



IN THE HIGH COURT OF SOUTH AFRICA
GAUTENG DIVISION, PRETORIA

Case number: 19301/2018

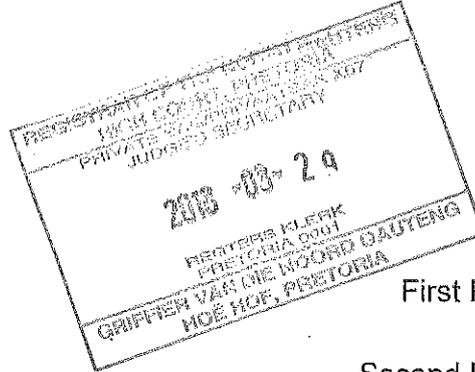
In the matter between:

VELE INVESTMENTS (PTY) LTD

Applicant

and

THE MINISTER OF FINANCE



First Respondent

THE REGISTRAR OF BANKS

Second Respondent

SIZWE NTSALUBA GOBODO ADVISORY SERVICES
(PTY) LTD NO

Third Respondent

(In its capacity as the curator of VBS Mutual Bank)

THE MINISTER OF JUSTICE AND CONSTITUTIONAL
DEVELOPMENT

Fourth Respondent

THE MINISTER OF COOPERATIVE GOVERNANCE AND
TRADITIONAL AFFAIRS

Fifth Respondent

FILING SHEET: SECOND RESPONDENT'S ANSWERING AFFIDAVIT

Presented for filing: Second Respondent's Answering Affidavit

Dated at Sandton on this 29TH day of MARCH 2018.



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IN THE HIGH COURT OF SOUTH AFRICA
(GAUTENG DIVISION, PRETORIA)

Case no. 19301/18

In the matter between:

VELE INVESTMENTS (PTY) LTD

Applicant

and

MINISTER OF FINANCE

First Respondent

THE REGISTRAR OF BANKS

Second Respondent

SIZWE NTSALUBA GOBODO
ADVISORY SERVICES (PTY) LTD (in its
capacity as the curator of VBS Mutual
Bank)

Third Respondent

MINISTER OF JUSTICE AND
CONSTITUTIONAL DEVELOPMENT

Fourth Respondent

MINISTER OF COOPERATIVE
GOVERNANCE AND TRADITIONAL
AFFAIRS

Fifth Respondent

SECOND RESPONDENT'S ANSWERING AFFIDAVIT



I, the undersigned,

KUBEN NAIDOO

do hereby make oath and state that:

- 1 1.1 I am the Registrar of Banks – the second respondent in this matter.
I am also a Deputy Governor of the South African Reserve Bank.
- 1.2 I am duly authorised to represent the second respondent in this application, to depose to this affidavit on its behalf and to do everything necessary in protecting the interest of the second respondent, in these proceedings.
- 1.3 The facts herein contained are within my personal knowledge save for where otherwise stated or otherwise indicated by the context, and are to the best of my knowledge and belief, both true and correct.
- 1.4 To the extent that I do not possess personal knowledge of the issues raised and stated in this affidavit, I relied on the documents which were furnished to me pertaining to this matter and the facts obtained from the officials in my office and the South African Reserve Bank



who directly dealt with this matter, namely, Rhona Badenhorst, Delarese Van der Merwe and Regomoditswe Ntsie. I annex hereto collectively marked "X1" to "X3", the confirmatory affidavits obtained from those officials.

- 1.5 The submissions of law I make in this affidavit are made on the advice of the second respondent's lawyers, which I accept as being correct.
- 2 This is an urgent application to obtain far-reaching relief including declaring sections of legislation unconstitutional and reviewing regulations made in 2005, more than thirteen years ago. No case is made out for these issues to be determined urgently. And yet, the case has been brought on severely truncated timeframes, and seeks final relief from the court. It is an abuse of process to bring such a case in urgent court. The application ought therefore to be struck from the roll, with a punitive costs order against the applicant.
- 3 I am advised that before dealing with each and every allegation made in the Applicant's founding affidavit, I should briefly deal with the following issues in order to place the matter in its proper context:-



- 3.1 first, I address the issue of urgency and show how no case has been made out for the relief sought in the application to be granted urgently;
- 3.2 secondly, I show that the relief sought is legally misconceived, misdirected and incompetent. In essence, the relief comprises three parts:-
- 3.2.1 the constitutional validity of section 81 of the Mutual Banks Act 124 of 1993;
- 3.2.2 the validity of Regulation 6(c) of the Municipal Investment Regulations of 1 April 2005;
- 3.2.3 the decision of the Minister of Finance taken on 11 March 2018 to place VBS Mutual Bank under curatorship.
- 3.3 thirdly, I explain the provisions of the Banks Act that empower the Minister to place a bank under curatorship and how these sections apply also to mutual banks;



3.4 fourthly, I set out the process that I followed before recommending to the Minister of Finance to place VBS Mutual Bank under curatorship;

3.5 fifthly, I explain to the court what the third respondent has thus far discovered about the operations and management of VBS Mutual Bank since it became its curator on 11 March 2018. These facts make it clear that the decision to place VBS Mutual Bank under curatorship was necessary. The facts also show that, even if this court were to find some merit in the applicant's attack on the Mutual Banks Act or the Minister's decision to place VBS under curatorship, it should nonetheless exercise its remedial powers under section 172(1)(b) of the Constitution to keep the curatorship in place.

URGENCY

4 I am advised that in order to demonstrate urgency the applicant must show that it will not obtain substantial redress in due course.

5 The application brought by the applicant is not urgent; and no harm will arise if it is heard in the ordinary course.

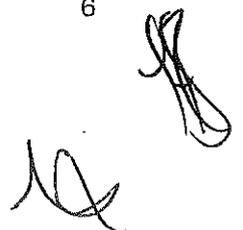
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- 6 The nub of the case for urgency appears in paragraph 6.5 of the founding affidavit. It states the following:-

“The risk of a run on the VBS Mutual Bank by virtue of the curatorship, the constitutional arguments above and the reviewability of the Registrar’s decision in terms of Promotion of Administrative Justice Act 3 of 2000 (“PAJA”) alternatively in terms of the doctrine of legality and the Rule of Law in terms of section 1(c) of the Constitution, render the matter urgent.”

- 7 This is also buttressed by the bald allegation that *“further investment in VBS Mutual Bank has been adversely affected by the curatorship and has had the effect of scaring off potential investors”* (paragraph 8 of the founding affidavit).

- 8 However, these are not grounds for urgency. The affidavit simply asserts that the impugned regulations and statutes are unconstitutional. It does not explain why securing this relief is urgent, particularly in circumstances where the impugned regulations were promulgated more than thirteen years ago. The only other basis on which the applicant claims the matter is urgent relates to the decision to place VBS Mutual Bank under curatorship. However, even this decision does not render the matter urgent because there is no threatened event in the near future that requires the court to intervene now.



9 On 22 March 2018, my attorneys of record, Werksmans Attorneys (Werksmans) wrote a letter to the applicant's attorneys, RW Attorneys, setting out the gross inadequacy of the applicant's case for urgency. The letter highlighted the following:-

9.1 the application is primarily aimed at attacking the constitutionality of the provisions of the Banks Act 94 of 1990, the Mutual Banks Act 124 of 1993 and certain regulations. The attorneys went on to say that:-

"[T]here is no basis on which this application is urgent. No urgent court can be requested to determine the constitutionality of statutes."

9.2 the constitutional validity of statutes are complex matters and the question of justification for any limitation of rights requires extensive evidence to be produced about:-

9.2.1 the purpose of the legislation;

9.2.2 the means employed to achieve that purpose; and

9.2.3 the proportionality of the means selected.



