

THE NATIONAL CREDIT REGULATOR HAS AS

ITS HIGHEST FUNCTION, THE EXECUTION OF

DUTIES WITHIN ITS MANDATE UNDER THE

NATIONAL CREDIT ACT WITH IMPARTIALITY

AND INDEPENDENCE; IN AS TRANSPARENT A

MANNER AS IS APPROPRIATE; AND WITHOUT

FEAR, FAVOUR OR PREJUDICE

Annual Report 2007

Contents

1	<i>Chairperson's Statement</i>	2
2	<i>CEO's Overview of the year</i>	5
3	<i>Institutions created by the National Credit Act</i>	11
	The National Credit Regulator	11
	The National Consumer Tribunal	11
4	<i>Background to the promulgation of the National Credit Act</i>	12
	The National Credit Act	12
	Phased implementation of the National Credit Act	13
5	<i>The Board of the National Credit Regulator</i>	14
6	<i>Regulatory activities</i>	15
	Overview	15
	Implementation of sections of the act already effective by 31 March 2007	15
	Preparation for the implementation of the remainder of the act	19
7	<i>Training of magistrates</i>	26
8	<i>Usury Act, Credit Agreements Act and Exemption Notice</i>	27
9	<i>Credit extension in run-up to effective date</i>	28
11	<i>Human Resources</i>	29
	Recruitment	29
	Remuneration and bonus policy	29
	Employee health	29
12	<i>Finance</i>	30
	Registration fees	30
	Financial results	31
	Assets & liabilities	31
12	<i>Corporate Governance</i>	32
	Corporate Practice and Conduct	33
	Accounting Authority	33
	Structure of the Accounting Authority	33
	Audit and Risk Management Committee	34
	Remuneration Committee	34
	Policy and Strategy Committee	34
13	<i>Financial Statements</i>	36

Annual Report 2007

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Parliamentary Committee Industry will lengthy con the con al Credit Bil that the

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**“THE SCALES WERE SO TIPPED AGAINST THE CONSUMER,
WE HOPE THIS LEGISLATION WILL ACHIEVE A BETTER
BALANCE OF POWER”.**

MINISTER OF TRADE AND INDUSTRY MR M MPAHLWA, COMPUSCAN, POLITICAL BUREAU

“The MFRC inspections also found that some lenders will advance loans when the borrower’s debt commitments already exceed the borrower’s income. This simply cannot continue. He said the draft consumer credit bill intended putting in place a range of protection mechanisms for consumers, adding that this additional piece in the regulatory puzzle could further promote sound governance of lending practices so that people have someone to turn to when clouds of over-indebtedness burst.

Sunday Independent, 24 October 2004

stency

Parliament's portfolio committee on Trade and Industry wrapped up its lengthy consideration of the contentious National Credit Bill, well aware that the final version would not please everyone but hoping it would level the playing fields in the credit market. Chairperson Ben Martins admitted that it had been an arduous process, spanning about three months, during which members had to weigh up the need for a law to protect the poor and vulnerable from the worst excesses of the credit market, especially credit bureaus, while ensuring that credit providers were not left out on a limb.

Business Report, Monday 10 October 2005



National Credit Regulator Annual Report 2007

On 1 June 2006 the National Credit Regulator was established in terms of the National Credit Act. The Micro Finance Regulatory Council's (MFRC) regulatory mandate came to an end and the assets, liabilities and the staff of the MFRC were transferred to the NCR. As a creature of statute, the functions and powers of the NCR are defined in the Act. The NCR is accountable to the Minister of Trade and Industry and to Parliament for the manner in which it carries out its mandate.

Chairperson's Statement

The appointment to the Board of the National Credit Regulator is an honour, but comes with the significant responsibility of guiding the National Credit Regulator in the implementation and enforcement of an Act that affects every part of the South African financial landscape and that affects all South Africans. The Act improves consumer protection and deals with consumer rights in contentious areas such as official languages, protection against discrimination and protection against over-indebtedness.

Advocate P Tlakula
Chairperson of the National Credit Regulator



The Act also includes a number of interventions aimed at improving access to credit, improving consumer choice and improving competition between credit providers. It is important that the trade-offs between these policy objectives be borne in mind in the implementation and enforcement of the Act, in order for the Act to achieve the objectives as defined by the Parliament of South Africa. It is the role of the Board to provide oversight and guidance to the National Credit Regulator and to advise the Minister of Trade and Industry in respect of all matters regarding the performance of the National Credit Regulator. The size of the South African credit market is currently estimated at R800 billion. This has more than doubled in the last 5 years. Household debt may not be alarmingly high by international standards, but it is the highest it has ever been. In comparison with a national savings ratio which has remained largely flat for over a decade, it confirms South Africans' propensity to spend rather than save!

Whilst we are justifiably proud of South Africa's economic progress since 1994, this has not come without distortions and challenges. South Africa's economy is still highly dualistic. Two economies and two distinct credit markets – one market for low income consumers, the majority of whom are historically disadvantaged and SMME, which is characterised by limited access to finance at a high cost. Another credit market serving primarily middle and high income consumers and large enterprises with easy access to credit at preferential cost.

The National Credit Act seeks to make a fundamental change to the way in which the South African credit market operates, with specific provisions intended to address undesirable practices and improve transparency and fairness. The scope of the impact of the Act is considerable, with more than 4,200 credit providers being affected, ranging from banks, micro lenders, retailers,

furniture stores and insurance companies. We would like to avoid creating undue bureaucracy and inefficient procedures. We will work towards creating an environment where there is an increase in the supply of responsible, transparent and affordable financial services within the framework defined by the Act.

The last ten months has been active and challenging. The Board had to become familiar with the Act and with the environment in which the Act and the NCR operate. The Board established a number of committees to oversee specific areas, being: Audit Committee, Remuneration Committee and Policy and Strategy Committee. We have to ensure that the NCR deserves the trust that the government, Parliament and the general public placed in it.

To my board, I would like to express my sincere thanks for their support and advice. On behalf of the Board I would like to compliment the management and staff of the NCR for their commitment over the past year. We would like to thank Minister Mpahlwa and the Cabinet for the trust that they have placed in us and assure them of our commitment to achieving the objectives stated in the Act!

Role of the Board, section 19:

19(4) The Board must—

- (a) guide the strategic development of the National Credit Regulator;*
- (b) oversee and ensure the efficient and effective use of the resources of the National Credit Regulator;*
- (c) ensure that the National Credit Regulator is in compliance with all its legal requirements and reporting and financial accountability obligations; and*
- (d) provide advice to the Chief Executive Officer concerning the exercise of the functions and powers of the National Credit Regulator.*

19(5) The Board may refer to the Minister any matter concerning the functioning of the National Credit Regulator.

Purpose of Act, section 3:

The purposes of this Act are to promote and advance the social and economic welfare of South Africans, promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry, and to protect consumers ...

Integrity

The National Credit Act was enacted and came into force on 1 June 2006. The Act was the culmination of more than 2 years' of research

undertaken by the Task Team appointed by the Department of Trade and Industry. It was also the product of extensive consultation by the

Department of Trade and Industry, and the Parliament's Portfolio Committee for Trade and Industry with all the role players in the credit

market. The development of the new legislative framework for the credit industry in South Africa was the result of growing concern about

the high cost of credit, particularly for low income consumers, misleading disclosure and increasing over-indebtedness. There has been long-

standing concern with the extent to which low income consumers have resorted to micro-loans and have limited access to main stream credit

products from banks and others. There has similarly been concern about the extent to which middle income and higher income consumers have

become indebted, threatening the gains in wealth creation of the last years. For better protection of consumers and in order to create the basis

for a more sustainable credit market, the introduction of new legislation was critical.

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CEO's overview of the year



Introduction

The National Credit Act was enacted and came into force on 1 June 2006. The Act was the culmination of more than 2 years research undertaken by the Task Team appointed by the Department of Trade and Industry. It was also the product of extensive consultation by the Department of Trade and Industry, and the Parliament's Portfolio Committee for Trade and Industry with all the role players in the credit market.

Rationale for the National Credit Act

The development of the new legislative framework for the credit industry in South Africa was the result of growing concern about the high cost of credit, particularly for low income consumers, misleading disclosure and increasing over-indebtedness. There has been long-standing concern with the extent to which low income consumers have resorted to micro-loans and have limited access to main stream credit products from banks and others. There has similarly been concern about the extent to which middle income and higher income consumers have become indebted, threatening the gains in wealth creation of the last years. For better protection of consumers and in order to create the basis for a more sustainable credit market, the introduction of new legislation was critical.

Mr Gabriel Davel
CEO of the National Credit Regulator

CEO's overview of the year

On 1 June 2006 the National Credit Regulator was established in terms of the Act. The MFRC's regulatory mandate came to an end and the assets, liabilities and the staff of the MFRC were transferred to the NCR. As a creature of statute, the functions and powers of the NCR are defined in the Act. The NCR is accountable to the Minister of Trade and Industry and to Parliament for the manner in which it carries out its mandate.

The research confirmed that there were a number of specific undesirable practices in the credit market which adversely affected consumers, and undermined consumer choice as well as competition. These included:

- extreme interest rates, inflated credit prices and subsidized cash prices;
- non-transparent credit life insurance, substantially increasing the cost of credit;
- widespread negative option selling, contributing to unsustainable debt burdens;
- misleading disclosure of the cost of credit, undermining consumer choice and competition;
- payment preferences and debt collection practices which encourage reckless lending;
- inaccurate and incomplete consumer credit information and "blacklisting", undermining the value of credit information and the credibility of credit bureaux;
- extreme over-indebtedness without an effective debt rehabilitation mechanism;
- ineffective and inconsistent enforcement, which undermines consumer protection.

The National Credit Act replaces the Usury Act, the Credit Agreements Act and the Exemption Notice. All forms of credit and all credit providers are now regulated in one dispensation and are subject to one consistent set of compliance requirements. Mortgage agreements, credit cards, instalments sales, hire purchases and micro loans are treated in an equivalent manner, which should improve comparability, consumer choice and increase competition.

The Establishment of the National Credit Regulator

On 1 June 2006 the National Credit Regulator was established in terms of the Act. The Micro Finance Regulatory Council's regulatory mandate came to an end and the assets, liabilities and the staff of the MFRC were transferred to the NCR. The functions and powers of the NCR are defined in the Act and the NCR is accountable to the Minister of Trade and Industry and to Parliament for the manner in which it carries out its mandate.

The vision of the National Credit Regulator

The NCR is responsible to promote and support the development of a fair, transparent, competitive, sustainable and accessible credit market. It has to monitor the availability of credit, pricing and market conditions, trends in access to credit and indebtedness, market conduct and competition. The monitoring of consumer indebtedness is highlighted as a particularly important aspect of the NCR's mandate.

The regulatory process starts with the requirement that credit providers, credit bureaux and debt counsellors should apply for registration. The registrations department has done an outstanding job and made substantial progress. The applications of banks and other large credit providers have largely been processed and their registration should be finalised before 1 June. In respect of the remainder of the approximately 4,200 applications for registration, the Act provides for temporary registration which would enable the NCR to process all properly completed applications by the 1 June 2007 effective date of the Act.

Creating awareness on the Act, both amongst consumers and credit providers, is clearly critical in facilitating effective implementation of the Act. The extensive publicity that the Act received in the media made an important contribution to achieving this objective. The staff of the NCR were involved in countless workshops, in radio interviews covering all official languages and in numerous other engagements in order to create awareness and to inform consumers, shop stewards, constituency workers, credit providers' staff, provincial government officials and others about the Act and its implications for different stakeholders.

Over the past year, the NCR's primary focus was on providing clarity in respect of the interpretation of the Act and to assist with practical questions of implementation. The NCR will continue to assist both consumers and credit providers in order to respond to this need.

Enforcement function and strategy

Successful implementation of the Act depends on effective enforcement. The benefits which the Act intends to achieve through improved disclosure, consumer choice, competition, and consumer protection will only be realised if there is broad and consistent compliance. The NCR has been increasing its capacity, expanding its call centre, arranging for further outsourced call centre support and increasing both internal and external investigative resources.

The Act provides for a detailed enforcement framework, the power to negotiate undertakings and consent orders, to issue compliance notices and, in cases that can-

not be resolved through such mechanisms, for referral to the National Consumer Tribunal (NCT). This enforcement framework allows for sufficient flexibility to facilitate speedy compliance without necessitating an overly litigious approach which would further add to the burden of the courts.

We find the following statements by the United Kingdom's 'Financial Services Authority' instructive, in assessing non-compliance and taking enforcement action:-

Enforcement of the policy on Treating Consumers Fairly: "We are less likely to take enforcement action where the firm has considered the implications of TCF for its business, where senior management have played the role we expect of them in relation to TCF; where a firm has made a genuine attempt to deliver on what TCF means for it; and where there has not been significant actual – or risk of – consumer detriment. Conversely, we are more likely to take enforcement action in cases where a firm has not responded to indications that there are problems, has failed to identify shortcomings and to develop a strategy or action plan to deal with them, where there has been a serious breach of ... relevant principles, or where there has been significant actual or potential consumer detriment."

