CAPITAL ADEQUACY

POLICY & PROCEDURES

MANUAL

1.1 Rationale

The policy is aimed at ensuring that Yetfu Sonkhe Savings ***and Credit Cooperative*** (YSSCCS), which in this policy will be referred to ***as the Society***, has sufficient capital reserves to ensure safety and soundness of the cooperative.

Adequate capital improves earnings of the cooperative, absorbs losses, supports new member services, finances non-earning assets and assist in meeting competitive pressure in the future. ***The Society*** shall maintain the specified level of capital to promote member confidence and to ensure safety of member's funds.

1.2 Objective of the Policy

The objective of this policy is to ensure that the cooperative has adequate risk management and an adequate cushion of capital to absorb losses, support new members savings and finance non-earning assets. The risks that the cooperative faces as a business include:

- Credit, Investment, liquidity, legislative, interest rate, market, operational, strategic and competitive risks.

Capital adequacy as a measure of a financial institution's financial safety and soundness, instils public confidence in the cooperative and therefore it is of paramount importance that the cooperative has adequate capital at all times.

1.3 Purpose of policy

- To ensure that the cooperative has adequate capital to meet prudential requirements
- To ensure that financial performance of ***the Society*** reflect Prudential Financial management.
- To ensure that the cooperative has adequate capital that guarantees its continued existence in future
- To assure that capital adequate policies are properly coordinated with related asset/liability policies
- To ensure that procedures are in place for assessing and modifying if necessary "back up" sources of capital.
- To assure that guidance is provided on how capital resources are to be drawn down by the cooperative to meet prudential requirements
- To assure that administrative matters such as training of staff and back up personnel for key financial management staff of the cooperative are properly addressed.

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1.4 Legal and regulatory framework

- The board and management of ***the Society***, shall as at 31st March, 30th June, 30th September and 31st December of each year submit to the authority a Statement of Capital Adequacy in the prescribed format:

1.5 Definitions

- **Capital Adequacy**: Is the amount necessary to absorb losses while providing financial stability. It is the percentage ratio of capital to total assets of ***the Society*** used as a measure of its financial strength and stability, on an on-going basis.
- **Core Capital**: Refers to fully paid-up member's shares, retained earnings, disclosed reserves, grants and donations all of which are not meant to be expended unless on liquidation of ***the Society***. Thus, Core Capital = fully paid-up members' share capital + statutory reserves + retained earnings + disclosed reserves + grants/donations:
- **Institutional Capital** = core capital less the members' share capital. i.e. institutional capital refers to the portion of the core capital that belongs to ***the Society*** as an institution such that no one member can individually lay claim on it.

1.6 Minimum capital requirements

They are set to avoid imposition on the cooperative of higher minimum capital requirements which come as a result of:

- Losses which trigger capital deficiency
- Significant exposure to risk
- Severe volume of poor-quality assets
- Experiencing rapid growth without adequate capitalization and a risk management system

The Board and management of the cooperative will ensure that:

- Risk management policies and procedures are being adhered to in order to reduce exposure to risks
- The cooperative follows a sustainable growth strategy
- There is good asset management practices in the cooperative
- There is proper diversification of investments to minimize losses
- The cooperative does not invest in speculative investments

- The cooperative has a variety of income sources so that it increases its chances of making profits
- All expenditure is authorized by the authorized signatories

To ensure adherence to prudential requirements, ***the Society***, shall at all times maintain:

1. Core capital of not less than 10% of total assets
2. Core capital of not less than 8% of total savings deposits
3. Institutional capital of not less than 8% of total assets

1.7 Responsibility

The board of directors and management of the cooperative will be responsible for maintaining, at all times, an adequate level of capital. The capital standards herein are the minimum acceptable for ***the Society*** that are fundamentally sound, well managed and which have no material financial/ operational weakness.

1.8 Capitalization options for *the Society*

- Retaining more from surplus
- Raising member share capital
- Recruiting more members
- Disposing some assets and inject capital
- Donations and grants

1.9 Reporting

Reporting to ***the Society*** board and FSRA will be done quarterly in each financial year.

The office manager ***shall*** prepare and submit such reports within 30 days after the end of each quarter.

1.10 Policy Review and adoption

In order to ensure continued relevance of this capital adequacy policy, the Board of Directors shall review this policy from time to time, as and when necessary.

We, the undersigned, individually and collectively, give commitment to the implementation of this policy by appending our signatures **on the** ....17th........day of............JULY..................*2024* at Mhlume on behalf of ***the Society***.

Thus, signed by Executive Committee Members:

Douglas Dlamini **Chairman**	Signature	17/07/2024 Date
Lewis G Tshabalala **V. Chairman**	Signature	17/07/2024 Date
Vusi N. Malubane **Secretary**	Signature	2024/7/17 Date
Sizwe L Maseko **Treasurer**	Signature	17/07/2024 Date