- 9.3 to the extent that the applicant challenges the Municipal Investment Regulations, these were promulgated in 2005, over thirteen years ago and any challenge in this regard is grossly out of time and not a matter to be addressed in urgent court;
- 9.4 to the extent that the applicant's challenge relates to the Minister of Finance's decision to place VBS Mutual Bank under curatorship on 11 March 2018, then there is also no adequate case made out for urgency in this regard and the papers do not explain that there is any immediate harm to the applicant and/or VBS Mutual Bank that is likely to follow unless the court steps in now;
- 9.5 to the extent that the applicant wishes to challenge any aspects of the constitutional validity of the Banks Act, the Mutual Banks Act, the Municipal Investment Regulations or the Minister of Finance's decision of 11 March 2018, it can bring that challenge through the ordinary court process. To do so in urgent court is an abuse of process.
- 10 . The letter called for the applicant to withdraw its application by close of business on Friday, 23 March 2018, failing which the Registrar of Banks



would seek a punitive costs order against the applicant. A copy of the letter is attached as annexure "KN1".

- 11 On 23 March 2018, RW Attorneys wrote a letter in which they stated that:—

“We have advised our client that no purpose whatsoever is served by responding thereto, suffice to say that it is precisely for that reason that the court is ceased [sic] with adjudicating the matter and you have ample time preparing those arguments for the Judge.”

A copy of this letter is attached and marked annexure "KN2".

- 12 The response is inadequate and fails to meet the point made in the Werksmans letter. The point of the Werksmans letter was to highlight to the applicant that there is no adequate case made out for urgency in the founding papers. It was written in an effort to bring sense to bear on the applicant's litigation strategy and to avoid the need to occupy the court's time with an application that, in its own terms, does not begin to meet the requirements of urgency. The applicant has chosen not to engage meaningfully with the concerns raised that the matter is not urgent. Instead, it persists doggedly with moving this application in urgent court. I respectfully submit that such conduct merits a punitive costs order against the applicant.

AUTHORITY



- 13 On 15 March 2018, I was made aware of an e-mail that the deponent, to the founding affidavit, addressed to the National Treasury stating that this application was to be withdrawn. It was also reported in the media that the application was to be withdrawn. Furthermore, the deponent to the founding affidavit addressed a letter to the applicant's attorneys of record, a copy of which is annexed marked "KN3" in which he instructed the said attorneys to withdraw this application.
- 14 This issue of the withdrawal of the application was also dealt with a letter from Werksmans to RW Attorneys dated 19 March 2018, annexed hereto marked "KN4".
- 15 In a letter dated 19 March 2018 from RW Attorneys, received by Werksmans on 22 March 2018, and annexed marked "KN4A", RW Attorneys alleges that the deponent to the founding affidavit *"had no authority of the board to unilaterally give instructions to our firm to withdraw the court proceedings on the basis of a so-called amicable solution the contents and terms of which are not known to us and our clients"*.
- 16 Having regard to the fact that the instructions to RW Attorneys, to withdraw were, in writing, by the person duly authorised by a resolution passed at the



meeting of directors of the applicant (Annexure "RM1A" to the founding affidavit) "to sign and execute documents and do all things necessary that may be required to give effect to the resolution", the second respondent sought from RW Attorneys in terms of a Rule 7 Notice, the power of attorney to represent the applicant herein, in light of the written instructions to withdraw the application. A copy of the Rule 7 Notice is annexed marked "KN5". To date RW Attorneys have not provided the power of attorney as required in terms of the Rule 7 Notice. I have been advised by my attorneys that RW Attorneys must provide the authority to proceed with this application on behalf of the applicant, in these circumstances.

THE RELIEF IS LEGALLY FLAWED

- 17 In this section, I will explain how the three categories of relief relied upon by VBS Mutual Bank are flawed.

Constitutionality of the statute

- 18 Prayer 5 of the notice of motion is nonsensical. It seeks a declarator that section 81 of the Mutual Banks Act, read with section 81(1) of the Mutual Banks Act is constitutionally invalid. But section 81 includes section 81(1) and so the meaning of this prayer is not understood.



- 19 In any event, I am advised that section 81(1) of the Mutual Banks Act provides that section 69(1) of the Banks Act shall apply *mutatis mutandis* to any mutual bank that in the opinion of the Registrar is in financial difficulties. The effect of section 81(1) of the Mutual Banks Act is that it is section 69 of the Banks Act applies when a mutual bank is placed under curatorship.
- 20 The applicant's constitutional attack is in fact directed at section 69 of the Banks Act (see paragraphs 12.1 to 12.3 of the founding affidavit) and yet its notice of motion seeks no constitutional relief in relation to this section of the Banks Act. The entire case for a declaration of constitutional invalidity is therefore misdirected.
- 21 The case for a declaration of constitutional invalidity is also baseless. The essence of the applicant's constitutional attack on section 69 of the Banks Act appears to be that it allows banks to be placed under curatorship extra curially (see paragraph 12.3 of the founding affidavit). The applicant asserts that the Constitution requires "*judicial scrutiny of the exercise of public power by the Registrar and the Minister in placing a bank under curatorship*" (paragraph 12.2.5 of the founding affidavit). But the Banks Act does not exclude this judicial oversight. The decision to place a bank under curatorship constitutes administrative action. Any party affected by that



administrative action has a right to approach a court to review the decision under PAJA. There is accordingly a mechanism for judicial review of the decision and therefore no merit in the applicant's attack on the constitutionality of section 69 of the Banks Act.

- 22 In any event, I am advised that courts are generally required to resolve disputes without reaching constitutional issues. The real dispute in this case relates to a single attack made on the Minister's decision to place VBS Mutual Bank under curatorship. The applicant claims that this decision was irregular because I, rather than the Minister, communicated the decision to the Chairperson of VBS Bank. As I set out in more detail below, the fact that I communicated the Minister's decision does not invalidate the decision. The relevant legal question is whether it was the Minister who exercised the power to place the Bank under curatorship. He did so.
- 23 This issue in the case can therefore be determined without any need to consider the constitutionality of section 69 of the Banks Act. I respectfully submit that the court should therefore not entertain the constitutional challenge, especially in circumstances where it has been raised in urgent court and without affording the respondents a proper opportunity to set out the justification for the impugned section.

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The attack on the regulations is incompetent and grossly out of time

24 The impugned regulations are administrative action. As a result, any review of the regulations was required to have been brought under PAJA.

25 The applicant has failed to do so. Its attempt to impugn the regulations is therefore procedurally incompetent.

26 In any event, the attack on the regulations is grossly delayed. The Municipal Investment Regulations were promulgated in 2005. This was over thirteen years ago. PAJA requires reviews of administrative action to be instituted without unreasonable delay. A review brought outside of this time period is time barred unless the applicant obtains condonation for the delay. The applicant in this case has not sought any condonation for its delay in reviewing the impugned regulation. Its claim in relation to the regulation is therefore time barred and cannot be entertained by this court.

The attack on the Minister's decision

27 The applicant contends that the decision to place VBS Mutual Bank under curatorship is reviewable in terms of PAJA. Its reasons for this are that:-

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“The notice issued to VBS Mutual Bank comes from the Registrar of Banks, who is also the Deputy Governor of the SARB. Section 69(1)(a) requires the Minister to give notice to the Chairman of the Board or the Chief Executive Officer in writing that a curator has been appointed. In this instance, the notification has not come from the Minister but from the Registrar of Banks. The notification required in Section 69(1) has therefore been exercised by a party not authorised by the empowering statute to give notice to the affected bank. It consequently lacks legality and rationality.”