Repeal of Usury Act, Credit Agreements Act and Exemption Notice

Despite the repeal of the Usury Act, Credit Agreements Act and the Exemption Notice, transactions that were entered into prior to 1 June 2007, remain governed by the Act or regulations which applied to it when the transaction was entered into. The NCR has the mandate to continue the enforcement of these Acts. The NCR, through the staff members that were transferred from the Micro Finance Regulatory Council (MFRC), has had extensive experience in dealing with such cases and has achieved outstanding results in ensuring prosecutions and affecting repayment to consumers. We hope to maintain this track record.

Debt counselling

In a joint project with the Department of Trade and Industry, the MFRC had been involved in a pilot debt

CEO's overview of the year

... we estimate that well over 300,000 consumers in South Africa find themselves in an extreme over-indebted position, while a further million or more consumers are potentially debt-stressed. The challenge is huge, but the current situation can clearly not be allowed to continue. The impact and cost of over-indebtedness should not be underestimated, and is reflected in social grants being diverted into debt payments; maintenance payments that are not made; municipal service payments not being made; school fees not being paid and, finally, households being further impoverished and denied basic resources.

relief programme from 2003. This project served as a basis for the implementation of debt counselling and debt-review as provided for in the National Credit Act. The preparatory work for the implementation of debt counselling is on track. A procedure manual for debt counselling and training materials have been developed and training service providers have been accredited. These institutions are responsible for the training of debt counsellors, and the first debt counsellors have already completed the training. Various information workshops have been presented to introduce both the prospective debt counsellors and other stakeholders (including credit providers and credit bureaux) to the concepts related to debt counselling.

However, the establishment of an effective debt counselling service remains a challenge and developments in this regard will have to be monitored carefully. There is a huge potential demand for debt counselling assistance: we estimate that well over 300,000 consumers in South Africa find themselves in an extreme over-indebted position, while a further million or more consumers are potentially debt-stressed. However, debt counselling has a very important role to play. The impact and cost of over-indebtedness should not be underestimated, and is reflected in social grants being diverted into debt payments, maintenance payments not being made; municipal service payments falling into arrears; and finally, households being further impoverished and denied basic resources.

Regulating credit bureaux and credit information

On 1st September 2006, all sections of the Act relating to credit bureaux and credit information came into effect. Eight credit bureaux have thus far been registered. Negative credit information, specifically "blacklisting,"

was an important motivating factor in the passage of the Act. Section 73 of the Act deals specifically with this issue and on 30 November 2006, the regulations relating to 'data removal' were published. This provides for a once-off removal of specified categories of consumer credit information. It creates an opportunity for consumers to 'clean' their credit records, and to remove this from being a barrier to financial access and economic activity. The response to these regulations has been positive and consumers are becoming increasingly aware of their rights in relation to credit information, their right to free reports, and the mechanisms through which to enforce these rights. We hope that these regulations would go a long way to addressing the considerable public concern in this area, and counter the scepticism about the important role that credit bureaux are playing in a modern economy.

Conclusion

In the final instance, the effectiveness of the Act will depend on credit providers accepting the principles and objectives which the Act is attempting to achieve, and co-operating in its implementation. It is in the engagement of consumers with credit providers, credit bureaux and debt counsellors that the Act will become a reality in people's lives. In this process, the NCR's role can never be more than facilitative and supportive. We thank all the affected parties for their overwhelmingly positive response to the Act and we commit to making every effort to ensure that the Act is effectively implemented and that it delivers the promised benefits to the credit industry and to the consumers of South Africa.

Despite the repeal of the Usury Act, Credit Agreements Act and the Exemption Notice, transactions that were entered into prior to 1 June 2007, remains governed by the previous Act or regulations that applied to it when the transaction was entered into. The NCR has the mandate to continue the enforcement of these Acts. The NCR, through the staff members that were transferred from the MFRC, has had extensive experience in dealing with such cases and has achieved outstanding results in ensuring prosecutions and affecting repayment to consumers. We would hope to maintain this track record.

PRINCIPLES

THE NATIONAL CREDIT REGULATOR HAS AS ITS CORE FOCUS

THE PROMOTION AND SUPPORT OF THE DEVELOPMENT

OF A FAIR, TRANSPARENT, COMPETITIVE, SUSTAINABLE,

RESPONSIBLE, EFFICIENT, EFFECTIVE AND ACCESSIBLE

CREDIT MARKET AND INDUSTRY TO SERVE THE NEEDS OF –

IN PARTICULAR – HISTORICALLY DISADVANTAGED AND

LOW-INCOME COMMUNITIES

Institutions created by the National Credit Act

Members of the National Consumer Tribunal

Chairperson: Ms Diane Terblanche

Deputy Chair: Bonke Dumisa

Members: P. Beck-Paxton

L. Best

Y. Carrim

O. Davids

H. Flemming

B. Haslam

F. Manamela

X. May

M. Monyai

M. Mphahlele

N. Sephoti

M. Victor

T. Woker



Ms Diane Terblanche

Chairperson of the National Consumer Tribunal

The National Consumer Tribunal

The Act also provides for the establishment of the National Consumer Tribunal. The National Consumer Tribunal is an independent body and its functions are to adjudicate in matters concerning allegations of prohibited conduct against all registrants. It also hears appeals against the decisions of the NCR as well as consumer complaints where the complaint had been rejected by the NCR or an alternative dispute agency.

The Tribunal has the power to issue fines for non-compliance by registrants and section 150 of the Act provides for a number of different orders which the Tribunal can issue in respect of non-compliance with the Act. The decisions of the Tribunal may be appealed to the High Court of South Africa.

The Chairperson and members of the Tribunal are appointed by the President. The first appointed chairperson of the Tribunal is Diane Terblanche.

The National Credit Regulator

The National Credit Regulator (NCR) is an independent regulator established in terms of the National Credit Act. It operates under the Public Finance Management Act and came into being on 1 June 2006.

The NCR's primary functions, as defined in sections 13 to 16 the National Credit Act, are to:

- **Register** credit providers, credit bureaux and debt counsellors, and monitor the conduct of these parties;
- **Educate** consumers and create awareness on the protection which the Act offers;
- **Receive** and investigate complaints and ensure that consumer rights are protected;
- **Monitor** the conduct of credit providers, credit bureaux and debt counsellors, in order to ensure compliance with the Act;
- **Research** the credit market, monitor access to and the cost of credit in order to identify factors that may undermine access to credit, or the competitiveness in the credit market and that may undermine consumer protection;
- **Advise** government on policy and legislation;
- **Enforce** the Act and take action against contravening institutions.

Background to the promulgation of the National Credit Act

Credit Law Review Committee

- Chair:** Gabriel Davel
Co-ordinator: Peter Setou
Members: Dr David Porteous
Kgosi Pule
Prof. Roshanna Kelbrick
Moses Moeletsi

The National Credit Act

The National Credit Act was enacted by Parliament and assented to by the President on 15 March 2006.

The Act was formulated based upon extensive research, which commenced in 2003. The initial phase of research and policy analysis was overseen by a 'Credit Law Review Committee', established by the Department of Trade and Industry. The research included workshops with consumers, workshops with credit specialists and industry representatives, an assessment of leading international credit legislation and primary research into access to credit and the cost credit products being offered.

The research included an analysis of the types and cost of credit to which different income groups have access.

It was found that access to credit was skewed, with the access of low and middle income South Africans being limited to high cost products such as micro-loans and furniture finance, but with limited access to mainstream credit from banking institutions.

The research concluded that the limitations on access to mortgage finance and dominance of high cost consumer finance impacted negatively on wealth creation for low and middle income South Africans.

The Committee concluded that weaknesses in the current legislation, and in the enforcement of legislation, contributed significantly to

Consumer perceptions on the credit market

- *Dissatisfaction with disclosure of cost and terms*
- *Consumers "felt cheated" when their first payments had to be made, and they first realised the impact of hidden fees and charges*
- *Consumers indicated that the signing of the contract is largely a formality, and a great majority hardly read it.*
- *Consumer responses indicated unambiguously that a "buyer beware" approach is not appropriate. When applying for credit, consumers are frequently desperate and not in a position or frame of mind to contest the contents of the contract.*
- *The fear of the application for credit being turned down, which is linked to the fear of being blacklisted, places the consumer in a highly vulnerable position when applying for credit.*

The implications are two-fold: (a) much more attention should be given to disclosure in advertisements, brochures and marketing material, and (b) that there is a need for increased standardisation of contracts, or at least for prohibition of one-sided contracting terms.

"Summary of findings of the Technical Committee"

Phases of Implementation

1 June 2006

- *Establishment of the National Credit Regulator*
- *Registration process commences*

1 September 2006

- *Establishment of the National Consumer Tribunal*
- *Credit Bureau compliance requirements become effective*

30 November 2006

- *Regulations for removal of defined credit bureau information*

1 June 2007

- *Compliance requirements on credit providers become effective*
- *Debt Counselling sections become effective*

the high cost of credit and unequal access to credit. It further concluded that misleading disclosure undermined consumer choice as well as competition between credit providers, and therefore contributed to high credit costs. Single premium credit life insurance and mechanisms for preferential repayment collection were some of the items identified as having a particularly negative impact, requiring legislative intervention.

Based upon the Committee's report, the Department of Trade and Industry developed a Policy Paper on the regulation of consumer credit and initiated the formulation of new consumer credit legislation, to replace the Usury Act, Credit Agreements Act and Exemption Notice. The development process included extensive consultation with all stakeholders, including regional workshops with general public participation on key concepts in the legislation.

The National Credit Bill was introduced into parliament in March 2005, followed by an intensive analysis by the Portfolio Committee on Trade and Industry. In August 2005 the Portfolio Committee conducted public hearings on the Bill. Presentations were made by a wide variety of stakeholders representing amongst others: banks, micro lenders, retail groups, labour, political parties and consumer groups. In addition, the Select Committee on Economic and Foreign Affairs conduct-

ed public consultations in each of the 9 provinces. In December 2005 the Bill was adopted by Parliament and on 15 March 2006 it was assented to by the President of South Africa.

Phased implementation of the National Credit Act

The National Credit Act provided for implementation in three distinct phases, with a 12 month delay between the establishment of the NCR and the effective date of the compliance requirements for credit providers. This enabled the National Credit Regulator to employ staff and establish the capacity to fulfil its regulatory obligations. It also afforded time for credit providers to prepare for and implement the necessary changes to policies and procedures, documents and systems. A primary objective and high priority for the NCR in the period from June 2006 to May 2007 was extensive engagement with different institutions affected by the Act, in order to discuss and explain the requirements of the Act and its implications for different industries.

By 31 March 2007 the National Credit Regulator was fully functional with 59 staff members. It occupies premises along the primary highway between Johannesburg and Pretoria, with a large billboard announcing the arrival of a new regulator with a demanding task!

The Board of the National Credit Regulator

The Board of the National Credit Regulator

Chair

Adv. P. Tlakula

Deputy Chair

M Setiloane

Designated Members

Sadi Luka (Social Development)

N. Mashiya (Finance)

A. Osman (Housing)

F. Sibanda (Trade and Industry)

Other Members

Y. Radinku

C. Glover

M. Maleka

M. van Schalkwyk

T. Store

The NCR is governed by a Board, appointed in terms of section 19 of the Act. The Act determines that the Cabinet Members responsible for Finance, Housing and Social Development may each appoint a member to the Board. The Minister of Trade and Industry appoints the chairperson and deputy chairperson, as well as a further 6 members.

The functions of the Board in terms of the National Credit Act are defined as follows:

- to guide strategic development;
- to oversee and ensure the efficient and effective use of resources;
- to ensure that the NCR is compliant to its legal, reporting and financial obligations; and
- to provide advice to the Chief Executive Officer concerning the exercise of the functions and powers of the National Credit Regulator.

The Board established a remuneration committee, a policy and strategy committee and the audit and risk committee. The audit and risk committee is chaired by an independent person, T Ramano.



Standing (from left to right): M van Schalkwyk, M Setiloane, C Glover, F Sibanda, M Maleka

Sitting (from left to right): Adv. P Tlakula, Y Radinku, N Mashiya

Absent: A Osman, S Luka, T Store

Regulatory activities

Overview

As at 31 March 2007, the end of the period that is covered by this Annual Report, the compliance requirements of the National Credit Act had not yet taken effect. The only sections of the Act that were in effect, were the sections creating the National Credit Regulator and the National Consumer Tribunal, the sections governing registration and the sections governing credit bureaux.

In this Annual Report we have therefore only reported on the implementation of the sections of the Act that are already in effect, as well as the preparations of the NCR for the implementation of the remainder of the Act, which will become effective on 1 June 2007.

Implementation of sections of the Act already effective by 31 March 2007

Registration of credit providers, credit bureaux and debt counsellors

Effective dates and requirement to register

The sections of the Act dealing with the registration of credit providers, credit bureaux and debt counsellors became effective on 1 June 2006.

Credit providers are required to register with the National Credit Regulator if they have at least 100 credit agreements or if the outstanding total principal debt under all their agreements exceeds R 500 000. The Act allows both natural persons and juristic persons to register as credit providers. Only a juristic person may register as a credit bureau, whereas only natural persons may register as debt counsellors.

The Act provides for temporary registration of credit providers, which takes effect upon receipt by the NCR of a duly completed application form. Temporary registration allows a credit provider to act as credit provider in terms of the Act, until such time that the application is finally approved or rejected by the National Credit Regulator.

