

# Annual Report on the Co-operative Societies in Singapore

For the financial year ended 31 March 2016

ISSUED ON 30 SEPTEMBER 2016  
BY THE REGISTRY OF CO-OPERATIVE SOCIETIES  
MINISTRY OF CULTURE, COMMUNITY AND YOUTH

# ANNUAL REPORT ON THE CO-OPERATIVE SOCIETIES IN SINGAPORE

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For the financial year ended 31 March 2016

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## INTRODUCTION

1. The Registry of Co-operative Societies ('the Registry') regulates the organisation and management of co-operative societies ('co-ops'), so as to protect their members' interests. In particular, the Registry focuses our regulatory resources on credit co-ops which provide financial services to their members by taking deposits and granting loans. The Registry's supervision of credit co-ops aims to ensure that they exercise prudence in the management and remain accountable to their members.

2. The Registry will maintain its constant engagements with the credit co-ops' Committee of Management ('COM') and key officers, as well as other stakeholders. The open conversations with the credit co-ops discussing their feedback and implications on their policies and procedures, improve the understanding and relationships between the Registry and credit co-ops. This in turn builds a stronger foundation to achieve good governance and effective management in the credit co-op sector.

3. This Annual Report outlines the key developments in the sector, statistics and the Registry's future plans.

## OVERVIEW OF THE CO-OPERATIVE SECTOR

4. Co-ops are associations where people voluntarily unite to achieve a common social or economic aim by forming a jointly-owned and democratically controlled business organisation. Co-ops operate on principles of self-help and mutual assistance, and have social missions that benefit their members or society at large.

5. Co-ops in Singapore are regulated by the Registry of Co-operative Societies, under the Co-operative Societies Act (Chapter 62) and Co-operative Societies Rules 2009.

6. There are **1,461,460 members** in **82 co-ops** which hold **\$8,729 million<sup>1</sup>** in total assets.

### Credit Co-ops

provide financial services to their members who are within a pre-existing common bond of association or community of interest.



**25 credit co-ops** serving **141,000 members** with **\$959 million** in total assets



### Consumer and Services Co-ops

provide goods and services to their members to meet their daily needs. Some of these co-ops have become household names. These co-ops are business driven and anchored by a social mission to help residents in Singapore through moderating the cost of living.

**53 consumer and services co-ops** serving **1,320,000 members** with **\$7,769 million** in total assets

## CO-OPERATIVE SOCIETIES IN SINGAPORE



### School Co-ops

operate in secondary schools and junior colleges. They aim to expose students to co-op principles and social entrepreneurship.

**4 school co-ops** serving **460 members** with **\$0.8 million** in total assets

<sup>1</sup> Data derived from co-ops' Audited Financial Statements ('AFS') for the financial year ended 31 December 2015 / 31 March 2016 where available. Otherwise, data was obtained from the last available AFS.

## Registration and De-registration of Co-ops

7. There were 82 co-ops registered as at 31 March 2016. During the year, 4 co-ops were registered and 2 co-ops were deregistered. 1 credit co-op converted into a non-credit co-op.

8. A brief description of the new co-ops is as follows:

- a. **Love Empowered Co-operative Limited** – Registered on 4 May 2015, the Co-op supports children with learning difficulties. It provides services ranging from specialised academic tuition, training/awareness workshops for families, schools and workshops for children with perceived differences such as special needs and mental illness as well as befriending initiatives, outreach programmes, and opportunities for volunteering.
- b. **TopFlight Sports Co-operative Limited** – Registered on 23 June 2015, the Co-op aims to inspire dramatic changes in one's life by empowering him/her to achieve a happier, healthier, motivated and productive life through martial arts and sports. By creating a safe and fun environment, the Co-op enables everyone to enjoy the all-rounded benefits of martial arts and sports including fitness, health and wellness, confidence, discipline, mental toughness, self-defense and lifelong friendships.
- c. **Mercatus Beta Co-operative Limited and Mercatus Gamma Co-operative Limited** – Registered on 17 March 2016, the Co-ops were set up by Mercatus Co-operative Limited to develop, invest and own real estate.

9. Co-ops are deregistered only after the finalisation of the liquidation process which may span over a few years. The 2 co-ops which were deregistered in the past year were:

- a) NTUC Thrift & Loan Co-operative Limited
- b) Singapore Marine Aquaculture Co-operative Limited

10. Phoenix Co-operative Limited converted to a non-credit co-op with effect from 1 November 2015.

## KEY STATUTORY AND REGULATORY REQUIREMENTS

### Statutory Requirements for All Co-operatives

11. The Co-operative Societies Act stipulates that all co-operatives shall:

- ✓ Hold an Annual General Meeting ('AGM'); and
- ✓ Submit their Audited Financial Statements ('AFS') and Annual Report to the Registry

no later than **6 months** after the end of the financial year, unless an extension is granted by the Registrar.