28 The letter notifying the Chairperson of the Board of VBS Mutual Bank that the Minister had decided to place it under curatorship is annexure “RM2” to the founding affidavit. I wrote the letter. In it, I explained that I had recommended to the Minister of Finance that the Bank be placed under curatorship and that the Minister had taken the decision to do so with effect from 17h00 on 11 March 2018. I sent the letter to the Chairperson on behalf of the Minister after informing the Chairman and the Chief Executive Officer of VBS Mutual Bank telephonically of the decision taken by the Minister.

29 The decision to place the Bank under curatorship needed to be taken swiftly because, as I set out in more detail below, on Saturday, 10 March 2018, media coverage began to emerge reporting that VBS Mutual Bank was “*about to go bust*”. This happened after the Chairman of VBS Mutual Bank had written and emailed an open letter to me on Friday, 9 March 2018. The letter is annexed marked “**KN6**”. My Office was of the opinion that this open letter, which was made available to the media, precipitated a potential bank

run due to the panic it caused among the public. This necessitated that I take immediate action to safeguard the interests of the depositors. I sent a letter addressed to the Minister of Finance, and supported by the Director General Mr Dondo Mogajane and Deputy Director General Mr Ismail Momoniat, recommending that VBS Mutual Bank be placed under curatorship. The letter is attached as annexure "KN7". The Minister agreed with my recommendation that the Bank needed to be placed under curatorship because it was unable to meet its financial obligations and its conduct from 9 March 2018 made the prospect of a run on the bank a very serious reality. The power to place VBS Mutual Bank was properly exercised in the circumstances.

BACKGROUND TO THE BANKS ACT AND THE POWER TO PLACE BANKS UNDER CURATORSHIP

30 The provisions of the Banks Act which empower the Minister of Finance to place a bank under curatorship serves an important purpose when one takes into account the risks that banks are exposed to and the reliance that is placed on them by the public. Courts have acknowledged that one of the primary purposes of placing a bank under curatorship is to create an effective counter to a run on the bank. Curatorship persists for so long as it is required to protect the interests of depositors and it has been implemented with

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success in the resolution of banks' financial difficulties. The most recent example of its use is what was formerly known as African Bank Limited.

- 31 In this section of the answering affidavit I will set out why curatorship is an indispensable mechanism for South African regulators seeking to address and resolve difficulties faced by banks in distress. They do so in the interest of depositors and the public more broadly. I will briefly deal with banks as institutions as well as their function in the economy before doing so.

The role of banks in the proper functioning of an economy

- 32 Banks are unique and important financial institutions that have a key role to play in the economy of South Africa. This includes mutual banks. It follows that banks are the principal depository for the liquid funds of the general public. The safety and ready availability of these funds for transactions are the responsibility of banks and their management and are essential to the stability and efficiency of the financial system. Banks use these funds to make loans and investments. This has an effect on their ability to allocate scarce savings to productive and efficient use within the economy.

- 33 Banks also serve as the main conduit for monetary policy between a central bank and the economy. A strong and adaptable banking system is needed

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to transmit monetary policy to the financial and economic system. They are also a backbone for the national payment system in that money that stems from commercial banks is used for payments. This highlights the importance of a reliable and efficient payment mechanism in a well-functioning economy.

34 Deposits into banks are in the form of money and banks offer contracts for liquid deposits in return. In the process, banks operate as financial intermediaries. They are characterised as such because they place themselves between the ultimate lender and ultimate borrower by transforming primary securities into indirect securities. This role is achieved by the banks' utilisation of deposits obtained from depositors to finance the acquisition of illiquid assets of uncertain value.

35 The risk profile of banks is fundamentally different to that of other institutions. Whilst the general public does not expect its deposits to be subject to any price or other risks, there is no guaranteed repayment of deposits by banks in the absence of any deposit insurance scheme. This is because the asymmetric nature of the business of a bank renders it vulnerable to abnormal liquidity shortages that might be caused by a run by depositors on a bank. The possibility of such an occurrence may have disastrous consequences on the economy in that even solvent banks might be forced

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to sell assets at a loss where no secondary market exists which affords them a forum in which they are able to liquidate their assets.

- 36 Owing to the unique risk profile of banks set out above, the legislature recognised the need to introduce measures in terms of which a run on a bank might be prevented. This gave rise to the introduction of a system of curatorship.



Curatorship

- 37 Banks must be – and are – subjected to a higher degree of supervision than most other institutions. This is done in an endeavour to:–

37.1 contribute to a safe and sound financial system in which the general public can trade without fear of losing their savings or investments;



37.2 enhance the confidence of and fairness to investors by eliminating bad business practice;

37.3 facilitate transparency, integrity and good corporate governance; and



37.4 work towards maintaining an efficient financial system in which services are supplied at a competitive price and where the majority of South Africans have access to various financial services.

38 The process of curatorship was first introduced into the statutory framework by means of section 40 of the Banks Act 23 of 1965. Today, the framework for placing a bank under curatorship is governed by section 69(1)(a) of the Banks Act 90 of 1994. That section provides that:-

"If, in the opinion of the Registrar, any bank will be unable to repay, when legally obliged to do so, deposits made with it or will probably be unable to meet any of its obligations, the Minister may, if he or she deems it desirable in the public interest, by notifying the chief executive officer or the chairperson of the board directors of that bank in writing, appoint a curator to the Bank."

39 It follows that section 69 provides for mechanisms and procedures to be adopted and followed when a curator is appointed to manage a bank which is facing liquidity issues. Curatorship applies to mutual banks as a result of the provisions of section 81 of the Mutual Banks Act.

THE PROCESS FOLLOWED BEFORE THE DECISION TO PLACE VBS UNDER CURATORSHIP



40 VBS Mutual Bank is registered with the South African Reserve Bank as a mutual bank. It was established in 1982 and initially operated as the Venda Building Society in what was then known as the Venda Homeland.

41 VBS Mutual Bank is a bank which provides mortgage loans, asset finance, contract finance and fuel guarantee advances to its clients. VBS Mutual Bank's depositor base currently comprises three categories of depositors, namely, retail depositors (who are in the main burial societies, funeral collections and savings clubs or 'stokvels'), corporate depositors and municipality depositors.

42 On 11 March 2018, the Minister of Finance – upon recommendation by the Registrar of Banks – placed VBS Mutual Bank under curatorship. This decision was made against the backdrop of a severe liquidity crisis which has been faced by the bank over the last eighteen months.

43 The liquidity challenges faced by VBS emanated from the failure of the Board of Directors and Executive Management to manage VBS's rapid growth as well as its funding and liquidity position. This led to VBS being placed under increased regulatory scrutiny.

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44 These challenges were further heightened by the maturity of a large concentration of deposits from municipalities as well as the termination of other sizeable deposits and the inability to source sufficient funding timeously. It was highly risky for VBS to take large municipal deposits that were short-term and then lend them out long-term. VBS became incapable of settling its obligations to the National Payment System on several occasions as a result.

Timelines and processes leading up to the decision to place VBS under curatorship

45 Prior to addressing the timelines and processes leading up to and placing VBS under curatorship, I mention that the information contained in this section was prepared and obtained from those persons referred to in paragraph 1.4 above. They were intimately involved, on behalf of the Reserve Bank, in the process leading up to the decision to place VBS under curatorship and participated in twice daily calls between the Reserve Bank and VBS in the weeks leading up to curatorship.

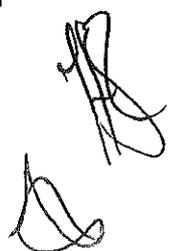
46 On Friday, 16 February 2018, the Bank Supervision Department (BSD) of the Reserve Bank was telephonically informed by the National Payments System Department (NPS) of the Reserve Bank that VBS Mutual Bank had not settled its obligations on the South African Multiple Options Settlement

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System (SAMOS). Consequently, the SAMOS system operator had instructed BankservAfrica, the payment system operator, to remove VBS Mutual Bank from the batch. The revised batch, which excluded VBS Mutual Bank, was settled later that evening.