Prior to the registration of a credit bureau, the NCR is required to consider whether an applicant has appropriate systems, procedures and staff to operate the business of a credit bureau. The NCR therefore performs a pre-registration audit on all applications for registration as a credit bureau.

In respect of debt counsellors, the Act lays down additional criteria which have to be met prior to registration. These include educational, experience and competency requirements which are prescribed by the Minister. The Act further disqualifies certain categories of people from being registered as a debt counsellor, including credit providers (and their employees or agents) and debt collectors.

Registration certificates, window decals and cancellation of registration

Upon registration, each registrant is issued with registration certificates and 'window decals' for each of their branches or business premises. These certificates and window decals differentiate between the credit providers, credit bureaux and debt counsellors.

The NCR does not have the power to withdraw or de-register a registrant. Registrations may only be cancelled by the Tribunal, normally upon request by the NCR. After having conducted an investigation into unlawful or prohibited conduct and having brought a request for cancellation to the Tribunal, a registrant may be de-registered. The registrant would have the opportunity to defend itself against such a request for deregistration.

Summary statistics on applications and registrations as at 31 March 2007

A total of 3,968 credit providers with 19,574 branches were provisionally registered by 31 March 2007. Eight credit bureaux were fully registered while 51 debt counsellors had submitted applications for registration. The NCR had until 1 June to process these applications, which is the date when the debt counselling sections become effective.

Summary of credit bureaux, credit providers and debt counsellors as at 31 March 2007

	Credit providers	Credit bureaux	Debt counsellors
Applications Logged	4,264	16	51
Temporarily registered	3,968		
Fully registered		8	
Work in progress		5	51
Applications withdrawn/rejected	296	3	

Consumer credit information

Compliance requirements and effective dates

The sections of the Act which regulate credit bureaux and consumer credit information became effective on 1 September 2006. As from that date, credit bureaux were obliged to:

- maintain accurate data as required by section 70 of the Act;
- ensure that consumers were able to access their credit bureaux records; and
- deal with disputes in a prescribed manner.

The Act also stipulates limitations on the parties from whom data could be received; the purposes for which data may be released; limitations on data retention periods and a requirement for a consumer to be notified before adverse information may be submitted to a credit bureau.

The first statistical returns by credit bureaux were due to be received by the NCR on 15 February 2007, for the period 1 October 2006 to 31 December 2006. Although the primary bureaux did submit returns, the NCR decided to delay the publication of the statistics in order to allow sufficient time to assess the accuracy thereof, and the consistency between the statistics submitted by different bureaux.

For the period 1 September 2006 to 31 March 2007 almost 60,000 free credit reports were provided by registered bureaux, and 30,815 reports were provided against payment of the prescribed R20 fee.

Data cleansing in terms of section 73 of the Act

Section 73 of the Act provides that regulations must be issued by the Minister of Trade and Industry, to provide for a once off removal of specified categories of consumer credit information. These regulations are intended to address the public's concern with data inaccuracies and "blacklisting".

On 1 December 2006, the regulations were published and specified the categories of information that had to be removed (refer text box for detail). The information as specified must be removed by 1 June 2007.

Blacklisting:

Giving the consumer another chance

In terms of Section 73 Regulations, the following information categories must be removed from the credit bureaux records by 1 June 2007

- ***Adverse information***
Adverse consumer credit information in respect of a debt of less than R500;*
- ***Dormant accounts***
Consumer credit information relating to accounts that have been dormant for a period of at least 24 months on 1 September 2006;*
- ***Civil court judgments – unpaid***
 - a) *Of up to R500 (except if a consumer has more than two unpaid judgments);*
 - b) *Of up to R5,000 if the judgment is older than 18 months (except if consumer has more than two unpaid judgments on record);*
- ***Civil court judgments – paid***
Judgments of up to R50,000 if the judgment amount is paid by 1 September 2007;

* *This information must have been reflected on a consumer's records as at 1 September 2006 in order to qualify for removal by 1 June 2007.*

Profile of applications for registration from credit providers

Entities registered with the NCR for the period 1 June 2006 – 31 March 2007

Category	Entities	Branches
Banks	24	3,835
Clothing retailers	8	3,778
Food retailers	2	183
Furniture stores	27	2,600
Co operatives	7	238
Housing lenders	4	48
Life insurers	12	233
Motor vehicle financiers	6	740
Municipalities	8	11
Pension Funds	20	20
Private colleges	4	124
Provident funds	13	13
Short term insurers	6	12
State enterprises	5	72
Universities	8	24
Other short and long term financiers	3,814	7,643
Total	3,968	19,574

Number of credit providers per fee category temporarily registered as at 31 March 2007

Fees Category	Description	Number registered at 31/3/2007
Category 1	Total principal debt equal or greater than R15 Billion	6
Category 2	Total principal debt equal or greater than R5 Billion, but less than R15 Billion	11
Category 3	Total principal debt equal or greater than R1 Billion, but less than R5 Billion	26
Category 4	Total principal debt equal or greater than R100 million, but less than R1 Billion	99
Category 5	Total principal debt equal or greater than R5 million , but less than R100 million	191
Category 6	Total principal debt equal or greater than R1 million , but less than R5 million	293
Category 7	Total principal debt less than R1 million	3,342
	Total	3,968

Preparation for the implementation of the remainder of the Act

The core compliance requirements of the Act only become effective on 1 June 2007. In the following sections we provide an overview of the projects and activities through which the NCR prepared for the effective implementation of the Act.

Education and awareness

It was a priority over the period from June 2006 to March 2007 to create awareness of the requirements of the Act, amongst consumers as well as industry.

Consumer education and awareness

Creating a high level of awareness of the consumer rights provided by the Act, **prior to the relevant sections of the Act being effective would have been counter-productive.** Creating awareness of consumer rights prior to its effective date is likely to result in a consumer demanding the relevant information or treatment from a credit provider or bureau, when it is not in fact enforceable. This would undermine consumer confidence.

The NCR therefore structured the awareness campaigns in order to peak at the effective date of the Act, being 1 June 2007. The focus in the period until 31 March 2007 was therefore on the following areas:-



- Incremental awareness on the general content of the Act;
- Cautionary messages in relation to over-indebtedness; and
- Specific information in relation to credit bureau information.

More detailed and specific information was provided to consumer advocacy groups and other similar institutions, in order to equip such parties with information which they could provide to consumers.

An assessment of the impact or effectiveness of the consumer education and awareness is being planned for the last quarter of 2007. Details of the education and awareness activities are provided in the next section.

Industry communication

Another major focus over this period was on regular communication with industry associations and credit providers across all segments of the credit industry. The objective was to create awareness of the compliance implications of the Act, and to create platforms at which to discuss concerns. The accounting and legal professions were included in the target audience, given the role of these professions in advising industry on compliance with legislation.

The specific activities and engagements included the following:-

- Regular presentations at general and industry specific seminars on the Act;
- Regular meetings with the senior legal advisors of banks, hosted by the Banking Association, in order to discuss the interpretation and application of the Act;
- Meetings with representatives from the insurance industry, retail industry, micro-lending industry and motor vehicle financiers;
- Engagement with financial sector analysts in order to clarify the requirements of the Act and discuss areas of concern;
- Presentations to members of the accounting and legal professions.

Specific educational activities

Workshops

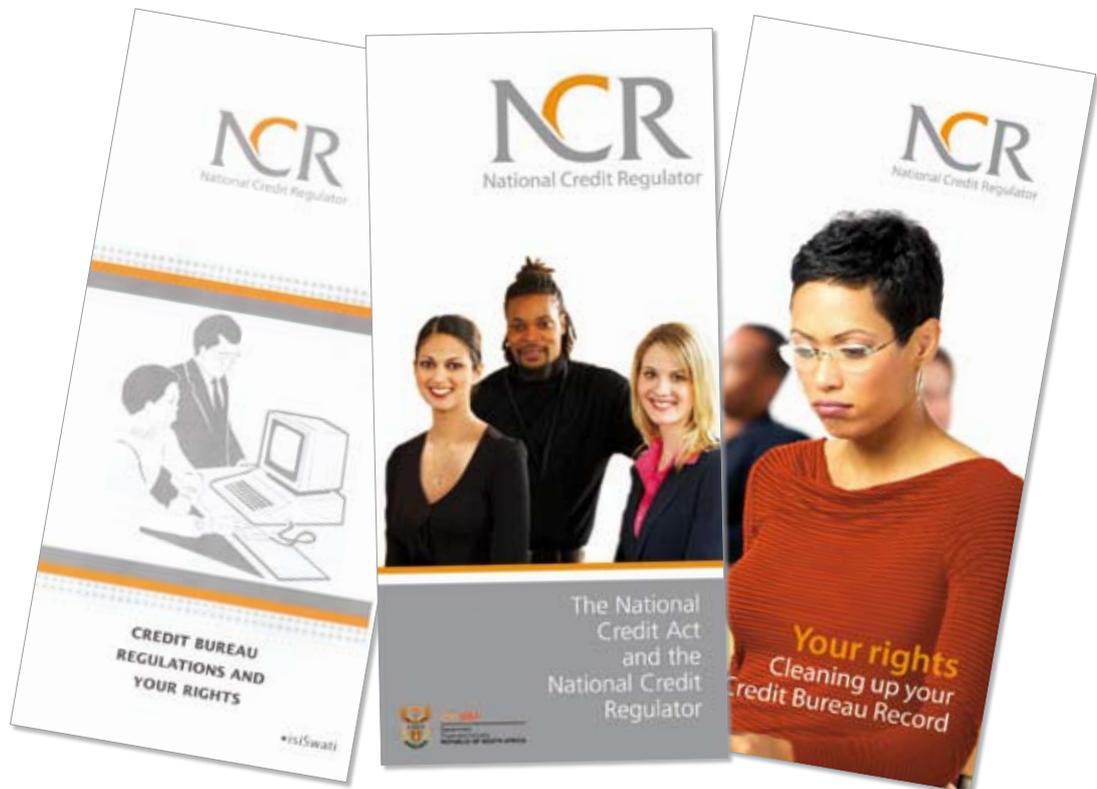
The following table presents an overview of the education and awareness workshops, for the period 1 June 2006 – 31 March 2007:-

Stakeholders	Workshops
Provincial Consumer Desks	93
NGO's	6
Trade Unions	5
Employers	22
Industry Stakeholders	36
Total	162

Industry Awareness

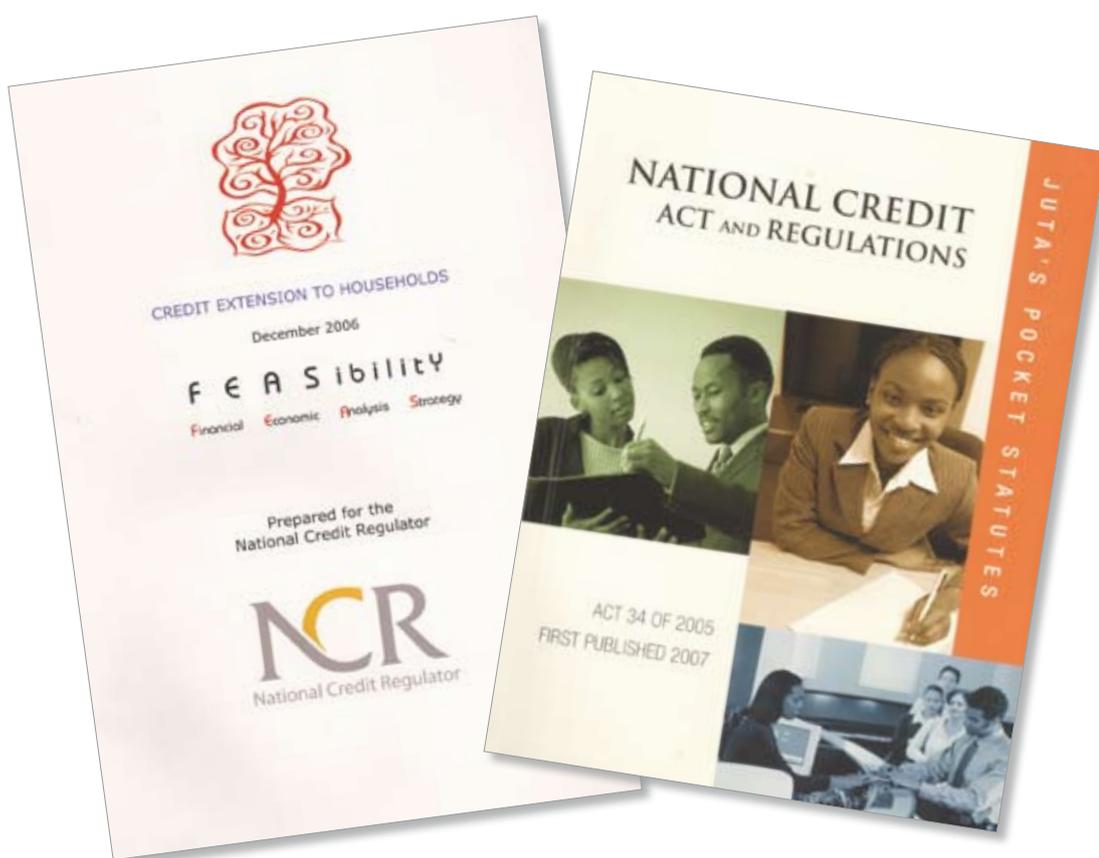
Presentations at seminars and conferences

- 128 education workshops: consumers
- 32 workshops and presentations on the NCA: industry



Educational Material

Three brochures, one on the Act and consumer rights, one on credit bureaux and one on the Section 73 regulations (regulations on 'data cleansing') were produced and translated into all 11 official languages. A total of 54,217 brochures were distributed at workshops with different stakeholders, primarily consumer orientated. A general booklet on the Act, focused on consumer rights, was finalised and translated into the 11 official languages. Two further booklets are also being finalised. One of these is aimed at credit providers and the other at debt counsellors.