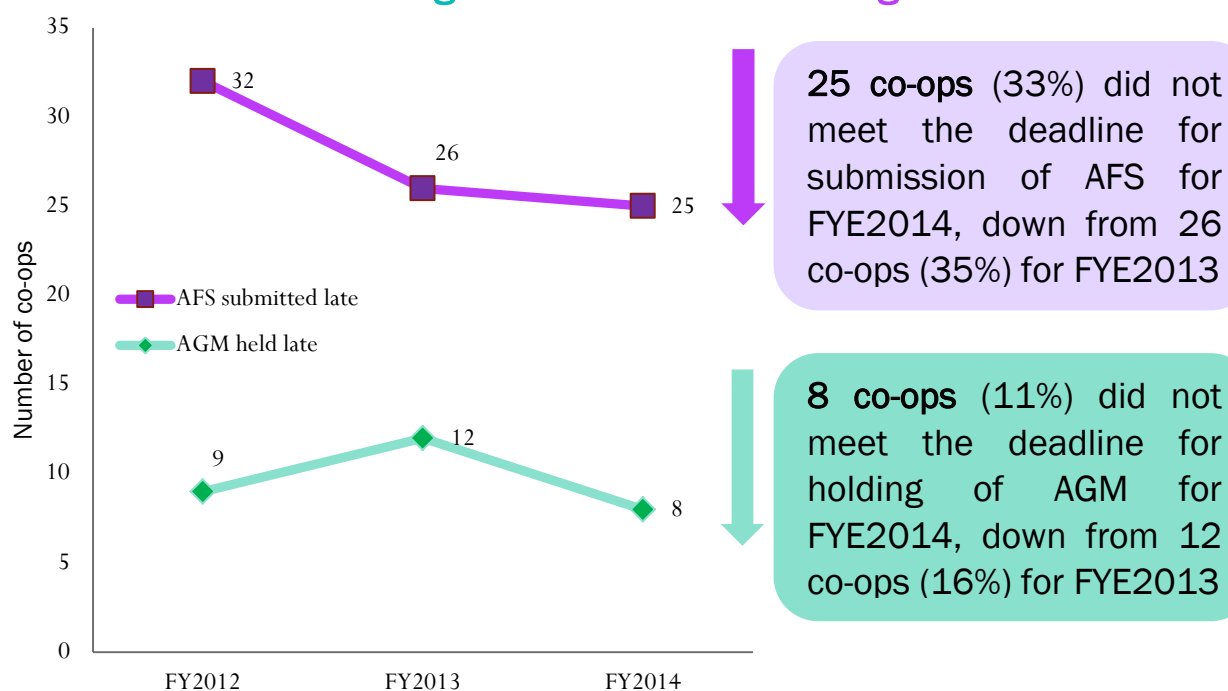
12. The key functions of the AGM include, but are not limited to:

- ❖ Approval of AFS;
- ❖ Consideration and adoption of amendments to the by-laws;
- ❖ Election or removal of members of the Committee of Management ('COM'); and

- ❖ Transaction of any other general business of the co-op of which due notice has been given to members.

13. For this financial year, **75 co-ops were required to hold their AGM<sup>2</sup>** and **76 co-ops were required to submit their AFS<sup>3</sup>** for the financial year ended 31 December 2014 / 31 March 2015 (FYE2014). The graph below shows that compliance with the deadlines has improved as fewer co-ops were late in conducting their AGM and submitting their AFS.

