

## PRUDENTIAL REQUIREMENTS

	<b>Minimum Standard/Requirement</b>	<b>Explanatory notes</b>
Membership	150 member requirement to register	FSC will only be registered once 150 members have paid up in full their share contribution
Minimum Capital	R 100 per member	Minimum Capital ensures a financial commitment from the founding member/owners towards meeting the initial operating expenses required to operate and to prevent a flood of speculative applications.
Capital adequacy	Minimum 5% of total assets	<ul style="list-style-type: none"> <li>• Capital adequacy is the cushion that must be kept in case of losses. It is as relevant for loan losses in lending FSCs as is for FSCs who invest in unsecured higher yielding investments with a portion of member's savings.</li> <li>• Forms of Capital are defined in definitions below.</li> <li>• No dividend or patronage proportion can be paid until the 5% adequacy has been built up.</li> <li>• Must be held as a statutory reserve on balance sheet.</li> <li>• Coop Banks have three year from inception/ registration to build up a reserve fund.</li> </ul>
Loan loss reserves/ Allowance for loan losses	<ul style="list-style-type: none"> <li>• A 35% provision for loans past due from 1 -6 months</li> <li>• 100% provision for loans past due 6 months</li> </ul>	While peer pressure with the common bond should ensure good repayments, a provision needs to be set aside for loans that could become unrecoverable to cover expected and unexpected loan losses.
Asset Quality	Not more than 7% of non-performing loans	Not more than 7% of the total loan book should be non performing/delinquent beyond 1 month
Liquidity	<p>Savings only FSCs</p> <ul style="list-style-type: none"> <li>• Minimum of 10% of total deposits held in liquid assets</li> <li>• Minimum of 60% in prescribed investments</li> <li>• Maximum 25% invested in higher yielding investments as approved by the Regulator</li> </ul> <p>Savings and Loans FSCs</p> <ul style="list-style-type: none"> <li>• Minimum of 10% total</li> </ul>	<ul style="list-style-type: none"> <li>• FSCs banks must have liquid funds available to meet member's day to day withdrawals and to pay operating expenses. Having funds readily available to convert to cash is important to maintain confidence in the FSC.</li> <li>• "Liquid assets" means funds invested in "prescribed" investments of which the tenure does <u>not exceed 32 days</u></li> <li>• "Prescribed" investments is defined below under definitions</li> </ul>

	<p>deposits in liquid assets</p> <ul style="list-style-type: none"> <li>• Maximum of 80% out in loans</li> </ul>	
Non-earning Assets	<ul style="list-style-type: none"> <li>• No more than 5% of assets may be made up in non-earning assets</li> <li>• Specific approval may be sought from the samaf: Regulator for exceptions.</li> </ul>	FSC are established to service their members yet there may be a temptation to invest in buildings and fixed assets that tie up members funds. This requirement ensures FSCs do not tie up more than 5% of member's funds in non-earning assets.
Large exposures	<p>A FSC may not</p> <ul style="list-style-type: none"> <li>• grant a loan to one member or a group of members where the loan to that member would exceed 10% of its total assets or 25% of its capital, which ever is lowest</li> <li>• accept a deposit from a single or related group whose deposit would make up more than 10% of its total deposits (cumulatively)</li> </ul>	These requirements ensure that the loan and deposit portfolio is diversified which helps alleviate concentration risk.
Transactions with third parties	<ul style="list-style-type: none"> <li>• Core activities like Savings and loans 100% with members</li> <li>• At least 70% of income of Cooperative Bank must be made from banking services</li> </ul>	
Additional Banking services	Directives will issued with regards to these additional services	Sections 14 (1)(g), 14(2)(c) and 14(3)(d) make provisions for coop banks to conduct additional banking services.
Transferability of shares	<ul style="list-style-type: none"> <li>• to another FSC or Cooperative Bank</li> <li>• Another family member</li> <li>• Keeping within the common bond rules</li> </ul>	It is important that transferability of shares is regulated to prevent abuse and make sure that common bond principles are adhered to.
Payment of patronage portion	Allowed once the FSC has reached its reserve requirements	To reward members who use the services of the FSC more often via more savings or loans
Payment of dividends	Same conditions as payment of patronage portion	To reward members for their share ownership in the FSC.
Report on prudential requirements	Must on a QUARTERLY basis, as prescribed by the Regulator, submit its prudential report	Timely receipt of relevant risk information is a key factor in ensuring effective supervision of regulated FSCs.
Loan practices and policy	•All loans granted must be approved by the credit	Loans should always be made strictly in accordance with approved lending policy.