Communication and Media

During the period under review, 37 'educational adverts' were placed, while the NCR participated in a number of media surveys related to the Act. The print media featured 185 articles on the Act and the NCR staff participated in 170 radio and 25 tv interviews. The Advertising Value Equivalent (AVE) received by the NCR through these campaigns was just over R20.5 million (i.e. the amount that the NCR would have paid for advertorial content equivalent to the coverage received).

Website

When the NCR was formally established on 1 June 2006, the website was fully functional. The website continues to play an important role in disseminating information about the Act and the NCR. It is also a source of information for consumers, credit providers, bureaux and debt counsellors. It gives access to the Act, Regulations, applications forms and any other forms that are prescribed. The website is effective and 138 783 "hits" have been recorded, with 2,695 requests for information.

The screenshot shows the NCR website homepage. At the top, there are navigation links for Home, Contact Us, and Sitemap, along with the NCR logo. The main content area features a header with the date and time (12:22:23 AM on Tuesday, 21st August) and a central banner with the text "Re a ho amohela ho National Credit Regulator" and "Link to the National Credit Act". Below the banner, there is a section titled "Important Notice" with text in Sesotho. A sidebar on the left lists various services and information, including The NCR, The ACT, Registration, Complaints, Interest Rates, Tribunal, Debt Counselling, Credit Bureaux, FAQs, Register of Registrants, National Loans Register, Legal, Research and Statistics, Tenders, Employment, Publications, News, Events, Links, and Contact Us. At the bottom, there is a footer with the dti logo, copyright information, and a call number (0860 627 627).

Home | Contact Us | Sitemap

NCR
National Credit Regulator

12:22:23 AM on Tuesday, 21st August

Re a ho amohela
ho National Credit Regulator

Link to the National Credit Act

The National Credit Regulator (NCR) was established as the regulator under the National Credit Act 34 of 2005 (the Act) and is responsible for the regulation of the South African credit industry. It is tasked with carrying out education, research, policy development, registration of industry participants, investigation of complaints, and ensuring enforcement of the Act.

The Act requires the Regulator to promote the development of an accessible credit market, particularly to address the needs of historically disadvantaged persons, low income persons, and remote, isolated or low density communities.

The NCR is also tasked with the registration of credit providers, credit bureaux and debt counsellors; and enforcement of compliance with the Act.

For further information refer to the relevant sections of the Act.

Important Notice

...
nokuyilona oluzobhekana
noqeqetho, ucwaningo, ukwenzwa ngcono kwenqubo ngomo, ukubhalisa kwabazoba yingxenyi yalemboni, ukuphenywa kwemibiko yabakhothonda ngokungaphatheki ngendlela ngababolekisa ngezimali kanye nokuginisekisa ukuthi umthetho lona njengoba ubekwe nje uyisqala idokotabenta

Click here to email any problems with regards to service delivery by the NCR staff.

the dti
Department of Trade and Industry
REPUBLIC OF SOUTH AFRICA

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Call 0860 627 627

Responding to enquiries and consumers complaints

The NCR has been receiving an increasing number of enquiries and complaints from the general public. Typically, the enquiries relate to the provisions of the National Credit Act and to consumers' and credit providers' rights and obligations under the new Act. Most of the complaints in this period relate to transactions falling under the Usury Act, Exemption Notice and the Credit Agreements Act, given that the NCR also has the responsibility for dealing with such cases.

The NCR established a call centre with 5 call centre operators. The call centre currently manages an average of 4950 calls per month, with a potential capacity of up to twice that much. The NCR also has a service level agreement with an external call centre, in order to ensure sufficient capacity to manage significantly higher call volumes.

To enable effective dispute resolution, given the reality that consumer concerns frequently straddle the boundaries between different regulators and adjudicators, the NCR has regular engagements with provincial consumer affairs desks and various ombud schemes, such as the Banking Adjudicator and the Credit Information Ombudsman.

As a result of the NCR's intervention, R1.5 million had been repaid by credit providers to consumers in respect of overcharged interest and other payments in the period June '06 to 31 March '07, relating mostly to transactions under the Exemption Notice.

Preparation in respect of debt counselling

Debt counselling is a new concept introduced by the Act. From 1 June 2007 the Act enables over-indebted consumers to apply for debt counselling. The debt counsellor would review the credit agreements and develop a proposal for debt re-arrangement. This proposal could either be accepted by all the affected credit providers and implemented as a 'consent order', or referred to the magistrate's court for a hearing.

The NCR has invested considerable time and effort in ensuring the establishment of effective debt counselling services with national outreach, as envisaged by the Act. The NCR approved a debt counselling training course, and established procedures for the registration of debt counsellors and for monitoring the manner in which they perform their activities.

The requirements for successful implementation of the debt counselling provisions of the Act are considerable, and include:-

- Training and registering an adequate number of counsellors to be able to deal with the expected demand for debt counselling services (by 1 June 2007);
- Ensuring that debt counsellors are able to provide a professional and effective service, amongst others by ensuring that appropriate training and support is provided;
- Ensuring that there is a constructive relationship between debt counsellors and credit providers, given that obstruction and antagonism from credit providers would provide a huge barrier to successful debt re-arrangement;
- The establishment of a successful interface between debt counsellors and the magistrates courts, as the courts are required to review and approve debt re-arrangement orders;
- The establishment of an effective interface with the credit bureaux, both for pre-counselling enquiries and as a mechanism to notify credit providers that a consumer is under counselling and thus prohibited from entering into further credit agreements.

Accredited Debt Counsellor Trainers

- Damelin
- Association of University Legal Aid Institutions (AULAI)
- You and Your Money
- Institute of Bankers
- Rudo Research and Training
- Credit Skills Training Institute
- Cornerstone Performance Solutions
- Summit Financial Services

"... the effective implementation of debt counselling would ultimately depend upon the goodwill and co-operation of a number of different stakeholders, including credit providers, credit bureaux and magistrate's courts..."

From our Debt Counsellor files...

The case of an individual with less than R0 available to pay debt

Mr. X is a 27 year old, earning a nett salary of R8450.00. He has total monthly commitments of approximately R17,500, and living expenses of R2,150.

He over committed himself with two mortgage bonds of R776 020 (R7,948pm), vehicle finance of R182,579 (R2,812pm), two credit cards with an outstanding balance of R13,965 and six retail accounts of R28,200. In addition he has monthly payments for an investment policy, life cover policy and insurance of R1357 per month.

The consumer has a disposable income of R6,300, to cover his monthly financial commitments of +/-R17,500.

It is clear that this consumer is living beyond his means, taking into account his further 4 clothing accounts, and cell phone account. Mr X has a shortfall of -R11,200.

This is a case of pure reckless lending and irresponsible borrowing.

The NCR has made significant progress in all of these areas, through initiatives such as the following:-

- Developed a training manual, as well as a set of training aids, for use in training of debt counsellors;
- Accredited 8 training service providers, with the capacity of providing professional training in all parts of South Africa;
- Established a retainer agreement with a specialist debt counselling institution, to provide support and advice to newly registered debt counsellors;
- Acquired rights to debt counselling software, which will be available for use by debt counsellors without charge for 6 months;
- Developed a debt counselling procedure manual, for use by debt counsellors;
- Engaged with credit providers and agreed on general principles for the interaction between debt counsellors and credit providers;
- Reviewed relevant sections of the Magistrates Court Act, and made proposals for amendments in order to improve the consistency between the Magistrates Courts Act and the National Credit Act;
- Established an internet-based database through which the required information on debt counselling cases will be forwarded to credit bureaux.

As indicated above, the NCR invested a huge amount of effort, time and money in the preparation for the implementation of the debt counselling sections of the Act. However, the successful implementation of debt counselling remains one of the most challenging requirements of the Act.

Challenges with regard to debt counselling

The current regulations allow a debt counsellor to recover R50 from a consumer upon acceptance of the application for debt review. This amount is clearly insufficient to cover the cost of debt counselling. As a result, there has been resistance among debt counsellors to register. If the debt counselling fees are not increased, there may be insufficient debt counselling capacity for dealing with expected number of applications from over-indebted consumers.

Further clarity is also required on the management of repayments once debt counselling has been done, and on the distribution of payments to credit providers. The NCR envisages that this function should be performed by a Payment Distribution Agent which should have the required administrative capacity to perform such a function, and may have to be independent from debt counselling. The NCR has proposed that the regulations should be amended in order to regulate this function, and to provide for increased fees for debt counsellors. There is also uncertainty regarding the manner in which the Magistrate's Courts will deal with debt counselling cases. These may similarly require clarification through amendments to the regulations or to the Magistrate's Court Act.

These concerns had been raised with the respective departments and the proposals for amendments are being considered. However, it must be recognised that the institutional capacity required to meet the expected demand from debt-stressed consumers and the complexity of co-ordinating between the different parties that are affected, creates considerable challenges. The NCR will continue investing time and effort into this area, but the effective implementation of debt counselling depends on the goodwill and co-operation of a number of different stakeholders, including credit providers, credit bureaux and magistrate's courts.

Dedication

Access to and use of credit facilities can play an important role in the ability of consumers to accumulate assets and improve their standard of living. In this regard the new regulatory framework is designed to unlock the economic potential of all South African consumers by increasing access to credit, while recognising the dangers associated with over-indebtedness and the injudicious use of credit.

Training of Magistrates

The implementation of the National Credit Act will have a significant impact on the magistrates' courts in South Africa. Currently, magistrates deal with approximately 65,000 debt-related judgments per month. The Act represents a radical departure from the previous Usury Act and Credit Agreements Act and makes huge demands on the magistrates who will have to interpret and apply it in the courts.



It was therefore important that Justice College, with the financial support of USAID, developed a training manual aimed at magistrates and implemented a training programme in March 2007. The expectation is that more than 700 magistrates would undergo training on the Act during the course of 2007. This will make an invaluable contribution to the successful implementation of the National Credit Act!



Usury Act, Credit Agreements Act and Exemption Notice

Enforcing our mandate

Case 1: Micro lender pays up R1.3 million!

The MFRC conducted an investigation on a large registered lender, due to concerns about numerous emolument attachment orders obtained against its clients. The investigations of the lenders' branches revealed that borrowers were required to sign post dated letters of demand, and consents to judgment documents, on the same day as the loan agreements or prior to default. The matter was presented to the High Court in the form of a stated case. In August 2006, the High Court granted an order in which it was declared that the process followed by the lender was illegal and unlawful and the loans granted were not exempted from the provisions of the Usury Act. As a direct result of the investigation, the relevant micro lender had to re-calculate all the affected loans and an amount of R1.3 Million was refunded to the affected borrowers.

In terms of the National Credit Act, the NCR is responsible for the enforcement of the previous credit legislation. The role of the Inspectorate Division of the Department of Trade and Industry has thus been taken over by the NCR and we are following up on a number of cases related to the Usury Act, received from the Department.

The NCR is similarly responsible for dealing with Exemption Notice cases, which were previously the mandate of the MFRC. Since June 2006, 17 unregistered lenders were successfully prosecuted in various Magistrates' Courts, where fines to a total amount of R298, 500 were imposed. As part of the sentences handed down by the Magistrate Courts, the lenders had to refund amounts totalling R512, 773 to affected borrowers.

The following table summarises the investigations that were undertaken for the period 1 June 2006 – 31 March 2007:-

Type of investigation	Total
Non Registrants	48
Credit Bureau Compliance	2
Non Registration	47
Exemption Notice	28
Usury Act	36
Reckless Lending	2
Card and Pin Investigations	39
Market Conduct Investigation	4
Matters taken over from the DTI	55

Credit extension in run-up to effective date

Concerns had been expressed in different quarters on the level of credit extension over the last months prior to the effective date of the Act. The NCR commissioned FEASibility Consulting to conduct research in an attempt to assess the trend in credit extension and to understand the reasons for the level of credit extension. The following table summarises the growth in consumer credit over the period from January 2002 to September 2006:-

Loan category	January 2002 R millions	September 2006 R millions
Mortgages	174 691 837	444 832 706
Overdrafts and other loans	56 348 917	74 453 434
Leases	9 332 163	37 186 331
Installment sales	36 454 703	86 702 797
Credit Cards	13 020 853	37 526 087
Total	289 848 473	680 701 355

(Note that this includes consumer credit from banks only – FEASibility, 2006)

Key findings of the report include:-

- Total household credit (from banks) increased by a massive R391 billion over the last 4 years, or by 135%;
- The bulk of this growth came from mortgages, which grew by R270 billion over the period;
- Although credit cards also grew considerably, the amounts owing on credit cards are still overshadowed by most of the other categories;
- Growth in credit extended to households exceeded growth in household consumption, as well as nominal GDP growth and growth in formal employment. This should raise concern about the serviceability of the current level of consumer credit;
- There have been significant structural changes in the consumer credit market over recent years. This includes a change in banks' credit criteria, with a more accommodating approach towards the low income market. The lowering by banks of income thresholds in the credit card segment has improved access to finance for lower income individuals. This has given low income persons access to a comparatively cheaper source of credit than, for example, micro loans.