47 Ms Delarese Van der Merwe, Manager of frontline analysis at the Reserve Bank, contacted the Executive Management of VBS Mutual Bank in order to gain an understanding of the situation. Later on that evening, Mr Phophi Mukhodobwane, VBS Mutual Bank's Head of Treasury and Capital Management, informed my office in an e-mail, that VBS Mutual Bank was experiencing a liquidity shortage which had been caused by a large concentration of deposits that had matured as well as an early termination of another large deposit that the bank had lost during the course of the week of 12 February 2018. The e-mail is attached as annexure "KN8".

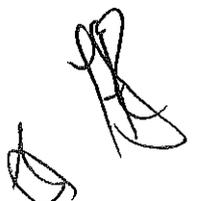
48 Mr Mukhodobwane further mentioned that the outflows and muted inflows of deposits which had been experienced during the previous two weeks of February 2018 had likely been as a result of the adverse media coverage involving VBS Mutual Bank and the Passenger Rail Agency of South Africa (PRASA) published on 4 February 2018 and had likely caused the public to question the legitimacy of the bank raising deposits from government entities. VBS Mutual Bank had anticipated an inflow of deposits to the value



of R400 million from municipalities during the course of the week of 12 February 2018, but had in fact only managed to secure R120 million. Mr Mukhodobwane had further mentioned that VBS Mutual Bank was expecting deposits to the total value of R370 million between the 19th and 22nd of February, which deposits would rectify the bank's liquidity position. VBS Mutual Bank had made use of the remaining balance of funds in its reserve account held with the Reserve Bank to facilitate settlement over the weekend.

49 From Monday, 19 February 2018, the BSD and NPS began to closely monitor the exposures of VBS Mutual Bank in the SAMOS system in order to ensure that the bank settled successfully on a daily basis. The two departments would hold two conference calls daily with the Executive Management of VBS Mutual Bank in order to gain insight on the developments regarding the liquidity position as they unfolded. A written account of the teleconference calls is attached as annexure "KN9".

50 On 20 February 2018, I sent a letter addressed to Mr Tshifhiwa Matodzi, the Chairman of the Board of Directors at VBS Mutual Bank, with the Chief Executive Officer Mr Andile Ramavhunga copied, to request a clearly stated action plan and strategy to mitigate against the continued liquidity shortages experienced by the bank, especially those posed by the large municipality



deposits which had become due and were at risk of not being re-invested as expected. I also asked for an action plan that would ensure compliance with prudential requirements set out by the Reserve Bank. The letter is attached as annexure "KN10".

51 On 21 February 2018, VBS Mutual Bank advised that they were expecting a one-year deposit of R150 million from its major shareholder, the Public Investment Committee (PIC) that same afternoon. VBS Mutual Bank had further advised that they were in negotiations with the PIC for a loan of R750 million. The BSD requested VBS Mutual Bank to provide written confirmation of this, however such confirmation was not forthcoming.

52 On the same day, 21 February 2018 the BSD advised VBS Mutual Bank that as from 22 February 2018, the bank would fall short of the liquid assets required to be held in terms of section 50(1) of the Mutual Banks Act and the general and non-distributable reserves to be held in terms of section 10A(8) of the South African Reserve Bank Act 90 of 1989. VBS Mutual Bank were advised that in the event that the bank was unable to meet these prudential requirements by 22 February 2018, the bank would have to submit letters to me and the Governor requesting condonation.




- 53 This liquidity shortage was not the first of its kind to occur at VBS Mutual Bank in the past year. VBS Mutual Bank had demonstrated, on a number of occasions, that it was unable to effectively manage its assets and liabilities. Further detail regarding the inability to manage assets is set out in annexure "KN9" above.
- 54 The BSD had to postpone a pre-arranged Asset and Liability Management (ALM) and Recovery Plan review meeting with VBS Mutual Bank due to the prevailing liquidity distress it was experiencing which required the concerted efforts of management to rectify. The BSD's preliminary review of VBS Mutual Bank's ALM and Recovery Plan processes had confirmed that the bank had glaring deficiencies where its liquidity risk management is concerned. Despite attempts made by the BSD to bring these deficiencies to the attention of both the Board and the Executive Management Team of VBS Mutual Bank in its interactions with the bank, the intervention efforts of the Board and Management were not sufficient to effectively address these identified deficiencies. This resulted in heightened ALM risks.
- 55 On 22 February 2018, VBS Mutual Bank officially became non-compliant with its prudential obligations in terms of its minimum liquid assets and general and non-distributable reserves which it was required to hold.



56 One of the trigger events of curatorship is a bank's inability to meet its obligations. In VBS Mutual Bank's instance, the failed obligation pertained to the bank's failure to meet the minimum prudential liquidity requirements. Consequently, I sent a letter to the Minister of Finance dated 22 February 2018 informing the Minister of the recent developments at VBS Mutual Bank. I highlighted weaknesses experienced insofar as they relate to the liquidity of the bank. The letter is attached as annexure "KN11". I made it clear that if not corrected, the current liquidity distress had the potential to threaten the sustainability of VBS Mutual Bank and thus the safety of its deposits in the short term. I also advised the Minister of other occasions on which VBS Mutual Bank had failed to timeously honour its obligations when they fell due, and of other supervisory concerns regarding the bank.

57 On the same day, 22 February 2018 VBS Mutual Bank advised the BSD and the NPS that the PIC management committee had submitted the bank's application for funding to the PIC investment committee, which committee would meet on the same day, 22 February 2018 to discuss making available approximately R1,5 billion to VBS Mutual Bank in order to cover all short term deposits – however the type of funding from the PIC still needed to be clarified.

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58 On 23 February 2018, the BSD received letters from VBS Mutual Bank requesting condonation for the minimum liquid assets required to be held and the general and non-distributable reserves to be held. These letters are attached as annexure "KN12" and annexure "KN13" respectively. It was subsequently decided that condonation would only be granted on condition that the bank rectify its current liquidity position for the relevant maintenance periods. VBS Mutual Bank advised that it was still awaiting finalisation of the funding from the PIC, and had no further update since the last interaction. VBS Mutual Bank also advised that they had no further possible deposits lined up from the municipalities as all potential depositors had been deterred from placing funds with mutual banks after they had consulted with National Treasury. The bank was also unsuccessful in its attempts to source funding from bigger commercial banks.

59 VBS Mutual Bank submitted its Liquidity Recovery Action Plan, dated 22 February 2018, where it indicated that it was relying on a funding line from the PIC to recover from the liquidity distress event in the immediate term. The BSD requested further information in respect of the proposed R1,5 billion funding expected from the PIC (i.e. interest rates and other charges). VBS Mutual Bank indicated that since the facility had not been finalised, these details were unknown. The Liquidity Recovery Plan submitted by VBS Mutual Bank is attached as annexure "KN14".

60. On 26 February 2018, VBS Mutual Bank sent an email with its application to convert to a commercial bank in terms of section 63 of the Mutual Banks Act. Due to the prevailing liquidity crisis which VBS Mutual Bank was experiencing, the BSD was not in a position to process the application. With regards to the retention of municipality deposits, VBS Mutual Bank had previously communicated to my office that the National Treasury had granted the bank a dispensation of eighteen months to hold the deposits, during which time the bank was required to convert to a commercial bank. The BSD had repeatedly requested VBS Mutual Bank to furnish it with a formal confirmation of such agreement with the National Treasury which led to the bank's decision to expedite the submission of the application, however such confirmation was not forthcoming. A write up on the facts relating to VBS Mutual Bank's license application is attached as annexure "KN15".