**Number of co-ops not in compliance with due dates for holding of AGM and submitting of AFS**



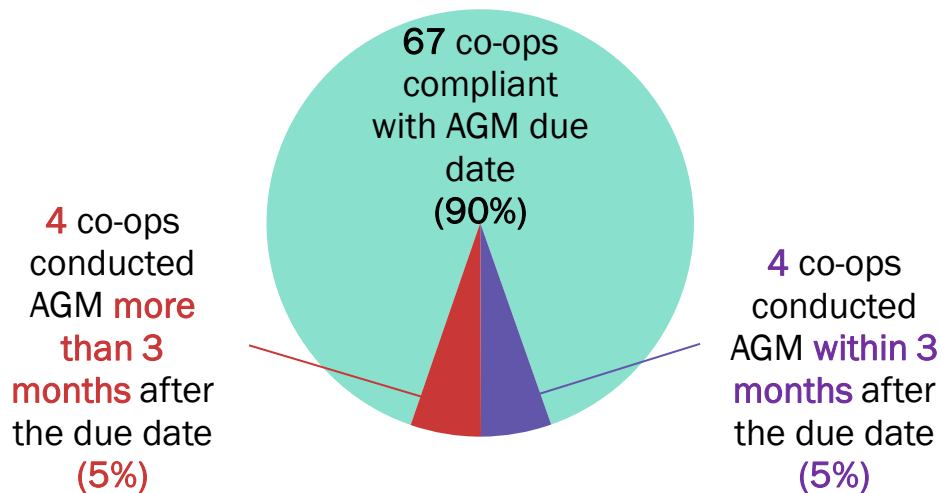
14. The Registry is exploring different ways to better prompt the co-ops which may overlook the submissions or face difficulties in meeting statutory deadlines. Enforcement actions will be taken if necessary.

<sup>2</sup> This excludes co-ops that are undergoing liquidation and the Singapore National Co-operative Federation which holds tri-annual general meetings.

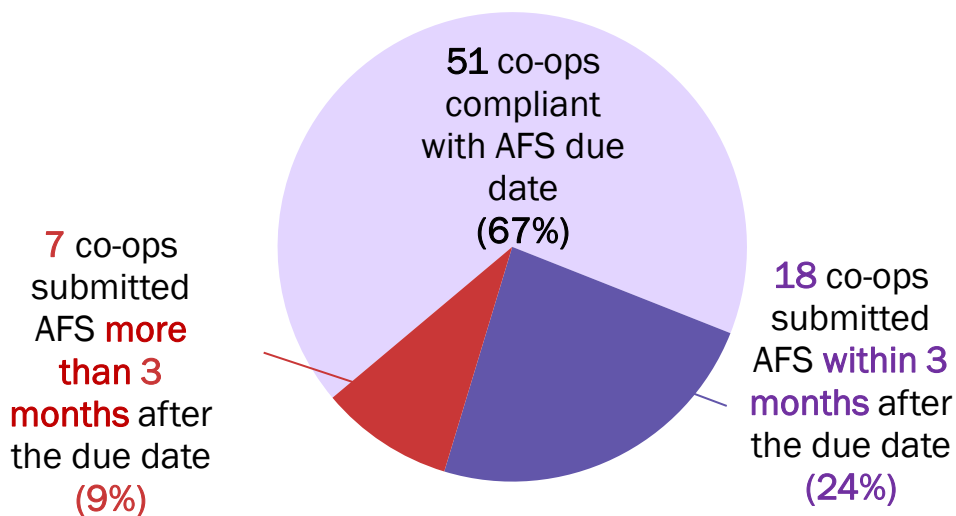
<sup>3</sup> This excludes co-ops that are undergoing liquidation.

15. The charts below show that most of the non-compliant co-ops conducted their AGM and/or submitted their AFS within 3 months after the due date.

### Compliance of co-ops required to conduct AGM for FYE2014



### Compliance of co-ops required to submit AFS for FYE2014





## Consumer/Services and School Co-ops Sector Overview

16. Consumer and services co-ops are business entities which provide goods and non-financial services to members while fulfilling a social mission. These co-ops protect the economic interests of their members through their activities, such as providing employment opportunities, selling goods at reasonable prices or supplying tailored services on a co-operative basis. There are also co-ops which specialize in providing professional training courses or raising interaction with people of special needs, such as the elderly or the disabled.

17. The total assets held by **53 consumer and services co-ops amount to approximately \$7.8 billion.**

18. There are 8 consumer and services co-ops with total assets above \$100 million<sup>4</sup>. Of these 8 co-ops, 3 co-ops<sup>5</sup> have over \$1 billion in total assets each. There are 9 consumer and services co-ops with less than \$100,000 in total assets.

19. The **4 school co-ops** in Singapore provide students in secondary schools or junior colleges with bookshops and/or platforms to expose students to entrepreneurship through brick and mortar shops or online businesses. The **total assets held by school co-ops amount to \$800,000**, with the largest school co-op holding \$370,000 in total assets.

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<sup>4</sup> Data derived from co-ops' Audited Financial Statements ('AFS') for the financial year ended 31 December 2015 / 31 March 2016 where available. Otherwise, data was obtained from the last available AFS.

<sup>5</sup> NTUC Enterprise Co-operative Limited, NTUC Fairprice Co-operative Limited and NTUC INCOME Insurance Co-operative Limited

## Credit Co-ops Sector Overview

20. Credit co-ops take in deposits from and give out loans to their members. They have a fiduciary duty to their members to exercise prudent oversight over their deposits.