The report found that high growth rates in credit extension have been a consequence of a number of inter-related factors, including the underlying economic growth, relatively low debt servicing cost and historically low default levels. However, certain industry participants indicated that there was a scramble for good customers, that acceptance rates were down and that delinquency was increasing, even amongst previously good performing customers.

Despite the justified concern with increasing debt levels, it is important not to lose sight of the benefit to low and middle income consumers of the structural changes that appear to be taking place in the consumer credit market. To the extent that short term consumption credit is replaced by housing loans, the consumer may well be in a better position, despite an increased level of indebtedness. Similarly, if the increased availability of credit cards to lower income consumers displaces micro-loans, this may well signify a decrease in the cost of credit for the affected consumers, given that the interest rates of around 90% were common on micro-loans.

Human Resources

Employment Equity is a fundamental NCR principle and our staff is representative of the community we serve. At 31 March 2007, 56% of our staff was female and 44% male, with 82% of the staff being black South Africans. Thirty percent of the management team is female, while sixty percent are black South Africans.

Recruitment

The transfer of Micro Finance Regulatory Council's staff to the NCR was a major advantage in creating the capacity for dealing with the multiple challenges that face a new institution, and the challenge of having to implement a new Act. Thirty six permanent employees and thirteen contract staff members were transferred from the MFRC to the NCR on 1 June 2006. The business plan provides for 69 additional staff members, of which 33 positions were intended to be filled by 31 March 2007.

Recruiting staff to fill these vacancies has been a challenge, but we have made some progress. Our recruitment campaign includes advertisements in national newspapers on three occasions. A total of forty five (45) positions were advertised and over the course of the year we conducted 36 interviews with prospective staff members, from which 23 appointments were made. The staff complement consisted of 51 permanent employees and 8 contract employees as at 31 March 2007. There were thus 10 vacancies at the NCR at financial year end.

Remuneration and bonus policy

Given the effort to recruit staff and the importance of maintaining a committed and professional staff complement, we make every effort to minimise staff turn-over.

It is therefore necessary to set staff remuneration at market-based levels and to award high-performing staff members appropriately. All positions were graded at the end of 2006, utilising the services of external HR consulting firm (Yarona Management Consulting). The NCR paid an annual bonus in December 2006, based upon the performance of individual staff members. On average, the bonus amounted to 11.84% of the annual remuneration, varying from 19% for a top performer, to 0% for the lowest performance rating.

Employee health

Employee wellness is an important part of human resource management. We invested in this area through initiatives such as monthly social and teambuilding events, such as participation in the 702 walk the talk. We also implemented a professional employee wellness programme which offers a confidential support service to help staff members deal with personal and work related problems.

Periodic employee wellness events included a 'Health Day' which took place on 29 March 2007 and provided the opportunity for blood tests, fitness tests, eye tests and massages.



The NCR staff outside our Midrand offices

Finance

The NCR is financed from money appropriated by Parliament, fees payable in terms of the Act and income from investment of surplus funds. The accumulated surplus of the MFRC, an amount of R19.6 million, was transferred to the NCR at the date of the NCR's establishment.

Registration fees

The registration fees for the different categories of registrants are determined by the Minister of Trade and Industry and are published in the Government Gazette. Registration fees are payable upon initial registration, and annually thereafter. The registration fees are summarized in the next table

The maximum annual cost of registration is therefore R1,750 for a small credit provider with only one branch and with total principal debt of less than R1 million. The maximum annual cost of registration for a large credit provider with total principal debt of more than R15 billion is R600,000, irrespective of the number of branches.

Registration fees			
	Credit Providers	Credit Bureaux	Debt Counsellors
Application fee	R500 per applicant	R500 per applicant	Nil
Initial and annual registration fee	The registration fee varies depending on the size of the applicant. It ranges from R1,500 for the smallest category (principal debt of less than R1 million), to R300,000 for the largest category of credit provider with principal debt greater than R15 billion.	R10,000 plus R5 per 1,000 consumer credit enquiries, not to exceed R200,000.	R100
Branch fee	R250 per location or premises. Total branch fee is limited to the amount of the registration fee for the particular category.	Nil	Nil

Financial results For the 10 months ended 31 March 2007

	R
Total Income	39 068 102
Expenditure	38 926 121
Net surplus	141 981

Assets and liabilities as at 31 March 2007

Assets	R mil
Property, plant and equipment	4.5
Cash and cash equivalents	45.9
Other assets	0.3
Total Assets	50.7
Accumulated surplus and reserves	19.8
Current liabilities	30.9
Total net assets and liabilities	50.7

Financial Results

The last ten months represents the establishment phase of the NCR. The NCR had incurred a surplus of R141,981 for the 10 months ended 31 March 2007. Personnel costs is the largest expenditure item and represents 40% of expenditure. Professional fees is the second largest item at 22%, (R8.5 million) and consists of payments to external investigators, consulting fees and legal fees. During the period under review the NCR acquired assets to the value of R5 million, consisting primarily of computer equipment, furniture and fittings, leasehold improvements and office equipment.

Expenditure for the period was 25% below budget. The National Credit Regulator is still in a phase of establishment and the expenditure would be expected to be closer to the budgeted amounts in coming years.

Funding received from the Department of Trade and Industry constituted 83% of the income of the NCR over the period. Registration fees of R4.9 million is the next largest component, representing 13% of income. The contribution of registration fees to the total income will increase significantly in 2008, as registrations are finalised and fees allocated to income.

Assets and liabilities

Ninety one percent of assets are held in cash and cash equivalents, with the remainder consisting of property, plant and equipment.

The major items in current liabilities are prepaid fees (48%), trade and other receivables (27%) and government grants received but not yet spent (8%).

Results of the first statutory audit of the NCR

The first audit has been completed. The audit opinion on the financial statement was an unqualified opinion. The full report of the Auditor General is found on pages 42 to 43 of the Annual Report.

Corporate Performance

THE NCR'S ACCOUNTING AUTHORITY SUBSCRIBES TO THE PRINCIPLE
OF GOOD BUSINESS PRACTICE THAT IS BASED ON HONESTY,
FAIRNESS, INTEGRITY, RESPONSIBILITY, ACCOUNTABILITY AND
TRANSPARENCY. THESE PRINCIPLES ARE CONSIDERED IN ALL

THE ACCOUNTING AUTHORITY'S DECISIONS AND ACTIVITIES.

THE ACCOUNTING AUTHORITY BELIEVES THAT THE PILLARS OF

GOOD GOVERNANCE SHOULD NOT BE CONFINED TO THE ACCOUNTING

AUTHORITY, BUT SHOULD BE THE BASIS OF ALL DECISIONS

MADE AT ALL LEVELS IN THE NCR.

Corporate Governance

Corporate Governance

"The ultimate objective is to obtain a balance between pursuing and achieving business objectives (performance) and compliance with principles of good governance (conformance)."

Corporate Practice and Conduct

The NCR's Accounting Authority subscribes to principles of business practice that is based on honesty, fairness, integrity, responsibility, accountability and transparency. These principles are considered in all the Accounting Authority's decisions and activities. This must be the basis of all decisions made at all levels in the NCR.

In determining good business practice the Accounting Authority is guided by:

- Government Protocol on Corporate Governance;
- The Public Finance Management Act (and supporting Treasury Regulations); and
- The King 2 Report.

Accounting Authority

The Board of Directors which is appointed in terms of Section 19(1) of the National Credit Act, constitutes the NCR's Accounting Authority for purposes of the PFMA. The Board consists of a member nominated by each of the Minister's responsible for finance, housing and social development, a Chairperson and Deputy Chairperson appointed by the Minister of Trade and Industry, and not more than six other members.

The Accounting Authority is responsible for guiding the strategic direction which includes approving strategic plans, monitoring the performance against strategic objectives and determining policies and procedures which would ensure the integrity of the NCR's risk management and internal controls. The Accounting Authority further ensures that the NCR puts in place and maintains financial records and systems as required in terms of the Public Finance Management Act and that the NCR complies with all applicable legislation and regulations.

The Members, both collectively and individually, have a right to obtain independent external professional advice at the expense of the NCR on matters relating to the NCR.

Structure of the Accounting Authority

The NCR's Accounting Authority has three Committees, being the Audit and Risk Management Committee, the Remuneration Committee and the Policy and Strategy Committee. These Committees assist the Accounting Authority in performing its functions.

Each Committee has a Terms of Reference which has been approved by the Accounting Authority and defines its responsibilities. The Chairperson of the Accounting Authority does not chair and is not a member of any of the Committees.

Audit and Risk Management Committee

The Audit and Risk Management Committee is responsible for the following areas:

- Audit (Internal and External);
- Financial Reporting;
- Risk Management; and
- Compliance with the Public Finance Management Act and National Treasury Regulations.

This Committee is constituted in terms of sections 76(4)(d) and 77 of the Public Finance Management Act and regulation 27.1 of Treasury Regulations. The Committee consists of only non-executive Members and is Chaired by Ms T Ramano who is an independent person and not a member of the Accounting Authority. The Chief Executive Officer, Chief Financial Officer and Chief Operations Officer are permanent invitees. The internal auditors and Auditor General are invited to attend all meetings of the Committee and have unrestricted access to the Chairperson and the members of the Committee.

Remuneration Committee

The Committee consists of non-executive members of the Accounting Authority and is chaired by Ms C Glover. The Committee deals with the remuneration and benefits of the staff of the NCR including the Chief Executive Officer, Senior Management and management.

Policy and Strategy Committee

The primary objective of this Committee is to assist the Accounting Authority in discharging its responsibilities in relation to the policy and strategy aspects of the duties of the Accounting Authority, as set out in Section 19 of the National Credit Act. In particular, the Committee focuses on the duty of the Accounting Authority to guide the strategic development of the National Credit Regulator (Section 19(4)(a)) and oversee the regulatory functions.

The Committee is constituted of non-executive members of the Accounting Authority and is chaired by Ms Y Radinku. The nominated members for National Treasury and for Trade and Industry are permanent invitees to the meetings and act as full members of the Committee for all meetings which they attend.

Membership of Accounting Authority Committees			
Name	Audit and Risk Management Committee	Policy and Strategy Committee	Remuneration Committee
Adv P Tlakula			
M Setiloane			X
M Maleka	X		
Y Radinku		X*	
M van Schalkwyk		X	X
T Store		X	
C Glover			X*
F Sibanda		Y	
A Osman			
N Mashiya	X	Y	
S Luka			
* Chairperson of Committee		Y – Permanent Invitee	

You are protected by the National Credit Regulator

South African consumers have since this time last year been protected by the National Credit Regulator (NCR) from reckless lending, high interest rates and unfair lending practices in the credit industry.

The Regulator came into existence on 1 June last year and was established in terms of the National Credit Act. Gabriel Davel, a former partner with auditing firm Deloitte & Touche, is the first CEO and he says, "I'm privileged to be given this responsibility and I believe that the regulator has a big role to play in bringing transparency and honesty to the South African credit market."

The purpose of the National Credit Act is to promote a credit market that is fair, transparent, accessible and responsible. It also aims to promote a

Besides enforcing the Act and regulating credit providers, credit bureaux and debt counsellors, the NCR receives and investigates complaints, and educates consumers of their rights under The Act.

As Davel elaborates, "Loan agreements are frequently complex and difficult to understand, with many of the fees and obligations hidden in the fine print. The vulnerability of people that have become so used to being rejected by credit providers is frequently exploited.

"On the one hand, consumers must accept responsibility for their actions and we must resist the growing trend of people acquiring goods that they cannot afford, and then seeking to es-



Gabriel Davel

that is to give an over-extended consumer a specific solution to reckless lending and reckless increases in credit limits, as well as interest and fees. The Act also prohibits reckless lending, such as bank loans, credit cards, store credit, furniture and motor vehicle finance.

It empowers the Regulator to also deal with any contraventions on existing loans and credit agreements. Although the National Credit Act replaces the Usury Act and Credit Agreements Act, the Regulator will be able to assist consumers with problems that fall under these previous Acts.

Help for debtors as credit act comes into force

SIVUYILE MANGXAMBA

The credit regulator plans to register more than 300 debt counsellors when the new National Credit Act comes into effect tomorrow.

This follows a massive pilot project with legal aid experts from the universities of the Western Cape and Stellenbosch receiving training on what the new debt counselling entails.

"Some 300 people have under-

gone training and we are now registering them," said Peter Setou, the National Credit Regulator's senior manager for education and strategy.

"Debt counselling has huge implications for the consumer," he said. It entailed a process where an over-extended client, no longer able to meet his or her financial obligations, filed for debt counselling.

This was a service available to clients if they were unable to hon-

our credit agreements. However, the service is not about pardoning defaulters or writing off debt.

It is about assisting consumers who have more debt than they can afford to reschedule or restructure so that repayments are at manageable levels.

"There are people who have negative salaries because they have over-extended themselves," he said. While the act did not protect cus-

tomers who took loans before the National Credit Act (NCA) came into effect, the recovery of reckless lending was the onus of the lending institutions.