	<p>committee</p> <ul style="list-style-type: none"> <li>• All loans granted to officials and directors must be mentioned in the annual report to the Members</li> <li>• No loan to a member or group of related members may exceed the lesser of 10% of aggregate loans or 25% of the capital of the co-operative bank</li> <li>• All loans to non-natural members must be fully secured.</li> </ul>	<p>Comprehensive lending policies approved by the board and not objected to by the samaf: Regulators are crucial to the success of (“lending”) co-operative banks. In particular restrictions on loans to employees, officials and their families and related parties are critically important.</p>
External borrowing	<p>A co-operative bank may not, without approval from the samaf: Regulator, borrow funds that will in aggregate exceed 50 % of total assets.</p>	<p>From international historic experience sustained success of co-operative banks lie in their ability to grow from within along the lines of the “self-help” principles. It is therefore appropriate to limit the extent of reliance on external funding, as excessive external funding could jeopardize the sustainability of co-operative banks.</p> <p>The remarkably low bad loan history of co-operative banks world-wide is based on the fact that it’s a community’s own savings that is being lent to known members of the same community for productive use.</p>
Grants /donations	<p>A co-operative bank may not, without approval from the samaf: Regulator, receive any monetary donation or monetary grant that will in aggregate exceed 50 % of total assets.</p>	<p>Large amounts of external funding distort this principle and rapidly results in deterioration of credit quality and frequently the failure of the co-operative bank.</p>
Membership to support organization	<p>FSC registering with the <b>samaf</b> must demonstrate whom will represent their broader sectoral interest and from where it will receive ongoing technical, financial reporting and training support</p>	<p>Cooperative Banks are part of a network of Cooperative Bank all of whom will have common interests. The registrar would, on various issue consult the “sector” broadly as to advice and as representative of the movement.</p> <p>FSC will require ongoing training and technical support which is not the responsibility of the Regulator, however the Regulator requires piece of mind to know that FSCs are linked to a network where by the can receive such ongoing support.</p>
Report on prudential requirements	<p>Must submit to the Regulator, on a QUARTERLY basis, <b>spot 50 + spot 61</b></p>	<p>Timely receipt of relevant risk information is a key factor in ensuring effective supervision of regulated FSCs.</p>

Training	Applications to the <b>samaf</b> Regulator for registration require a board members to sign the prescribed commitment from a FSC to complete various training models to comply with “fit and proper” board members and staff requirements as per <b>sam008</b>	Legislation requires that board members are “fit and proper”. The Rules require, as a minimum which modules should have been completed by board members and which modules will be required to be completed by board members within one year of receiving a depositing taking licence.
Written report on crisis conditions	<ul style="list-style-type: none"> <li>• If a FSC is unable to meet its loan demand or</li> <li>• If the FSC is unable to meet a members withdrawal request</li> <li>• If any Board, Staff or committee member discover and uncover any fraudulent or suspicious activity with regards to loans, deposits, contracts or the general operations of the FSC</li> </ul> <p>Immediate written notification must be made to the <b>samaf</b>: Regulator outlining the board/managements proposed course of action</p>	The Regulator should be advised at all times of any conditions that could, in any manner, adversely affect the good name and confidence of members and the general public in FSCs in particular and Cooperative Banking sector in general.
Indemnity	Applications to the <b>samaf</b> Regulator require an indemnity form, as prescribed be completed and signed by directors as par of the application to the <b>samaf 011</b>	FSC are members owned and controlled organizations. The indemnity seeks to re-enforce this and indemnifies the <b>samaf</b> from mismanagement of the FSC, notwithstanding its attempts to regulate the FSC.

2. Registered Financial Cooperatives will be required to inform the **samaf**: Regulator and the Registrar of Cooperatives of any change in any of the conditions as listed below on the prescribed forms:

- ✓ Special resolutions – **CR 6**
- ✓ Change of address – **CR 3**
- ✓ Change in board of directors – **CR2**
- ✓ Change of Auditors or Accounting firm - **CR4**
- ✓ Change in senior management (General Manager, Manager, CEO or Financial Manager) of the CFI – **CR2**