21. Currently, there are **25 credit co-ops** of which 2 are under liquidation. The table below shows the key financial figures for the 23 credit co-ops in Singapore for the financial year ended 31 December 2015 / 31 March 2016.

### Total Assets: \$959 million

- 7 credit co-ops with total assets over \$50 million
- Of the 7 above, 2 credit co-ops with total assets over \$100 million
- 4 credit co-ops with total assets of less than \$1 million
- Total liquid assets<sup>6</sup> of \$402 million

### Total Loans to members: \$190 million

- 1 credit co-op with total outstanding loans to members over \$30 million
- 6 credit co-ops with total outstanding loans to members less than \$1 million
- Average loans to assets ratio is 23%
- \$105 million of loans were granted to members during the year

<sup>6</sup> As defined in the Written Direction dated 29 June 2016, 'Liquid Assets' refer to cash, Singapore dollar deposits in Financial Institutions and Singapore Government Securities that are free from prior encumbrances.

### Total Deposits: \$795 million

- 2 credit co-ops with total deposits of more than \$100 million
- 3 credit co-ops with total deposits less than \$1 million
- 2 credit co-ops do not take in any deposits
- Average deposits per member is \$5,700

### Total Restricted Investments<sup>7</sup>: \$172 million

- 2 credit co-ops with restricted investments over \$40 million
- 2 credit co-ops with restricted investments less than \$1 million
- 9 credit co-ops with no restricted investments
- 7 credit co-ops have been granted the Registrar's approval for restricted investments limit of 30% for up to a period of 3 years
- Average restricted investments to assets ratio is 11%

22. **7 credit co-ops<sup>8</sup> hold more than \$50 million in total assets each. Together, they account for 80% of the total assets in the sector.** They also hold 80% of the sector's total deposits, 70% of the total loans granted and 70% of the sector's profits (before appropriations and comprehensive income).

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<sup>7</sup> As defined in the Written Direction dated 18 November 2013, Restricted Investments means any form or type of investment other than – (a) bonds issued by any statutory board in Singapore; (b) Singapore Dollar deposits in financial institutions licensed by the Monetary Authority of Singapore; (c) Singapore Government Securities; and (d) capital-guaranteed investment funds or products managed by financial institutions licensed by the Monetary Authority of Singapore, where the issuer(s) guarantee the return of 100% of the capital invested at a predetermined date in the future.

<sup>8</sup> AUPE Multi-purpose Co-operative Limited, Singapore Government Staff Credit Co-operative Society Limited, Singapore Mercantile Co-operative Society Limited, The Singapore Police Co-operative Society Limited, Singapore Teachers' Co-operative Society Limited, Straits Times Co-operative Limited and TCC Credit Co-operative Limited.

## Prudential Requirements for Credit Co-ops

23. To ensure that credit co-ops are focused towards their core business of thrift and loan and remain accountable to their members, the Registry introduced prudential requirements on credit co-ops to strengthen prudence in operations and improve risk management standards<sup>9</sup>. The Registry refined the earlier prudential requirements imposed on the sector based on feedback received from the credit co-ops.

24. The requirements were also implemented in phases and credit co-ops were provided with a long lead time so that they could progressively adjust their operations and adapt to the changes. For example, credit co-ops were given a grace period of 5 years to meet the requirements on Restricted Investments and Capital Adequacy (i.e. up to 30 June 2015 and 30 June 2016 respectively).

### Capital Adequacy and Restriction on Dividend

25. Capital adequacy is important to deposit-taking entities as it serves as a basic level of buffer for unexpected losses. All credit co-ops must maintain the applicable Capital Adequacy Ratio ('CAR')<sup>10</sup> requirement as prescribed in the Written Direction issued by the Registry.

26. The Registry continuously engages with credit co-ops which are unable to meet the CAR requirement to understand their situation and assists them in working towards compliance. These co-ops shared that the difficulty in building their institutional capital was due to limited surplus and the pressure to maintain good returns (dividends and/or interests) to their

<sup>9</sup> Details of the prudential requirements can be found in the Annex.

<sup>10</sup> As defined in the Written Direction dated 29 June 2016, the Capital Adequacy Ratio is the credit society's institutional capital expressed as a percentage of its total assets.

members. However, for long term sustainability, credit co-ops must ensure that they can afford the returns to their members. The Registry thus advised credit co-ops with low CAR to take more active steps to increase their institutional capital, for example, by reducing the dividend rate to members, lowering the interest rate on deposits and/or setting limits on deposits per member.