Reckless lending provisions in the NCA place more responsibility on stores and banks which give customers credit or lend money.

But these provisions will apply only to transactions entered into from tomorrow, said Setou.

He warned that customers should not rush into filing for debt counselling as this has major implications including being listed in the credit bureaux. Any person who has filed for debt counselling may not be offered further loans.

Any lending institution that offered that person money risked forfeiting the right to enforce repayments through the courts of law. "This is landmark legislation."

- » Reasons must be provided if a credit application is declined;
- » Automatic increases in credit limits are regulated;
- » Reckless lending is prohibited;
- » Interest and fees are regulated on all agreements, including micro-loans;
- » Credit Bureaux information is regulated and consumers have the right to a free credit bureau record once a year;
- » Debt counselling is introduced as from 1 June 2007, to enable restructuring of debts for over-indebted consumers.

Debt counsellors ready to help consumers soon

By MAUREEN MARUD
Consumer Editor

Trained debt counsellors will be ready next month to help consumers resolve their debt problems, says Mpho Thekiso, project manager for the debt relief programme at the National Credit Regulator.

The Argus last week reported concerns by a Cape Town attorney that a likely shortage of debt counsellors would make the National Credit Act, which comes into full effect on June 1, unenforceable.

Part of the act came into force last June, but sections dealing with over-indebtedness, restructuring of debt and the registration of debt counsellors come into effect next month.

Debt counsellors must undergo training approved by

the National Credit Regulator before being registered.

Attorney Malcolm Roup told The Argus the apparent lack of trained and registered debt counsellors at the eleventh hour could delay debt recovery by creditors, leave debtors waiting a long time for help, and ultimately result in the act falling apart.

According to the act, creditors cannot take action against a consumer who has defaulted on debt repayments if the consumer has not first been referred to a debt counsellor.

The counsellor's duties include evaluating the circumstances of indebted consumers and, if required, declaring them over-indebted or applying to a court to do so.

Thekiso said in a press statement on Friday that debt counselling services would be

available by June 1 for consumers who could not temporarily honour their debts.

Counsellors would provide budget advice, support and mediation with credit providers.

"Debt counsellors also give highly-indebted consumers basic information necessary to resolve their every-day debt problems so that they do not revert back into the debt trap," said Thekiso.

Counsellors could work independently or as part of an organisation, as long as that organisation did not provide credit, and was neither a debt collection agency nor a credit bureau.

Over-indebted consumers could approach a debt counsellor directly or be referred by a creditor or the magistrate's court.

"Debt counsellors will be remunerated for their services on a cost recovery basis. Private individuals, corporates and non-profit organisations will be able to provide the service," said Thekiso.

Potential debt counsellors wanting to apply for registration with the National Credit Regulator had to be 18 years or older and must have a Grade 12 certificate or equivalent Level 4 qualification.

They also had to have successfully completed a debt counselling course approved by the National Credit Regulator and provided by an approved institution, and had to have at least two years' working experience in consumer protection, complaints resolution or consumer advisory services, legal or para-legal services, accounting or financial services; educa-

tion or training; counselling or general business environment.

They could not be subject to an administration order or to debt re-arrangement.

Finally, applicants had to demonstrate the ability to manage their own finances.

Courses are being presented countrywide. Training institutions are:

The Association of Legal Aid Institutions (Frans Haupt) 012 430 4155; Danelin (Beverly Campbell) 011 718 4000; Institute of Bankers (Sebastian Ndoo) 011 481 7000/7013; Rudo Research & Training (Portia Sekati) 012 663 3251/3120; Credit Skills Training Institute (Cindee Greenwald) 021 886 4048; Cornerstone Performance Solution (Timothy Johnston) 011 789 1567; Summit Financial Partners (Clark Gardner) 011 847 8061.

An informed consumer is a protected consumer

The National Credit Regulator (NCR) has joined the nationwide campaign to create awareness about the rights of borrowers.



Every day thousands of South Africans borrow money or apply for credit, but few are aware of their rights. As a result, the month of March is dedicated to consumer - education in the country. The NCR observes the month of March with special focus on credit and consumer protection mechanisms.

"The majority of South Africans across race, class and gender are increasingly dependent on loans and other forms of credit for various functions like the establishment and/or expansion of small businesses, housing, education and general consumption," said Setou.

He said the lack of awareness on regulations and rights makes consumers vulnerable to unfair lending practices, and this may result in consumers being caught in debt trap or spiral.

Worldwide, consumers annually celebrated March 15 as World Consumer Rights Day. It is a time for promoting the basic rights of all consumers and for demanding that those rights be protected.

Peter Setou, NCR Education and Communications senior manager said "As part of our education drive and consumer education programme, we empower consumers with information that will enable them to make informed financial decisions. We believe that "an informed consumer is a protected consumer".

National Credit Regulator

Financial Statements

for the 10 months ended 31 March 2007

<i>Contents</i>	<i>Page</i>
<i>Statement of Responsibility</i>	<i>37</i>
<i>Report of the Audit and Risk Management Committee</i>	<i>38</i>
<i>Accounting Authority's Report</i>	<i>39</i>
<i>Report of the Auditor General</i>	<i>42</i>
<i>Statement of Financial Performance</i>	<i>44</i>
<i>Statement of Financial Position</i>	<i>45</i>
<i>Statement of Changes in Net Assets</i>	<i>46</i>
<i>Cash Flow Statement</i>	<i>47</i>
<i>Notes to the Financial Statements</i>	<i>48</i>

Statement of Responsibility

for the 10 months ended 31 March 2007

The Accounting Authority acknowledges that it is responsible for the preparation, integrity and fair presentation of the financial statements of the National Credit Regulator. In order for the Accounting Authority to discharge these responsibilities, as well as those bestowed on it in terms of the Public Finance Management Act (Act No. 1 of 1999) and other applicable legislation, it has developed and maintains a system of internal controls.

The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices. These controls are implemented by trained personnel and are monitored by management with an independent oversight by the Audit and Risk Management Committee and the Policy and Strategy Committee.

The financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board. They are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Authority believes that the National Credit Regulator will be a going concern in the year ahead. The going concern basis has thus been adopted in preparing the financial statements.

The financial statements have been audited by the Auditor-General, who was given unrestricted access to all financial records and related data including minutes of meetings.

The financial statements for the 10 months ended 31 March 2007 were approved by the Accounting Authority on 26 July 2007 and are signed on its behalf by:



Adv P Tlakula
Chairperson



GP Davel
Chief Executive Officer

Report of the Audit and Risk Management Committee

for the 10 months ended 31 March 2007

The Report of the Audit and Risk Management Committee was prepared in accordance with Treasury Regulations 27.1.7 and 27.1.10(b) and (c) for public entities issued in terms of the Public Finance Management Act (Act No.1 of 1999) (PFMA).

The National Credit Regulator (NCR) is listed as a national public entity in Schedule 3A of the PFMA.

At its first meeting on 9 November 2006 the Accounting Authority approved the establishment of the Audit and Risk Management Committee. The first meeting of the Audit and Risk Management Committee was held on 2 February 2007 and the second on 29 March 2007.

The Audit and Risk Management Committee is a committee of the Accounting Authority of the NCR, consists of only independent, non-executive members and comprises of Ms T Ramano (Chairperson), Mr N Mashiya and Mr M Maleka. Formal terms of reference were reviewed by the Audit and Risk Management Committee on 2 February 2007 and approved by the Accounting Authority on 8 February 2007. The overall objective of the committee is to assist the NCR's Accounting Authority to discharge its duties relating to the safeguarding of assets; the development and maintenance of adequate systems and controls; assessing the going concern status; the review of auditing and accounting processes; the review of financial information and preparation of annual financial statements. The committee has fulfilled its responsibilities in compliance with its terms of reference.

Other persons who attended the Audit and Risk Management Committee meetings regularly include the internal auditors, representatives from the Auditor-General, the Chief Executive Officer, the Risk Officer and the Chief Financial Officer.

Risk Management

A Risk Management Strategy has been reviewed by the Audit and Risk Management Committee and approved by the Accounting Authority and a risk assessment has been performed. A "whistle-blower" hotline has also been approved by the Accounting Authority and a Fraud Prevention Plan has been drafted for review by the committee and approval by the Accounting Authority in the first half of the 2008 financial year.

Internal Audit Function

The Audit and Risk Management Committee is charged with overseeing the internal audit function. The role of the internal auditors is to provide support to management and the Audit and Risk Management Committee in fulfilling their responsibilities. The internal audit function will provide an independent and objective evaluation of the NCR's system of internal control and any significant risks will be brought to the attention of management and the committee. After a competitive tender process a firm of auditors was appointed in February 2007.

Financial Statements

The Audit and Risk Management Committee has reviewed and evaluated the financial statements of the NCR for the 10 months ended 31 March 2007 and is satisfied that they comply with the requirements of the PFMA, and that the basis of preparation is in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board. The going concern principle was adopted in the preparing the financial statements.

The committee, at its meeting of 30 May 2007, recommended the financial statements to the NCR's Accounting Authority for approval.



T Ramano
Chairperson



G P Davel
Chief Executive Officer

Accounting Authority's Report

for the 10 months ended 31 March 2007

This report is presented in terms of Treasury Regulation 28.1.1 of the Public Finance Management Act (Act No. 1 of 1999). The Accounting Authority for the National Credit Regulator is the Board, as appointed in terms of section 19 of the National Credit Act.

1. Nature of Business

The National Credit Regulator (NCR) derives its mandate from the National Credit Act, Act No. 34 of 2005 (the Act). The mandate of the NCR is to effectively implement and enforce the Act as stipulated in the Act including the following:-

- development of an accessible credit market;
- registration of credit providers, bureaux and debt counsellors;
- enforcement of the Act; and
- research and dissemination of public information.

2. Financial Overview

2.1 Financial Results

For the 10 months ended 31 March	2007 R
Total Income	39 068 102
Expenditure	38 926 121
Net surplus	<u>141 981</u>
Total Assets	50 708 386
Total Liabilities	<u>30 944 553</u>

2.2 Financial Performance

Funding received from the Department of Trade and Industry constituted 83% of income for the NCR. Registration fees of R4 090 746 is the next largest component representing 11% of income. Registration fees as a percentage of total income will increase significantly in 2008 as registrations are finalised and fees allocated to income.

The first ten months of operations represents the establishment phase of the NCR which, at the reporting date, had not yet reached full operational capacity. Personnel costs, being the largest expenditure item represents 40% of expenditure with professional fees of R8 476 291 being equal to 22%. During the period under review the NCR acquired assets to the value of R4 996 638, consisting primarily of computer equipment, furniture and fittings, leasehold improvements and office equipment.

For the 10 months ended 31 March 2007, the NCR had incurred a surplus of R141 981.

Accounting Authority's Report (continued)

for the 10 months ended 31 March 2007

3. Members' Fees

Fees paid for the 10 months ended 31 March 2007

Name	Board	Audit and Risk Management Committee	Policy and Strategy Committee	Remuneration Committee	Total
	R	R	R	R	R
Adv P Tlakula	14 196	–	–	–	14 196
M Setiloane	5 115	–	–	825	5 940
M Malekat	5 610	2 640	–	–	8 250
Y Radinku	5 115	–	4 368	–	9 483
M van Schalkwyk †	5 610	–	2 640	1 320	9 570
T Store	5 115	–	2 640	–	7 755
C Glover	5 610	–	–	2 184	7 794
F Sibanda *	–	–	–	–	–
A Osman *	–	–	–	–	–
N Mashiya *	–	–	–	–	–
S Luka *	–	–	–	–	–
	46 371	2 640	9 648	4 329	62 988

* : These members are public servants and do not qualify for members fees

† : These members have elected to have their fees paid to their employer

4. Executive Management's Remuneration

The following staff members comprised the Executive Committee during the period under review, G Davel (Chief Executive Officer), N Motshegare (Chief Operations Officer), TS Pather (Chief Financial Officer) and P Setou (Senior Manager Education and Strategy).

Name	Salary	Provident Fund Contributions	Travel Allowance	Performance bonus	Total
	R	R	R	R	R
G Davel	955 788	94 212	93 846	214 804	1 358 650
N Motshegare	484 718	58 532	72 488	110 061	725 799
TS Pather	408 121	52 296	94 200	116 288	670 905
P Setou	374 708	43 431	62 253	61 325	541 717
	2 223 335	248 471	322 787	502 478	3 297 071

Accounting Authority's Report *(continued)*

for the 10 months ended 31 March 2007

5. Materiality Framework

A materiality framework has not been approved but is under discussion with the stakeholder. The Accounting Authority will review the materiality framework at its meeting in August 2007. All variances between budgeted and actual expenditure in excess of R50 000 have been explained to the Accounting Authority.

6. Irregular, fruitless or wasteful expenditure

During the period under review, an amount of R1 964 was incurred as an interest expense, in respect of a late payment to a service provider. The matter was investigated internally and it was concluded that no person was liable, and therefore no further action was taken.

7. Events Subsequent to the Financial Position Date

Subsequent to the financial position date there have been no events that should be reported on.