61. A banking license registration application typically takes anywhere between 12 and 18 months to process and complete, and approval is not guaranteed. A preliminary assessment of the application submitted by VBS Mutual Bank indicated that the documentation was incomplete and some of it is in draft form. In an e-mail dated 8 February 2018, VBS Mutual Bank was notified of all the information that would be required of it in its application to convert to a commercial bank.

62 The BSD and NPS held a meeting on 26 February 2018 to consult with the Recovery Planning specialists of the Financial Stability Department and the Legal Department of the Reserve Bank in order to explore the different actions which could be undertaken by me in the event that VBS Mutual Bank was unable to source the required funding.

63 On 26 February 2018, I held a meeting with National Treasury and VBS Mutual Bank's two largest shareholders – Vele Investments (the applicant) and the PIC. I noted differences between the amount that VBS Mutual Bank had indicated it expected to receive in its Liquidity Recovery Action Plan, and that which was indicated by the PIC in the meeting, which was much lower than the R1,5 billion mentioned by VBS Mutual Bank. My Office had subsequently requested that VBS Mutual Bank revise its Liquidity Recovery Action Plan to reflect the conclusions reached by the majority shareholders in the aforementioned meeting. The letter is attached as annexure "KN16".

64 On 28 February 2018, I received a letter from the Chief Executive Office of VBS Mutual Bank which indicated that the revised Liquidity Recovery Action Plan requested by my Office was largely dependent on the outcome of the PIC Investment Committee decision. VBS Mutual Bank confirmed that the Investment Committee meeting was set to take place on 1 March 2018, after



which the bank would know the funding structure and final amounts. This letter is attached as annexure "KN17". The Heads of Department of the BSD, NPS, Financial Stability and Legal Department of the Reserve Bank met to obtain my guidance on the appropriate pre-emptive action that might be necessary in order to protect the interest of the bank's depositors. Annexure "KN18" is the discussion document which illustrates the different options explored in the case of VBS Mutual Bank.

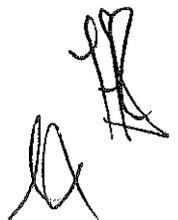
65 On 2 March 2018, VBS Mutual Bank indicated that it had not received any feedback from the PIC as the Investment Committee had not met the previous day as envisaged, and that the meeting had now been scheduled for 5 March 2018. VBS Mutual Bank had in the meantime received funds from two municipalities: R40 million from West Rand Municipality and R50 million from Dr Ruth Mompati Municipality on 27 February 2018 and 2 March 2018 respectively.

66 On 5 March 2018, and during a conference call, VBS Mutual Bank again advised that the PIC Investment Committee would give the bank a definitive answer on either 6 or 7 March 2018.

67 On 6 March 2018, in a telephonic discussion with VBS Mutual Bank, Mr Mukhodobwane indicated that several municipalities had submitted

withdrawal requests on their funds deposited at VBS Mutual Bank. The total value of the withdrawals was R507,1 million. Mr Mukhodobwane had furnished the Registrar's Office with documentary proof of the withdrawal requests, some of which were dated as far back as 27 February 2018. It soon emerged that VBS Mutual Bank had previously disclosed a lower amount as being due for immediate payment. He further submitted a response letter sent to these municipalities by VBS Mutual Bank, wherein VBS Mutual Bank had communicated to the municipalities that the bank would relinquish all its municipality deposits held at the bank as part of an unwinding process which would be finalised in the next 7 working days from 5 March 2018. The letter is attached as annexure "KN19".

- 68 On 6 March 2018, VBS Mutual Bank had a Total Estimated Real Time Line of just R18 million. It was clear that the bank did not have the funds to make such payments. When questioned about where the bank was going to get funding within seven days to refund the total municipality deposits to the value of R1,5 billion, Mr Mukhodobwane responded that the amount would likely come from the PIC, failing, which the temporary funds from the Insure Group company – approximately R300 million – which was due to be deposited in the next couple days, would be used. VBS Mutual Bank also advised that the PIC Investment Committee was due to meet on 7 March 2018.



69 On 7 March 2018, VBS Mutual Bank indicated that the PIC Investment Committee was due to meet again on 9 March 2018.

70 On 8 March 2018, the Reserve Bank and National Treasury met with VBS Mutual Bank's Board and Executive Management to discuss the bank's failure to obtain a viable solution to the liquidity distress event, and to communicate the prospect of the bank being placed under curatorship. The Board of VBS Mutual Bank requested an extra day to allow for the final decision of PIC application for funding, which I granted. The Board specifically acknowledged at that meeting that if it failed to source funding from the PIC, to relieve the current liquidity crisis, it would be appropriate for the bank to be placed under curatorship. I advised the Board and management that if the Reserve Bank did not have written confirmation of a commitment of funds by the PIC, I would recommend to the Minister of Finance that the bank be placed under curatorship by close of business on 12 March 2018. The minutes to the meeting are attached as annexure "KN19A".

71 On Friday, 9 March 2018, during the 15h00 teleconference meeting, VBS Mutual Bank mentioned that it had not, as yet, received feedback from the PIC Investment Committee regarding the funding of VBS Mutual Bank. No



communication of the outcome of this meeting was provided by VBS Mutual Bank at the end of the day.

72 On Saturday, 10 March 2018, media coverage began to emerge reporting that VBS Mutual Bank was "*about to go bust*". This happened after the Chairman of VBS Mutual Bank had written and emailed an open letter to me on Friday, 9 March 2018. (Annexure "KN6") My Office was of the opinion that this open letter, which was made available to the media, precipitated a potential bank run due to the panic it caused among the public. This necessitated that I take immediate action to safeguard the interests of the depositors. I sent a letter addressed to the Minister of Finance, and supported by the Director General Mr Dondo Mogajane and Deputy Director General Mr Ismail Momoniat, recommending that VBS Mutual Bank be placed under curatorship. (Annexure "KN7").

73 It is clear from the chronology set out above that VBS Mutual Bank was unable to repay deposits made with it when it was legally obliged to do so. It was also unable to meet its prudential obligations. These are legal requirements that banks have to meet.

74 In the light of the open letter written by Mr Matodzi, I sought to establish the outcome of the PIC Investment Committee that had taken place on 9 March

2018. In a telephone discussion on Saturday, 10 March 2018 with the CEO of the PIC, I was informed that the PIC Investment Committee had decided not to further invest in VBS Mutual Bank.

75 On Sunday, 11 March 2018, I advised the Chairman of the Board and the Chief Executive Officer of VBS Mutual Bank that, after due consideration of the facts surrounding the liquidity distress event, I had recommended to the Minister of Finance that the appointment of a curator would be in the best interest of the public and VBS Mutual Bank's depositors. I further advised the Chairman of VBS Bank telephonically that the Minister of Finance had accepted my recommendation and decided to place the Bank under curatorship. The letter is attached annexure "RM2" to the founding affidavit. Following the Minister's approval of the recommendation, the Reserve Bank held a press conference to announce the placing of VBS Mutual Bank under curatorship, and to answer queries by the press. The media statement delivered to the press is attached as annexure "KN20".

76 Sizwe Ntsaluba Gobodo Advisory Services Proprietary Limited were appointed as curator of the bank. Mr Anoosh Rooplal is their representative. In this affidavit, where I refer to the curator, I refer to Sizwe Ntsaluba Gobodo as represented by Mr Anoosh Rooplal.



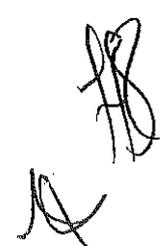
WHAT THE CURATOR HAS FOUND

77 The facts of this matter demonstrate that VBS Mutual Bank has been severely mismanaged. The curatorship should be left in place to protect its creditors, the stability of the banking sector and the public interest in general.