### Investment Restrictions

27. The Registry has also made amendments to the existing investment restrictions following consultations with the sector. The revised Written Direction governing credit co-ops' investments (effective from 20 November 2013) allows credit co-ops to apply for higher restricted investments limits (above the baseline restriction of 10%) of up to 30%, subject to conditions. Credit co-ops have to obtain members' approval at a general meeting for a higher limit (i.e. 20% or 30%), and a 30% limit will require further approval from the Registrar. In assessing the applications, the Registry primarily considers the credit co-op's level of governance, audited financial position, current level of restricted investments, approach in managing its investments and compliance with prudential and any other relevant regulatory requirements.

28. To date, the Registry has received applications from 8 credit co-ops for the 30% limit. After careful consideration, the Registrar has granted approval to 7 credit co-ops, for periods of up to 3 years.

29. Credit co-ops must monitor their investments closely to ensure that they remain compliant with the applicable restricted investments limits. Credit co-ops that wish to apply for the higher limit of 30% should engage the Registry as early as possible. The Registry will advise on the conditions,

for instance, whether the co-op's planned disclosure of investment information to members is deemed sufficient.

### Compliance with Prudential Ratios

30. An update of credit co-ops' compliance with the prudential ratios for the financial year ended 31 December 2015 / 31 March 2016 in comparison to the previous two financial years is provided in the following table.

#### Credit Co-ops that have met the minimum prudential ratios, compliance in numbers and rate:

Prudential Requirement	FYE2015*	FYE2014^	FYE2013^
Minimum Liquid Assets ('MLA')	21 (100%)	22 (96%)	22(96%)
Capital Adequacy Ratio ('CAR')	17 (81%)	17 <sup>11</sup> (74%)	19 (83%)
Restricted Investments ('RI')	20 (95%)	18 (78%)	15 (65%)

\* - out of 21<sup>12</sup> credit co-ops which take in deposits at FYE2015

^ - out of 23<sup>10</sup> credit co-ops which take in deposits at FYE2014 and FYE2013

<sup>11</sup> 2 more credit co-ops did not meet the 8% CAR requirement as compared to the previous financial year due to deficit or reduced surplus in the current year while deposits increased.

<sup>12</sup> 2 credit co-ops do not take in deposits. Hence they are not subject to the prudential ratios.

## KEY DEVELOPMENTS

### Audits on Credit Co-ops

31. The Registry commissioned and funded special audits on the credit co-ops to ascertain their compliance with the prudential requirements, the adequacy and effectiveness of their internal controls as well as the state of governance. Upon completion of the audit, each credit co-op is issued a report with specific recommendations to address identified gaps in compliance, internal controls and governance. The Registry hopes that, through these audits, credit co-ops can address their weaknesses and improve their existing processes to better protect their members' interests.

32. There were 5 credit co-ops selected in the first round of audits which commenced in March 2014. **The general findings included inadequate processes, lack of monitoring of prudential ratios, unfamiliarity of regulatory requirements and excessive IT rights granted to officers.** Learning from the first round of audits, the Registry refined the audit process and expanded the scope to emphasize on the internal controls and governance of the credit co-ops. 9 credit co-ops were selected for the second round of audits which commenced in January 2016.

### Regulatory Policies

33. On 10 December 2014, the Registry invited the Singapore National Co-operative Federation ('SNCF') and key officers of all credit co-ops to an engagement session chaired by the Permanent Secretary (Culture, Community and Youth) to share the policy thinking and future direction of the regulation of credit co-ops.

34. Pending legislative changes, the Registry held a closed-door sharing session to provide an interim update on the proposed policies on 17 November 2015. Officers from 22 credit co-ops and SNCF attended the session and provided further feedback on the proposed policies and implementation plan to the Registry.

### Code of Governance for Credit Co-ops

35. The Registry and the industry body, SNCF, have been working together to update the 2006 Code of Governance to:

- promote transparency, accountability and risk management;
- guide the Committee of Management ('COM') to perform their duties and manage their credit co-op in the best interest of members; and
- provide an objective framework to assess and improve the level of governance of the credit co-op.

36. During the sharing session on 17 November 2015, the Registry and SNCF shared the draft Code of Governance and invited feedback from the credit co-ops from 18 November 2015 to 18 February 2016. The Registry and SNCF are currently finalising the Code of Governance for credit co-ops based on the feedback received.

37. The Code will be complemented with a Governance Evaluation Checklist for credit co-ops to ascertain their level of compliance with the Code. SNCF will subsequently arrange for an external trainer to conduct a course on the Code and Checklist. The Registry strongly encourages the key officers of credit co-ops to attend the course at the earliest opportunity.



