No guidelines were issued.
5. Consider applications to register as co-operative banks in a co-operative manner.	• The panel, consisting of both Supervisors and their team members, considered assessment reports of applicant CFIs. The panel also made recommendations to the relevant Supervisor for consideration.
6. Attend Regulatory and oversight Advisory Committee meetings and other committees concerned to co-ordinate efforts between the Registrar of Co-operatives, the CBDA Board and the Supervisors.	• There was no need for a meeting.
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.	• Ditsobotla was successfully migrated to the SARB after the amendment of the FSLGAA whereby Ditsobotla was registered with the SARB with effect from 28 February 2014.
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.	• 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 with the establishment of the twin peaks model of financial regulation.
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 Financial Services Board, the Financial Intelligence Centre and the National Credit Regulator.	• 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.
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.	See section 4.3 of the 2013/14 *Combined Annual Report*.

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Section 42(2)(a): Engaging with each other in activities of research, publication, education, staff development and training (continued)	
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.	• This was done as undertaken.
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.	• A joint project is currently under way which explores the regulatory framework for co-operative banks.
5. Provide relevant training to staff members of the SARB and the CBDA supervisory units.	• Staff members from the SARB's Bank Supervision Department and the CBDA provided presentations as required.
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.	• 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.
4. Share information on the methods of analysis of the various co-operative banks.	• To date the same method of analysis has been followed by both Supervisors.
5. Issue the necessary Regulations, Rules and guidance notes, following the findings of the revision of the co-operative banks regulatory requirements.	• This has been postponed and will be done once the project to review the regulatory framework has been finalised.

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Abbreviations

CAMEL	Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity
CBDA	Co-operative Banks Development Agency
CFI	Co-operative Financial Institution
CPIC	Companies and Intellectual Property Commission
FSC	Financial Services Co-operative
NACFISA	National Association of Co-operative Financial Institutions of South Africa
NASASA	National Stokvel Association of South Africa
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
WOCCU	World Council of Credit Unions
ICURN	International Credit Union Regulators' Network

Glossary

Banks Act	Banks Act, 1990 (Act No. 94 of 1990)
Combined Annual Report	*Combined Annual Report of the Supervisors of the Co-operative Banks Development Agency and the South African Reserve Bank*
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)
FSLGAA	The Financial Services Laws General Amendment Act, Act No. 45 of 2013
OSK	OSK Spaar en Krediet Koöperatiewe Bank Beperk
the Act	Co-operative Banks Act, 2007 (Act No. 40 of 2007)
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 25 May 2012
the Registrar	Registrar of Banks
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)

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