8. Address

The National Credit Regulator's offices are situated at:-
127 – 15th Road
Randjespark
Midrand

With the postal address:-
PO Box 209
Halfway house
1685



Adv P Tlakula
Chairperson
26 July 2007

Report of the Auditor-General

to Parliament on the financial statements and performance information of the National Credit Regulator for the 10 months ended 31 March 2007

Report on the financial statements

Introduction

1. I have audited the accompanying financial statements of the National Credit Regulator (NCR) which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 44 to 64.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and the National Credit Act, 2005 (Act No. 34 of 2005), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 647 of 2007, issued in Government Gazette No. 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:

- appropriateness of accounting policies used
- reasonableness of accounting estimates made by management
- overall presentation of the financial statements.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. The National Credit Regulator's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 2.

Opinion

9. In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Credit Regulator as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting as described in accounting policy note 2 and in the manner required by the PFMA.

Report of the Auditor-General (continued)

to Parliament on the financial statements and performance information of the National Credit Regulator for the 10 months ended 31 March 2007

Emphasis of matter

Without qualifying my audit opinion, I draw attention to the following matter:

10. Included in note 12 to the financial statement were the bank accounts of the Micro Finance Regulatory Council (MFRC). NCR took over all the assets and liabilities of the MFRC in terms of schedule 3, section 8(a) of the National Credit Act, 2005 read together with section 15A of the Usury Act. However, the bank accounts of the MFRC were still in the process of being closed and funds transferred to NCR bank accounts.

Other matters

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Internal controls

11. Due to capacity constraints, NCR did not have adequate monitoring controls to ensure compliance with rules and regulations as well as the accounting reporting framework.

Material corrections made to the financial statements submitted for audit

12. The provision for audit fees for the year under review to the value of R176 496 was reversed at the end of the financial year, since the NCR did not have a legal or constructive obligation to pay these fees. This was due to the misinterpretation of the accounting reporting framework.

Material non-compliance with legislation

13. Although the receipts and accruals of the NCR could be exempted in terms of section 10 (1)(cN) of the Income Tax Act, the NCR did not apply for approval of exemption as required by section 30(3) of the Income Tax Act, 1962 (Act No.58 of 1962). This was due to the fact that management was of the opinion that the NCR automatically qualified for the exemption.

Other reporting responsibilities

Reporting on performance information

14. I have audited the performance information as set out on pages 15 to 24.

Responsibilities of the accounting authority

15. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

Responsibility of the Auditor-General

16. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007.
17. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
18. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings.

Audit findings

19. No audit findings

Appreciation

20. The assistance rendered by the staff of the National Credit Regulator during the audit is sincerely appreciated.



Ms MA Masemola for Auditor-General
Johannesburg
31 July 2007



AUDITOR-GENERAL

Statement of Financial Performance

for the 10 months ended 31 March 2007

31 March	Note	2007 R
Revenue		37 356 112
Fee income	3	4 918 674
Government grants	4	32 353 500
Other income	5	83 938
Expenses	6	38 924 157
Operating expenses		14 598 699
Salaries, employee benefits, training and other staff costs		15 732 587
Administrative expenses		8 592 871
Deficit from operations before interest	7	(1 568 045)
Interest expense		(1 964)
Interest received		1 711 990
Net surplus for the period		<u>141 981</u>

Statement of Financial Position

as at 31 March 2007

31 March	Note	2007 R
Assets		
Non-current assets		
Property, plant and equipment	9	4 434 570
Available-for sale asset	10	12 434
Current assets		
Trade and other receivables	11	301 700
Cash and cash equivalents	12	45 959 682
Total assets		50 708 386
Net assets and liabilities		
Net assets		
Accumulated surplus and reserves		19 763 833
Current liabilities		
Trade and other payables	13	8 573 860
Provisions	14	1 763 676
Amounts prepaid by applicants	15	14 950 756
Deferred annual fees	15	1 029 034
Deferred funding managed on behalf of DTI	16	115 177
Deferred government grants	4	3 898 526
Deferred operating lease costs	19	165 714
Taxation	8	447 810
Total net assets and liabilities		50 708 386

Statement of Changes in Net Assets

for the 10 months ended 31 March 2007

	Note	Accumulated Surplus R	Fair Value Reserves R	Total R
Balance at 1 June 2006		–	–	–
Net assets acquired from MFRC	24	19 609 418	11 750	19 621 168
Fair value adjustment			684	684
Net surplus for the period		141 981	–	141 981
Balance at 31 March 2007		<u>19 751 399</u>	<u>12 434</u>	<u>19 763 833</u>

Cash Flow Statement

for the 10 months ended 31 March 2007

31 March	Note	2007 R
Cash flows from operating activities		
Cash receipts from applicants		12 147 697
Cash paid to suppliers and employees		(34 464 196)
Cash absorbed by operations before grants received		(22 316 499)
Government grants received	4	37 853 500
Cash generated from operations	20	15 537 001
Interest expense		(1 964)
Interest received		1 711 990
Net cash inflows from operating activities		17 247 027
Cash flows from investing activities		
Additions to property, plant and equipment	9	(4 996 638)
Net increase in cash and cash equivalents		12 250 389
Cash and cash equivalents at beginning of period		–
Cash acquired from MFRC		33 709 293
Cash and cash equivalents at end of the period	12	45 959 682

Notes to the Financial Statements

for the 10 months ended 31 March 2007

1. Corporate information

The National Credit Regulator (NCR) is listed as a national public entity in Schedule 3A of the Public Finance Management Act, Act 1 of 1999.

The NCR was established on the effective date of the National Credit Act, Act No 34 of 2005, being 1 June 2006. The attached financial statements represent the first period of operations, being the 10 months ended 31 March 2007, of the NCR.

2. Accounting policies

The financial statements have been prepared on the historical cost basis except for the available-for-sale investment which has been measured at fair value and incorporate the principal accounting policies set out below.

2.1 Basis of preparation

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP	Replaced Standard of GAAP
GRAP 1: Presentation of financial statements	AC 101: Presentation of financial statements
GRAP 2: Cash flow statements	AC 118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC 103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 and 3 has resulted in the following changes in the presentation of financial statements:

2.1.1 Terminology differences

Standard of GRAP	Replaced Standard of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit	Profit/loss
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

Notes to the Financial Statements *(continued)*

for the 10 months ended 31 March 2007

2. Accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

- 2.1.2 The cash flow statement can only be prepared in accordance with the direct method.
- 2.1.3 Specific information has been presented separately on the statement of financial position such as:
 - (a) Receivables and non exchange transactions, including taxes and transfers
 - (b) Taxes and transfers payable
 - (c) Trade and other payables from non-exchange transactions
- 2.1.4 Amount and nature of any restrictions on cash balances is required

Paragraphs 11 – 15 of GRAP 1 have not been implemented due to the fact that the budget reporting standard has not been developed by the local standard setter and the international standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

2.2 Foreign currency translation

The financial statements are presented in Rands, which is the NCR's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction.

2.3 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Leasehold improvements are depreciated over the period of the lease agreement. Maintenance and repairs, which neither materially add to the value of assets nor appreciably prolong their useful lives, are charged against income. Minor assets, being those with a cost price of R5 000 or less are depreciated fully in the month that they are acquired.

Property, plant and equipment are depreciated on a straight-line basis at rates that will reduce their book values to estimated residual values over their estimated useful lives as follows:

• Computer equipment	33,33%
• Computer software	33,33%
• Furniture and fittings	16,67%
• Leasehold premises	14,28%
• Machinery	20,00%
• Office equipment	20,00%
• Security equipment	20,00%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of financial performance in the year the asset is derecognised.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end.

Notes to the Financial Statements *(continued)*

for the 10 months ended 31 March 2007

2. Accounting policies *(continued)*

2.4 Impairment of assets

The carrying amounts of material assets are reviewed to determine whether there is any indication of impairment at each statement of financial position date or when events or changes in circumstances indicate that the carrying value may not be recoverable. If any indication exists, the recoverable amount is estimated as the higher of net realisable value and its value in use.

In assessing its value in use, the expected future cash flows from the asset are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of the asset exceeds the recoverable amount.

For an asset that does not generate cash inflows and is largely independent of those of other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the statement of financial performance whenever the carrying amount of the cash-generating unit to which the asset belongs exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment been recognised in prior years.

2.5 Available-for-sale financial assets

Financial assets are classified as available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value. The NCR determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated available-for-sale and not classified as either loans or receivables. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses recognised as a separate component of net assets until the investment is derecognised, at which time the difference between the proceeds and the carrying value is included in the statement of financial performance.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date.

2.6 Financial instruments

Financial instruments carried on the statement of financial position include trade and other receivables, cash and bank balances and trade payables. These financial instruments are generally carried at their estimated fair value, which is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

Notes to the Financial Statements *(continued)*

for the 10 months ended 31 March 2007

2. Accounting policies *(continued)*

2.6 Financial instruments *(continued)*

Financial assets

The NCR classifies its financial assets as trade and other receivables and cash and cash equivalents.

Financial assets are recognised on the statement of financial position when the NCR becomes party to the contractual provisions of the instrument. Trade and other receivables are recognised initially at cost which represents fair value. After initial recognition financial assets are measured at amortised cost using the effective interest rate method.

Financial liabilities

The NCR classifies its financial liabilities as trade and other payables, amounts prepaid by applicants, deferred annual fees, deferred funding managed on behalf of the DTI, deferred funding from the DTI and taxation.

Financial liabilities are recognised when the NCR becomes party to the contractual provisions of the instrument. Financial liabilities are recognised initially at cost, which represents fair value. After initial recognition financial liabilities are measured at amortised cost using the effective interest rate method.

2.7 Trade and other receivables

Trade receivables are recognised initially at cost and subsequently at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the NCR will not be able to recover all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision, if any, is the difference between the asset's carrying amount and the present value of the estimated future cash flows.

2.8 Cash and cash equivalents

Cash and short term deposits in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

2.9 Leases

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease. (Refer to note 21).

2.10 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable part thereof) is derecognised where:

- the right to receive cash flows from the asset have expired;
- the NCR retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the NCR has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Notes to the Financial Statements *(continued)*

for the 10 months ended 31 March 2007

2. Accounting policies *(continued)*

2.10 Derecognition of financial assets and liabilities *(continued)*

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same customer on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability, and the difference in the respective carrying amounts is recognised in the statement of financial performance.

Offset

Financial asset and liabilities are offset and the net amount reported in the statement of financial performance when the NCR has a legally enforceable right to set off recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.11 Provisions

Provisions are recognised when the NCR has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the true value of money, and where appropriate, the risk specific to the liability.

2.12 Revenue

Revenue comprises application fees, registration fees, branch fees and National Loans Register fees. Revenue is recognised when the right to the revenue has been established and is recorded at the following dates:

Application fees	– Date of registration
Registration fees	– Accrued over a twelve-month period from date of registration
Branch fees	– Date of registration
National Loans Register fees	– Date of invoice

2.13 Investment Income

Interest income is recognised in the statement of financial performance as it accrues, using the effective interest method.

2.14 Government Grants

Government grants are recognised in the statement of financial position as deferred income upon receipt and when there is reasonable assurance that the NCR will comply with the conditions attached to it.

Government grants that compensate the NCR for expenses incurred are recognised as income in the statement of financial performance on a systematic basis in the same periods in which the expenses are incurred.

Notes to the Financial Statements (continued)

for the 10 months ended 31 March 2007

2. Accounting policies (continued)

2.15 Employee benefits

Short term employee benefits

The cost of all short term employee benefits is recognised during the period in which the employee renders the related service.

The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the NCR has a present obligation to pay as a result of employees' services provided at the statement of financial position date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

Retirement benefits

The NCR provides retirement benefits for all its permanent employees through a defined contribution provident fund scheme which is subject to the Pension Funds Act, 1956 as amended. All the NCR's permanent employees are covered by the provident fund. NCR contributions to the fund are charged against income as and when they accrue.

2.16 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in money market instruments, net of bank overdrafts, all of which are available for use by the NCR unless otherwise stated.

2.17 Comparative figures

As this is the first year of operations no comparative figures are presented.

3. Fee income

	2007 R
Revenue comprises:	
– Application fees	2 500
– Registration fees	4 090 746
– Branch fees	249 386
– National Loans Register fees	576 042
	4 918 674

4. Government grants – funding received from the DTI

4.1 Funding for NCR

The DTI contributes to the costs of the NCR and provides funding for specific projects. Two transfers are made during the year.

Funding transferred to the NCR in the current period	37 853 500
Allocated as follows:	
For use by the NCR	32 353 500
Allocated to the National Consumer Tribunal	4 000 000
Allocated to the National Credit Register	1 500 000
	–

During the period under review, the NCR has fully utilised the DTI contribution.