## UPCOMING INITIATIVES

### Amendments to the Co-operative Societies Act

38. The Registry considered the feedback from the credit co-op sector and refined the recommendations on our proposed policy changes relating to the credit co-ops. We are currently working on the draft amendment bill, as part of the process to amend the Co-operative Societies Act.

### Risk Governance Guides for Credit Co-ops

39. The Registry will be working closely with SNCF to develop guides on:

- a) internal controls;
- b) loan management; and
- c) investment management.

40. These guides will serve as useful references of good practices which the credit co-ops can adopt when developing or improving their own standard operating procedures. A consultant will seek inputs from selected credit co-ops and help refine the draft guides which we hope to introduce in 2017.

### Capability Building

41. It is important that the Committee of Management ('COM') and key officers of credit co-ops possess the relevant knowledge on credit co-op regulations to effectively perform their roles and properly discharge their management responsibilities. Hence, the Registry and SNCF are working together to develop new initiatives and review existing programmes to upscale the capability and capacity of the credit co-ops' officers, such as:

- a) review and propose training support for credit co-ops' key officers to build their capabilities and competencies; and
- b) review of funding policies for skills upgrading to allow more credit co-ops' officers to participate in selected courses so that credit co-ops can improve their governance and management.

## PROMOTION AND DEVELOPMENT OF THE CO-OPERATIVE SECTOR

42. The Co-operative Societies Act requires co-ops to contribute 5% of the first \$500,000 of their annual operating surplus to the Central Co-operative Fund ('CCF'), and 20% of any operating surplus in excess of \$500,000 to either the CCF or the Singapore Labour Foundation ('SLF').

43. The CCF is used to further co-op education, training, research, audit and for the general development of the co-op movement in Singapore.

44. Co-ops' contributions to the SLF are used to support initiatives that are in line with its mission of furthering the development of a labour movement of unions and co-ops and to promote the welfare of union members and their families. These initiatives aim to:

- a) help needy union members in time of financial need;
- b) safeguard workers' welfare and rights through developing compassionate and committed union leaders to represent workers; and
- c) moderate the costs of daily essentials for working families by partnering social enterprises.

45. **Co-op contributions to the CCF** for the financial year ended 31 March 2016 was **\$3.7 million** and **co-op contributions to the SLF** for the financial year ended 31 December 2015 was **\$78 million**.

### Central Co-operative Fund

46. The Minister of Culture, Community and Youth appoints the Central Co-operative Fund Committee for the purpose of overseeing the CCF. The current Committee is serving a three-year term effective from 1 March 2015.

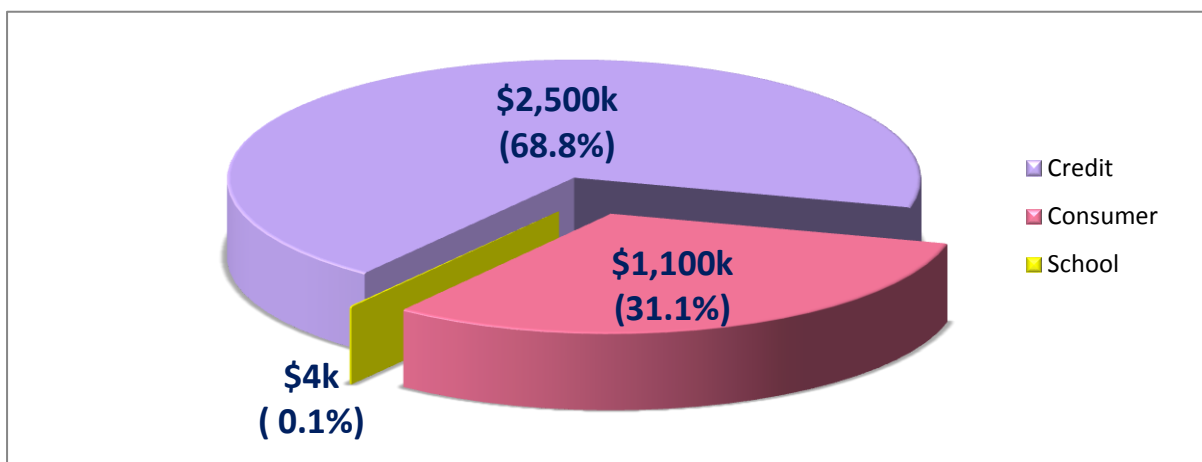
47. The Committee as at 31 March 2016 comprised the following individuals:

Position in Committee	Name	Organisation
Chairman	Mr Chandra Das <sup>13</sup>	Managing Director, Nur Investment & Trading Pte Ltd
Members	Mr Chan Tee Seng <sup>11</sup>	Chairman, Singapore National Co-operative Federation;  CEO, NTUC First Campus Co-operative Ltd
	Mr Low Puk Yeong	Senior Director, Registry of Co-operative Societies
	Mr Ma Wei Cheng	Vice-chairman, AUPE Multi-purpose Co-operative Limited

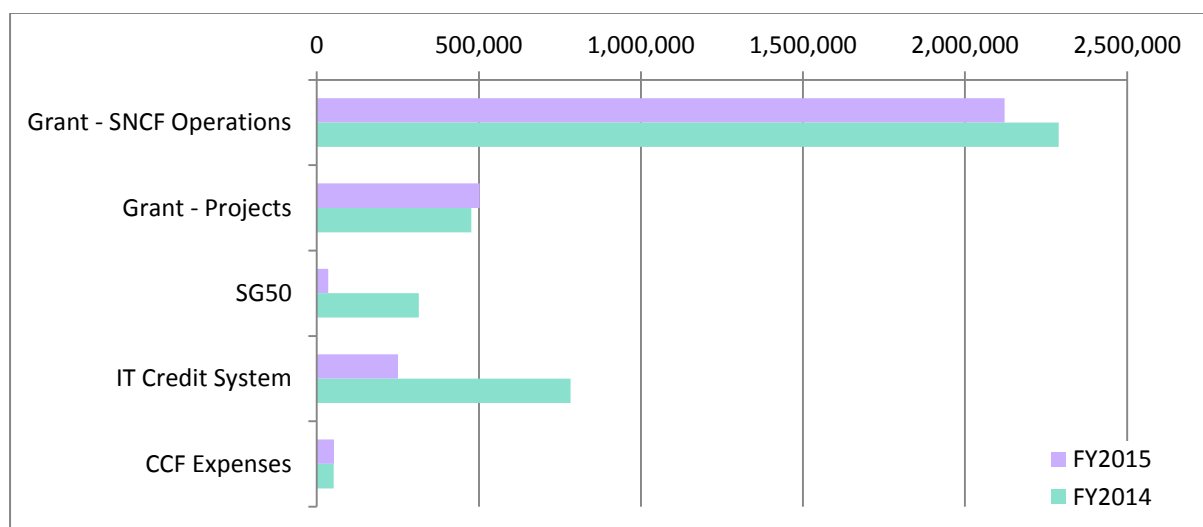
<sup>13</sup> As at time of report issuance, Mr Tan Kian Chew has taken over from Mr Chandra Das as the Chairman of the CCF Committee with effect from 1 April 2016, and Mr Kwek Kok Kwong has been appointed into the CCF Committee in place of Mr Chan Tee Seng with effect from 23 September 2016.

48. The Singapore National Co-operative Federation ('SNCF'), the co-op industry body, serves as Secretariat to the CCF Committee. SNCF offers services including training, shared services, CCF grants and networking opportunities. It also serves as the collective voice representing the co-op movement on local and international platforms.

49. The following graphs illustrate the source of contributions received by CCF and its expenditure for the financial year ended 31 March 2016.



**Graph 1: Contributions to CCF; \$3.68m**



**Graph 2: CCF Expenditure; FY2015: \$3.0m, FY2014: \$3.92m**

50. Key initiatives by SNCF to promote and develop the sector during the financial year included:

### Awareness Building

SNCF organised the Co-op Hot Shots 4, the only photography competition in Singapore where each photograph reflects at least one co-operative value. There was substantial coverage from local and international media and submissions were received from around the world.

### Campus & Youth

SNCF has been actively reaching out to schools to raise awareness of the co-op movement amongst the youth. SNCF introduced learning journeys to co-ops to allow students to interact with the co-ops and learn about the co-operative values in action. SNCF also worked with the Global Indian International School to form 2 branches of co-op clubs<sup>14</sup> (East Coast and Queenstown). In addition to the above, SNCF administers the CCF Scholarship programme and disbursed \$184,000 for 13 of their scholars.

### Capability Building

SNCF arranged for delegations of co-ops to attend international co-op conferences, which allowed them to meet co-operators from around the world and learn from their experiences and best practices. SNCF also conducted courses and provided training materials to

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<sup>14</sup> Co-op clubs are managed by and under the purview of the school in which they operate from, to raise awareness and empower youths to gain first-hand experience of running a social enterprise based on co-op values. Co-op clubs are not registered co-ops hence they are not regulated under the Registry.

improve the co-ops' governance and raise their capabilities. The courses covered topics such as fraud, financial accounting and governance, amongst others. There were about 600 attendees attaining 4,000 training hours in FY2014.