78 Mr Rooplal and his team commenced with their duties on the morning of Monday, 12 March 2018.

79 I, together with various representatives of the Reserve Bank and other relevant parties, met with the Mr Rooplal and his team on 22 March 2018. The purpose of the meeting was for Mr Rooplal to provide me and the Reserve Bank with his initial assessment and observations as to the status of VBS Mutual Bank since his appointment as curator on 11 March 2018. Mr Rooplal has signed a confirmatory affidavit which is attached and marked annexure "KN21", in which he confirms the following preliminary findings:-

79.1 when Mr Rooplal commenced with his duties on 12 March 2018, the liquid cash position of VBS Mutual Bank amounted to R24,701,867,60. This is in respect of a bank which held total deposits ostensibly in the region of R2,900,000,000. I say '*ostensibly*' because the Mr Rooplal has been unable to confirm the



veracity of a material portion of the so-called corporate deposits which amount to approximately R900,000,000. It is uncertain as to whether all of these corporate deposits represent 'true' deposits and the Mr Rooplal has to date been unable to confirm that amounts in respect of all these deposits were actually received by VBS Mutual Bank;

79.2 It appears as though VBS Mutual Bank were paying brokerage commissions to entities to attract deposits, mainly from municipalities, to the bank. This is highly unusual for banks;

79.3 the liquid cash position would not enable VBS Mutual Bank to repay deposits as and when required. The details of VBS Mutual Bank's liquidity position, since February 2018, has been addressed in detail above and is not repeated save to mention that all deposits would be callable by depositors and may need to be paid at short notice. It is apparent that VBS Mutual Bank would not be in a position to do so;

79.4 the integrity of the financial information at VBS Mutual Bank is highly compromised. There are significant deficiencies in the administration and management of the bank. The environment is such that financial information is highly susceptible to manipulation



and from Mr Rooplal's initial assessment, he is of the view that there may have been considerable manipulation of the bank's financial information;

79.5 there are a significant number of large Rand value related party transactions between the bank, related companies and staff. The identification and quantification of these transactions will require additional investigation and assessment;

79.6 Mr Rooplal has reason to believe that the bank has been mismanaged by the executives and its management committee. Mr Rooplal is further of the view, based on his initial assessment, that there may have been fraudulent reporting and fraudulent transactions conducted in order to extract money from the bank in order to further the personal interests of certain key individuals and companies related to the bank;

79.7 management and control of the bank has been dominated by a few individuals in the bank. Mr Rooplal is of the view that the corporate governance environment at the bank is particularly weak;

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79.8 nine out of the twenty largest advances made by the bank are currently indicated as being non-performing. In this regard, I mention that Mr Rooplal has ascertained that these advances total approximately R400,000,000 and a significant portion are non-performing and no material effort appears to have been made to attempt recovery. In addition, there is an additional advance to an entity of approximately R150,000,000 which is also non-performing and where Mr Rooplal has been unable to obtain any meaningful information relating to this advance;

79.9 excel.spreadsheets are used to manage the contract finance and fuel guarantee books of the bank. In addition to these being susceptible to manipulation, it is highly unusual for a bank to manage these contracts by means of an excel spreadsheet;

79.10 access to the trial balance and general ledger of the bank were initially withheld from the curator by bank executives and the curator was only able to obtain these documents on 19 March 2018. From Mr Rooplal's preliminary analysis of the general ledger and trial balances, he has identified suspense accounts with large balances and is concerned that certain of these may be a fictitious creation of deposits on the banking system. Mr Rooplal's concerns in this

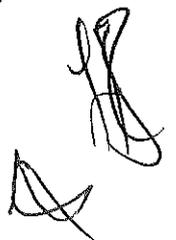
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regard stem not only from the initial withholding of this information from the curator, but also from information obtained from certain whistle-blowers who have reached out to the curatorship team;

79.11 by way of example, I point out that Mr Rooplal has ascertained that approximately R1,800,000,000 worth of assets are reflected by means of a suspense account entry. This is not only highly unusual, but Mr Rooplal has not been able to obtain any information to corroborate the suspense account entry and/or to confirm that this constitutes real and tangible assets of VBS Mutual Bank;

79.12 Mr Rooplal has ascertained that staff are reluctant to follow up on large clients who owe the bank money;

79.13 the contract finance book of the bank appears to have experienced critical performance failures with only approximately a 5% repayment against the average outstanding balances. In contrast the advance on this book was almost five times as high as repayments. In addition, the book reflects an interest journal entry amounting to R78,659,455 which appears to have been created to 'synthetically' increase interest income against contract finance advances in order to inflate such income and protect solvency. Although further



investigation needs to be undertaken, it would appear that these amounts are not recoverable. There is no rational reason, of which the curator is aware, as to why a bank would seek to reflect interest income by way of a journal entry.

80 Mr Rooplal's preliminary assessments and observations highlight the real concerns which exist with VBS Mutual Bank. They also demonstrate why it is essential and in the interests of all parties that curatorship continues. This is necessary not only to protect depositors of VBS Mutual Bank and other parties, but also to ascertain the true position as to what has transpired at VBS Mutual Bank.

81 If, despite what has been set out above about the baseless grounds for impugning the Minister's decision to place VBS Mutual Bank under curatorship, this court were inclined to grant any of the relief claimed in prayers 7 or 8 of the notice of motion, then I respectfully submit that it should exercise its remedial powers under section 172(1)(b) of the Constitution to suspend that declaration of invalidity in order for the decision to remain valid and to secure the public interest.

CONDONATION FOR THE LATE FILING OF THE AFFIDAVIT

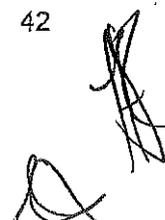
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82 The applicant unilaterally imposed a deadline of 26 March 2018 for filing this affidavit. It has not been possible for me to meet that deadline because of four factors:-

82.1 there was initial uncertainty after the application was launched because, the Chairman of the applicant announced publicly, the following day that the application had been withdrawn;

82.2 clarity on whether the application had, in fact been withdrawn was only received from the applicant's attorney at midday on 22 March 2018. That was Thursday last week. It was therefore only from that point that the preparation of this affidavit commenced;

82.3 since that date, my Office has moved with all reasonable speed to prepare this affidavit. The process has required a series of consultations with persons involved in monitoring the actions of VBS Bank over the last year, as well as with the curator appointed on 11 March 2018 in order to understand what has been discovered since he took over the management of the Bank;



- 82.4 this affidavit will be filed within a week of the date on which the Bank received confirmation from the applicant's attorneys that the matter had not been withdrawn.
- 83 Copies of the correspondence addressing the issues highlighted above are attached as annexure "KN22" and "KN23" respectively.
- 84 In the circumstances, I respectfully request that the failure to file this affidavit, within the timeframes unilaterally set by the applicant, be condoned.

AD SERIATIM

- 85 In this section of the affidavit, I address only those factual averments in the founding affidavit that have not already been addressed above. Any matter not specifically traversed hereunder and which is also not dealt with above, is denied.

AD PARAGRAPHS 5.4 TO 5.7

- 86 The agreement reached between the parties at the meeting of 8 March 2018 was that the Registrar would not proceed with the imposition of curatorship until such time as VBS Mutual Bank's application had been considered at



the PIC Investment Committee Meeting, which was to be held on Friday, 9 March 2018. The agreement further provided that the outcome of the PIC Investment Committee Meeting was to be formally communicated by VBS Mutual Bank to the Reserve Bank by 10:00 on Monday, 12 March 2018. However, in light of the open letter written by Mr Matodzi which may have had the effect of triggering a run on the bank when VBS Mutual Bank commenced business on Monday, 12 March 2018, I sought to establish the outcome of the PIC Investment Committee meeting prior to the agreed upon time. In a telephonic conversation on Saturday, 10 March 2018 the CEO of the PIC informed me that the Investment Committee had decided not to further invest any funds into VBS Mutual Bank.