Notes to the Financial Statements *(continued)*

for the 10 months ended 31 March 2007

4. Government grants – funding received from the DTI (continued)

	2007 R
4.2 National Consumer Tribunal	
The NCR is assisting the National Consumer Tribunal during its establishment phase, by effecting payments on its behalf	
Funding allocated during current period	4 000 000
Expenditure during current period	1 601 474
Unexpended funding carried forward	<u>2 398 526</u>
4.3 National Credit Register	
Funding allocated during current period	1 500 000
Expenditure during current period	–
Unexpended funding carried forward	<u>1 500 000</u>
	<u>3 898 526</u>
5. Other income	
Bank Seta	11 464
Profit on disposal of property, plant and equipment	72 474
	<u>83 938</u>

6. Operating expenses, staff costs and administrative expenses

Operating expenses	14 598 699
– Professional fees	8 476 291
– Consumer education	2 873 389
– Stakeholder communication	1 883 689
– Debt relief programme	1 365 330
Staff costs	15 732 587
– Salaries	12 377 537
– Contributions to retirement fund	939 414
– Medical aid contributions	357 255
– Recruitment	327 165
– Temporary staff	978 787
– Training	460 398
– Other staff costs	292 031
Administrative expenses	8 592 871
– Premises and equipment	4 575 272
– Communication costs	1 649 531
– Information technology	1 629 987
– General expenses	738 081
	<u>38 924 157</u>

Notes to the Financial Statements (continued)

for the 10 months ended 31 March 2007

7. Deficit from operations

	2007 R
The deficit from operations before interest is arrived at after taking the following items into account:	
Auditors' remuneration	129 904
Member's fees – Non-executive	62 988
Depreciation	1 552 174
– Computer equipment	391 318
– Computer software	184 037
– Furniture and fittings	716 377
– Leasehold premises	72 638
– Machinery	21 426
– Office equipment	132 093
– Security equipment	34 285
Operating lease payments	2 063 591
– Building	1 583 547
– Equipment	480 044
Member's fees constitute payments to members for attending board meetings and other meetings of the sub-committees of the Board.	

8. Taxation

8.1 Taxation expense

The NCR is not liable for taxation.

447 810

The balance relates to the provision for normal taxation for the year ended 31 December 1999, for the first year of operations of the MFRC and was created subject to exemption being obtained as set out in note 8.2.

8.2 Income tax expense

The MFRC had applied for exemption from income tax in terms of section 10(1) (d) (iii) of the Income Tax Act. No provision for normal taxation has been made in the years subsequent to 1999 as the MFRC has a calculated tax loss for those periods.

Estimated MFRC tax loss available to reduce future taxable income

13 607 370

If the above-mentioned application is not successful, the MFRC has a deferred tax asset of R3 067 662 for offset against future tax liabilities.

Notes to the Financial Statements *(continued)*

for the 10 months ended 31 March 2007

9. Property, plant and equipment

31 March 2007	Depreciation years	Cost R	Accumulated Depreciation R	Carrying Amount R
Computer equipment	3	2 756 429	1 799 404	957 025
Computer software	3	1 433 908	995 882	438 026
Furniture and fittings	6	1 988 270	1 145 580	842 690
Improvements to leased premises	7	1 221 535	104 898	1 116 637
Machinery	5	257 113	21 426	235 687
Office equipment	5	653 741	186 366	467 375
Security equipment	5	419 267	42 137	377 130
		<u>8 730 262</u>	<u>4 295 692</u>	<u>4 434 570</u>

Acquired from MFRC 1 June 2006

Computer equipment	1 946 348	1 408 086	538 262
Computer software	1 150 698	811 845	338 853
Furniture and fittings	493 286	429 203	64 083
Improvements to leased premises	32 260	32 260	–
Office equipment	103 180	54 272	48 908
Security equipment	7 852	7 852	–
	<u>3 733 624</u>	<u>2 743 518</u>	<u>990 106</u>

31 March 2007	Carrying amount at beginning of period R	Assets acquired from MFRC R	Additions R	Depreciation R	Carrying amount at end of Period R
Computer equipment	–	538 262	810 081	(391 318)	957 025
Computer software	–	338 853	283 210	(184 037)	438 026
Furniture and fittings	–	64 083	1 494 984	(716 377)	842 690
Improvements to leased premises	–	–	1 189 275	(72 638)	1 116 637
Machinery	–	–	257 113	(21 426)	235 687
Office equipment	–	48 908	550 560	(132 093)	467 375
Security equipment	–	–	411 415	(34 285)	377 130
	<u>–</u>	<u>990 106</u>	<u>4 996 638</u>	<u>(1 552 174)</u>	<u>4 434 570</u>

Notes to the Financial Statements *(continued)*

for the 10 months ended 31 March 2007

	Note	2007 R
10. Available-for-sale asset		
Metropolitan unit trusts acquired from MFRC	24	11 750
Fair value adjustment		684
Carrying value		<u>12 434</u>
11. Trade and other receivables		
Accounts receivable		125 113
Building rental deposit		117 830
Other receivables		58 757
		<u>301 700</u>
12. Cash and cash equivalents		
Cash on hand		3 000
NCR accounts		
– Current account		30 455
– Salaries account		870
– Call account		42 147 391
MFRC accounts		
– Current accounts		408 086
– Salaries account		1 248
– Call account		3 190 766
MFRC International conference current account		177 866
		<u>45 959 682</u>
The MFRC International conference current account is offset by an equivalent liability in other payables (see note 13)		
13. Trade and other payables		
Trade creditors		4 248 360
Accruals		3 663 193
MFRC International conference account		177 866
Refunds due to lenders		185 435
Refunds of fines due to lenders		299 006
		<u>8 573 860</u>

Notes to the Financial Statements *(continued)*

for the 10 months ended 31 March 2007

14. Provisions	2007 R
Provision for leave pay	
Balance at the beginning of period	–
Assumed from MFRC	515 015
Leave utilised during the period	–
Provision made during the period	196 215
Balance at end of the period	<u>711 230</u>
Provision for audit fees	
Balance at the beginning of period	129 904
Provision made during the period	–
Balance at end of the period	<u>129 904</u>
Provision for unpaid bonuses	
Balance at the beginning of period	–
Assumed from MFRC	591 380
Bonuses paid	(1 297 333)
Provision made for the period	1 565 507
Balance at end of the period	<u>859 554</u>
Provision for members' remuneration	
Balance at beginning of period	–
Members' remuneration paid	–
Provision made for the period	62 988
Balance at end of period	<u>62 988</u>
Total provisions at the end of the period	<u><u>1 763 676</u></u>

15. Amounts prepaid by applicants and deferred annual fees

Amounts prepaid by applicants represent fees received in respect of applicants awaiting registration. Deferred annual fees represent fees received from applicants where the registration period falls over into the next financial period.

Annual fees received in advance	14 950 756
Deferred annual fees	<u>1 029 034</u>

Notes to the Financial Statements (continued)

for the 10 months ended 31 March 2007

	2007 R
16. Deferred funding managed on behalf of the DTI	Note
The NCR manages the funding of a number of DTI projects which was governed by the Memorandum of Agreement between the MFRC and the DTI.	
Funding assumed from the MFRC	24 2 056 555
Expenditure on nominated projects	(1 941 378)
Funding carried over to next period	<u>115 177</u>
17. Deferred donor grants	
Swedish International Development Agency (SIDA)	
Unexpended SIDA donor funds – assumed from MFRC	385 708
Repaid to SIDA	<u>(385 708)</u>
	<u>–</u>
18. USAID	
During the period under review, USAID contributed towards specific research and development projects. This grant is paid directly to the service providers in respect of the work performed on different projects, and the agreements for service delivery are directly between Nathan Associates (a contractor who administers the funding on behalf of USAID) and the various service providers. The grant is thus not reflected in the NCR statement of financial performance or on the statement of financial position.	
Expenditure on nominated projects	<u>2 954 285</u>
19. Deferred operating lease costs	
Property	148 988
Equipment	<u>16 726</u>
	<u>165 714</u>
The operating leases have been expensed over the periods of the respective leases. The deferred lease commitments are detailed in note 21.	

Notes to the Financial Statements *(continued)*

for the 10 months ended 31 March 2007

20. Reconciliation of surplus to cash generated from operations	2007 R
Surplus for the period	141 981
Adjustments for:	
Depreciation	1 552 174
Increase in provisions	640 719
Increase in deferred operating lease costs	165 714
Interest expense	1 964
Interest received	<u>(1 711 990)</u>
	790 562
Adjustments for working capital changes:	
Decrease in trade and other receivables	77 380
Increase in trade and other payables	4 530 604
Increase in amounts prepaid by applicants	11 759 545
Decrease in deferred annual fees	(3 192 530)
Decrease in deferred funding managed on behalf of DTI	(270 531)
Increase in deferred funding from the DTI	<u>1 841 971</u>
	<u>15 537 001</u>

Notes to the Financial Statements (continued)

for the 10 months ended 31 March 2007

21. Commitments

Lease commitments

Lease commitments in respect of operating lease agreements:

	Payable within twelve Months R	Payable within two to five years R	Payable Thereafter R	Total R
Building	1 218 462	7 388 468	713 737	9 320 667
Equipment	535 467	1 654 502	–	2 189 969
	<u>1 753 929</u>	<u>9 042 970</u>	<u>713 737</u>	<u>11 510 636</u>

Operating lease commitments consist of leases for the building rental and various items of office equipment. The building rental contract escalates at 6,5 % per annum on the lease anniversary and expires on 31 August 2014. The equipment leases have an average life of 5 years with no option of renewal. One item of equipment contains an escalation clause which is at 15% per annum.

During the period ended 31 March 2007, R 684 804 was recognised as an expense in the statement of financial performance in respect of the current building operating lease, whilst R 480 044 was expensed for the office equipment leases.

The operating lease costs have been straight lined over the period of the lease and a deferred operating lease expense raised (see note 19). The deferral will amount to nil at the end of the lease term.

Notes to the Financial Statements (continued)

for the 10 months ended 31 March 2007

22. Financial instruments

In the ordinary course of business, the NCR is exposed to a number of risks, however due to the nature of its business and the accounting policies the main identified risks are credit and liquidity risk.

The NCR's financial instruments consist mainly of trade and other receivables, cash at bank and deposits, trade and other payables, amounts prepaid by applicants, deferred annual fees, deferred donor grants, deferred funding and deferred operating lease costs.

Fair values

The estimated net fair value of financial instruments at 31 March 2007 has been determined by using available market information and appropriate valuation methodologies.

	Carrying amount R	Net fair value R
Assets	46 273 816	46 273 816
Available-for-sale asset	12 434	12 434
Trade and other receivables	301 700	301 700
Cash and cash equivalents	45 959 682	45 959 682
Liabilities	28 733 067	28 733 067
Trade and other payables	8 573 860	8 573 860
Amounts prepaid by applicants	14 950 756	14 950 756
Deferred annual fees	1 029 034	1 029 034
Deferred donor grants	115 177	115 177
Deferred funding from the DTI	3 898 526	3 898 526
Deferred operating lease costs	165 714	165 714

The carrying amounts of trade and other receivables, cash and deposits, trade and other payables, amounts prepaid by applicants, deferred annual fees, deferred donor grants, deferred funding from the DTI and deferred operating lease costs are reasonable estimates of their fair value.

Publicly traded asset investments held by the NCR as at 31 March 2007 comprise unit trusts and are stated at their fair value of R12 434.

Credit risk

Credit risk represents the potential loss to the NCR as a result of unexpected defaults or unexpected deterioration in the credit worthiness of counterparties. The NCR credit risk is primarily attributable to its receivables. However, this risk is minimal as the NCR only invoices applicants when payment has been received. Revenues are accrued as described in the accounting policies. The carrying amount included in the statement of financial position represents the NCR's exposure to credit risk in relation to this asset. The NCR does not consider there to be any significant concentration of credit risk.

With regard to credit risk arising from the other financial assets, which comprise cash at bank and deposits the NCR's exposure arises from a potential default of the counterparty, with a maximum exposure to the carrying amount of these instruments.

Other risks

Due to the nature and extent of the NCR's financial instruments, the NCR is not unduly exposed to price risks, interest rate risks, cash flow risks or liquidity risks.

The NCR does not have any foreign accounts receivable or payable, or derivative market instruments.

Notes to the Financial Statements (continued)

for the 10 months ended 31 March 2007

23. Related parties

Related party transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

23.1 Identity of related parties

The members are listed in the Accounting Authority's report.

Grants are received from the DTI as funding for the NCR's operational expenses, capital expenditure and for research.

23.2 Material related party transactions

- Members' remuneration – see note 7.
- DTI transfers – see notes 4 and 16.

23.3 Key management personnel compensation is as follows:

	2007 R
Short-term employee benefits	2 223 335
Provident fund contributions	248 471
Travel allowance	322 787
Performance bonus	502 478
	<hr style="border-top: 1px solid black;"/>
	<u>3 297 071</u>

The key management personnel compensation is included in "Staff costs" (see note 6).

Notes to the Financial Statements *(continued)*

for the 10 months ended 31 March 2007

24. Assumption of the Micro Finance Regulatory Council's assets, liabilities and employees

In terms of the National Credit Act, the Micro Finance Regulatory Council ceased operations as at 31 May 2006 and from 1 June 2006 all the assets, liabilities and employees were transferred to the National Credit Regulator.

The following summary represents the assets and liabilities that were assumed from the Micro Finance Regulatory Council:

Assets	35 090 229
Fixed assets	990 106
Investments	11 750
Trade and other receivables	15 379 080
Cash and deposits	18 709 293
Liabilities	15 469 061
Trade and other payables	4 043 256
Provisions	1 122 957
Amounts prepaid by applicants	3 191 211
Deferred annual fees	4 221 564
Deferred donor grants	385 708
Deferred funding from the DTI	2 056 555
Taxation	447 810
Net assets acquired	19 621 168
Accounted for as follows:	
Net assets	19 609 418
Fair value reserve	11 750