### CCF Grants

In the financial year ended 31 March 2016, \$90,000 worth of New Co-op grants were disbursed to provide financial assistance to the new co-ops with strong social missions. An additional \$153,000 was granted to support existing co-ops for consultancy services, training, audit fees, and the acquisition of hardware to improve their operational environment.

### Shared Services – IT, Marketing and Bookkeeping & Accounting

An IT shared deposits and loans system was developed to help credit co-ops improve their data management and better serve members' needs. 5 credit co-ops have since adopted the IT system.

The Marketing Shared Service helps co-ops with their marketing activities. SNCF also helps co-ops which are unable to afford the cost to have a website through free public software.

The Bookkeeping & Accounting service helps smaller co-ops, which do not have professional finance staff, with their bookkeeping and accounting at a heavily subsidised rate. This improves the co-ops' compliance with accounting standards and submission deadlines.

“The Singapore Co-operative Story (1925–2015)” is a commemorative book produced to celebrate three milestones namely, 90 years of the co-operative movement in Singapore, SG50 and SNCF’s 35<sup>th</sup> anniversary. There was also a complementary mobile interactive exhibition, “The Journey Wall”, which travelled to schools, institutes of higher learning, libraries and year-end dinners.

## CONCLUSION

51. The Registry focuses on improving and strengthening the co-op sector and will continuously review existing policies and legislation to ensure effectiveness and relevance. We will continue to work closely with the sector to assess their needs, obtain feedback and understand the impact of new policies.

52. We value our partnerships with all stakeholders. We will maintain our two-way engagement with the co-ops so as to build greater social capital and encourage active citizenry for the greater good of the community and society.

## PRUDENTIAL REQUIREMENTS FOR CREDIT CO-OPERATIVES

The Registry issues Written Directions on prudential requirements for credit co-ops. The issuance and effective dates of the Written Directions are indicated below:

Written Direction on Prudential Requirement	Issue Date	Effective Date
Minimum Liquid Assets	12 Mar 2010 <b>Revised: 29 Jun 2016</b>	31 Mar 2010 <b>Revised: 1 Jul 2016</b>
Investment Restrictions	31 May 2010 <b>Revised: 18 Nov 2013</b>	30 Jun 2010 <b>Revised: 20 Nov 2013</b>
Provisions for Bad and Doubtful Loans, and Impairment Loss for Investments	26 Nov 2010	1 Jan 2011
Capital Adequacy and Restriction on Dividend	21 Apr 2011 <b>Revised: 29 Jun 2016</b>	30 Jun 2011 <b>Revised: 1 Jul 2016</b>
Secured Loan Limits	29 August 2011	1 November 2011
Unsecured Loan Limits	31 Oct 2011 <b>Revised: 29 Jun 2016</b>	1 Apr 2012 <b>Revised: 1 Jul 2016</b>
Submission of Financial Returns	2 February 2012 <b>Revised: 7 May 2013</b>	6 February 2012 <b>Revised: 10 May 2013</b>



### Minimum Liquid Assets

The prudential requirement on Minimum Liquid Assets ('MLA') stipulates that credit co-ops have to maintain sufficient liquid assets to meet withdrawals and maintain members' confidence. Credit co-ops are required to hold a MLA as prescribed in the Written Direction at all times.

### Investment Restrictions

The primary function of a credit co-op is to provide financial services to its members by taking in deposits and granting loans to its members. To ensure that credit co-ops focus on their core thrift and loan business and not the role of professional fund managers for their members, investments made by credit co-ops should generally be liquid, conservative and substantially secure in nature. The Registry has set a Restricted Investments ('RI') limit of up to 10% of total assets (or up to 20% or 30%, subject to conditions prescribed in the Written Directions), and had given credit co-ops up to 30 June 2015 to comply with its applicable limit.

### Provisions for Bad and Doubtful Loans, and Impairment for Investments

Credit co-ops must make the relevant provisions and impairments in accordance with FRS39 at least half-yearly.

### Capital Adequacy Ratio and Restriction on Dividends

Capital Adequacy Ratio ('CAR') stipulates that credit co-ops have to maintain sufficient institutional capital to absorb operational losses. Credit co-ops that hold deposits have to maintain a CAR as prescribed in the Written Direction. In addition, a credit co-op with less than the CAR requirement as at financial year end and intends to distribute dividends from that year's

surplus must seek the Registry's written approval for the proposed dividends.

### Secured and Unsecured Loan Limits

Credit co-ops may grant secured and unsecured loans in accordance with the limits prescribed by the Registry, which vary according to loan type.