87 The Investment Committee's decision regarding VBS Mutual Bank was available following the PIC Investment Committee meeting held on Friday, 9 March 2018. Waiting until 10:00 on Monday, 12 March 2018, would not have had any effect on the decision already taken by the PIC Investment Committee.

88 It is important to note that I acted earlier than the agreed upon time wholly in response to the open letter written by Mr Matodzi which may have had the effect of triggering a run on the bank when VBS Mutual Bank commenced business on Monday, 12 March 2018.

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AD PARAGRAPH 11.4

89 A curator is appointed with the purpose protecting the interests of depositors. He or she is also appointed in order to investigate and confirm the solvency position of a bank.

90 I have long had concerns regarding the risk and liquidity management within VBS Mutual Bank which resulted in the liquidity distress experienced by VBS Mutual Bank.

91 My office was convinced that curatorship was the most suitable option after consideration of various options for the orderly resolution of the liquidity constraints experienced by VBS Mutual Bank.

AD PARAGRAPHS 11.11 AND 11.19

92 No representation was made to the Reserve Bank to indicate that there was a stand-off between VBS Mutual Bank and National Treasury. The Reserve Bank understood that the concerns raised during these deliberations were adequately ventilated and understood between the parties. Minutes of the meetings between VBS Mutual Bank and National Treasury were not shared




with the Reserve Bank and neither did the Reserve Bank expect that these would be shared.

93 Despite National Treasury issuing a public directive which further brought the illegality of mutual banks managing municipal deposits to the attention of both municipalities and VBS Mutual Bank, the management of VBS Mutual Bank continued to attract additional municipality deposits and did not actively return these deposits that they were managing.

94 It is not within the Reserve Bank's mandate to intervene in the execution of the National Treasury's mandate or to express an opinion on the direction National Treasury ought to adopt in evaluating a public finance matter related to municipal compliance with the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA).

95 The management of banks and mutual banks is placed squarely in the hands of the management team. The Reserve Bank is only responsible for the supervision and regulation of these institutions.

CONCLUSION

96 In the light of what is set out above, I seek an order:-

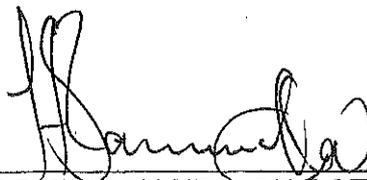


- 96.1 striking the matter from the roll with costs on an attorney and client scale; or
- 96.2 dismissing the application with costs, on an attorney and client scale.



 DEPONENT

I hereby certify that the deponent has acknowledged that he knows and understands the contents of this affidavit, which was signed and sworn to before me, Commissioner of Oaths, at PRETORIA..... on this the 29th day of MARCH 2018 the regulations contained in Government Notice No R1258 of 21 July 1972, as amended, and Government Notice No R1648 of 19 August 1977, as amended, having been complied with.



 COMMISSIONER OF OATHS

FULL NAMES:

ADDRESS:

EX OFFICIO:

HANS DIMPANYANA RAMMUTLA Suite 519 - 5th Floor, Premium Towers Cnr. Lilian Ngoyi & Pretorius Street Pretoria, 0002 COMMISSIONER OF OATHS Practising Attorney, RSA
--

IN THE HIGH COURT OF SOUTH AFRICA
(GAUTENG DIVISION, PRETORIA)

Case no. 19301/18

In the matter between:

VELE INVESTMENTS (PTY) LTD Applicant

and

MINISTER OF FINANCE First Respondent

THE REGISTRAR OF BANKS Second Respondent

SIZWE NTSALUBA GOBODO ADVISORY SERVICES (PTY) LTD (in its capacity as the curator of VBS Mutual Bank) Third Respondent

MINISTER OF JUSTICE AND CONSTITUTIONAL DEVELOPMENT Fourth Respondent

MINISTER OF COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS Fifth Respondent

CONFIRMATORY AFFIDAVIT: RHONA BADENHORST

I, the undersigned,

RHONA BADENHORST

do hereby make the following statements under oath:



1 I am an adult female Lead Operations Analyst: National Payment System Department employed as such by the South African Reserve Bank.

2 The facts to which I depose are true and correct and are within my personal knowledge except where it is apparent from the context that they are not.

3 I have read the affidavit deposed to by Kuben Naidoo, and confirm the content thereof as true and correct insofar as they relate to me.

DEPONENT

I hereby certify that the deponent has acknowledged that he knows and understands the contents of this affidavit, which was signed and sworn to before me, Commissioner of Oaths, at PRETORIA..... on this the 29th day of MARCH, 2018 the regulations contained in Government Notice No R1258 of 21 July 1972, as amended, and Government Notice No R1648 of 19 August 1977, as amended, having been complied with.

COMMISSIONER OF OATHS

FULL NAMES:

ADDRESS:

EX OFFICIO:

HANS DIMPANYANA RAMMUTLA
Suite 519 - 5th Floor, Premium Towers
Cnr. Lilian Ngoyi & Pretorius Street
Pretoria, 0002
COMMISSIONER OF OATHS
Practising Attorney, RSA

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MINISTER OF JUSTICE AND CONSTITUTIONAL DEVELOPMENT Fourth Respondent

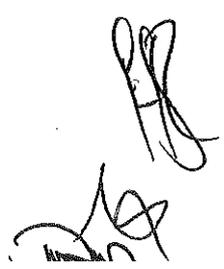
MINISTER OF COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS Fifth Respondent

CONFIRMATORY AFFIDAVIT: DELARESE VAN DER MERWE

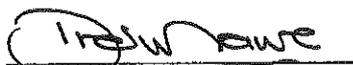
I, the undersigned,

DELARESE VAN DER MERWE

do hereby make the following statements under oath:

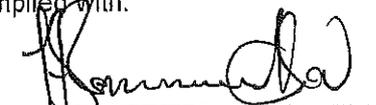


- 1 I am an adult female Manager: Bank Supervision Department, employed as such by the South African Reserve Bank.
- 2 The facts to which I depose are true and correct and are within my personal knowledge except where it is apparent from the context that they are not.
- 3 I have read the affidavit deposed to by Kuben Naidoo, and confirm the content thereof as true and correct insofar as they relate to me.



 DEPONENT

I hereby certify that the deponent has acknowledged that he knows and understands the contents of this affidavit, which was signed and sworn to before me, Commissioner of Oaths, at Pretoria on this the 29th day of MARCH 2018 the regulations contained in Government Notice No-R1258 of 21 July 1972, as amended, and Government Notice No R1648 of 19 August 1977, as amended, having been complied with.



 COMMISSIONER OF OATHS

FULL NAMES:

ADDRESS:

EX OFFICIO:

<p>HANS DIMPANYANA RAMMUTLA Suite 519 - 5th Floor, Premium Towers Cnr. Lilian Ngoyi & Pretorius Street Pretoria, 0002 COMMISSIONER OF OATHS Practising Attorney, RSA</p>



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MINISTER OF JUSTICE AND CONSTITUTIONAL DEVELOPMENT Fourth Respondent

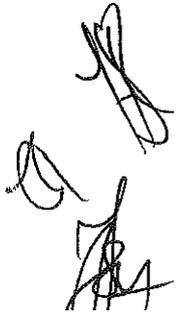
MINISTER OF COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS Fifth Respondent

CONFIRMATORY AFFIDAVIT: REGOMODITSWE NTSIE

I, the undersigned,

REGOMODITSWE NTSIE

do hereby make the following statements under oath:



- 1 I am an adult female Analyst: Bank Supervision Department, employed as such by the South African Reserve Bank.
- 2 The facts to which I depose are true and correct and are within my personal knowledge except where it is apparent from the context that they are not.
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 COMMISSIONER OF OATHS

FULL NAMES:

ADDRESS: **HANS DIMPANYANA RAMMUTLA**
 Suite 519 - 5th Floor, Premium Towers
 Cnr. Lilian Ngoyi & Pretorius Street
 Pretoria, 0002

EX OFFICIO: **COMMISSIONER OF OATHS**
 Practising Attorney, RSA



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YOUR REFERENCE:

OUR REFERENCE: Mr C Manaka/Mr C Moraitis/jc/SOUT3267.92/#4836093v1
DIRECT PHONE: +27 11 535 8145/+27 11 535 8271
DIRECT FAX: +27 11 535 8645/+27 11 535 8771
EMAIL ADDRESS: cmanaka@werksmans.com/cmoraitis@werksmans.com

22 March 2018

Dear Sirs

**VELE INVESTMENTS PROPRIETARY LIMITED VS THE MINISTER OF FINANCE AND OTHERS:
CASE NUMBER 19301/18**

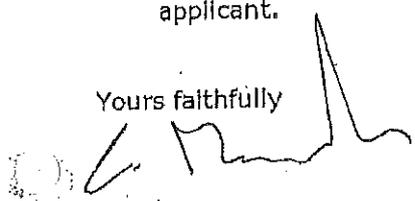
- 1 We refer to our letter of 19 March 2018, to which we have had no response.
- 2 We have accordingly delivered our client's, the Registrar of Banks, notice of intention to oppose the abovementioned application.
- 3 We have now had the opportunity to consider the application and to obtain our client's instructions with regard thereto.
- 4 The application is primarily aimed at attacking the constitutionality of the provisions of the Banks Act, 94 of 1990 (**Banks Act**), the Mutual Banks Act, 124 of 1993 (**Mutual Banks Act**) and certain regulations. There is no basis on which this application is urgent. No urgent court can be requested to determine the constitutionality of statutes.
- 5 The constitutional validity of statutes are complex matters and the question of justification for any limitation of rights requires extensive evidence to be produced about the purpose of the legislation, the means employed to achieve that purpose and the proportionality of the means selected. These are not matters which are suited to adjudication by an urgent court.
- 6 To the extent that the applicants challenge the Municipal Investment Regulations, these were promulgated in 2005, over thirteen years ago and any challenge in this regard is grossly out of time and not a matter to be addressed in an urgent court.

Werksmans Inc. Reg. No. 1990/007215/21 Registered Office The Central 96 Rivonia Road Sandton 2196 South Africa
Directors D Hertz (Chairman) C Andropoulos BA Aronoff DA Artelro T Bata LM Becker JD Behr AR Berman NMN Bhengu Z Bleden HGB Boshoff GT Bossr
TJ Boswell MC Brönn W Brown PF Burger PG Cleland JG Cloete PP Coetser C Cole-Morgan JN de Villiers R Driman S Fodor D Gewer JA Gobetz R Gootkin
ID Gouws GF Gnessel J Hollesen MGH Hornball VR Hoslosky BB Hotz HC Jacobs TL Janse van Rensburg N Harduth G Johannes S July J Kallmeyer A Kenny
A Khumalo R Killoran N Kirby HA Kotze S Krige PJ Krusche P Le Roux MM Lessing E Levenstein JS Lochner K Louw JS Lubbe AS Mabasa PK Mabaso
MPC Manaka H Masondo JE Melring SM Moerane C Moraitis PM Mosebo KO Motshwane L Naidoo J Nicklg JJ Nlemand BPF Olivier WE Oosthuizen S Padayachy
M Pansagrouw S Passmoor D Plesant T Potter BC Price AA Pyzikowski RJ Raath A Ramdhan MDF Rodrigues L Road BR Roothman W Rosenberg NL Scott
TA Sibidla LK Silberman JA Smit JS Smit BM Sono CI Stevens PD Steyn J Stockwell JG Theron PW Tindle JJ Truter KJ Trudgeon DN van den Berg
AA van der Merwe HA van Niekerk FJ van Tonder JP van Wyk A Vatalidis RN Wakefield DC Walker L Watson D Weglerski G Wickins M Wiehahn DC Willans
DG Williams E Wood BW Workman-Davies Consultant AL Armstrong



- 7 To the extent that the applicant's challenge relates to the Minister of Finance's decision to place VBS Bank under curatorship on 11 March 2018, then there is also no adequate case made out for urgency in this regard and the papers do not explain that there is any immediate harm to the applicant that is likely to follow unless the court steps in now.
- 8 To the extent that the applicant wishes, in due course, to challenge any aspect of the constitutional validity of the Banks Act, the Mutual Banks Act, the Municipal Investment Regulations or the Minister of Finance's decision of 11 March 2018, it can bring that challenge in the ordinary course, but to do so in urgent court is an abuse of process.
- 9 In the circumstances the applicant is called upon to withdraw its application by close of business on Friday, 23 March 2018, failing which our client will seek a punitive costs order against the applicant.

Yours faithfully


Werksmans




KN2

Walker Creek Office Park, 2nd Floor, Walker Creek 2,
 90 Florence Ribeiro Avenue, Muckleneuk, Pretoria (Main Office)
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 Tel: +27 51 000 0004 Bloemfontein
 Tel: +27 15 000 0011 Polokwane
 Tel: +27 13 000 0467 Mbombela
 Tel: +23 02 100 507 Mauritius
 Fax: +27 12 346 7609
 Email: info@rwafrica.com
 Web: www.rwafrica.com



Law | Tax | Forensic | IP

TO: WERKSMANS ATTORNEYS

EXTREMELY URGENT

ATTENTION: MR C MANAKA

BY EMAIL: [cmanaka@werksmans.com/](mailto:cmanaka@werksmans.com)
cmoraitis@werksmans.com

Your Ref:
 Mr C Manaka/Mr C Moraitis

Our Ref:
 MJ Maluleke/ T Nqini
 Direct No: (012) 452 4117
 Direct Fax: 086 545 0264
 E-mail: josephm@rwafrica.com

Date:
 23 March 2018

Dear Sirs

RE: VELE INVESTMENTS (PTY) LTD / MINISTER OF FINANCE & 4 OTHERS- CASE NO:
 19301/2018

1. Your letter under reply has reference.
2. We have advised our client that no purpose whatsoever will be served by responding thereto, suffice to say that it is precisely for that reason the court is ceased with adjudicating the matter and you have ample time preparing those arguments for the Judge.
3. We trust you find the above to be in order.
4. All our client's rights remain strictly and expressly reserved.

Yours faithfully

Joseph Maluleke
 Director: RW Attorneys

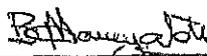
Messrs R.W Attorneys
Walker Creek Office Park
Second Floor
90 Florence Ribeiro Avenue
Muckleneuk
Pretoria

ATTENTION: MR. JOSEPH MALULEKE

RE: CASE AGAINST RESERVE BANK & NATIONAL TREASURY

1. We refer to the above matter.
2. Please note that Vele Investments and the delegation from the key met late yesterday with both the Reserve Bank and National Treasury and it was agreed that the parties will opt for an amicable resolution of their dispute.
3. It was further agreed that Vele Investments will withdraw its Court action.
4. Accordingly, we hereby instruct yourselves to withdraw the matter and to notify the Court accordingly.

Yours faithfully


B.M. MANYATSHE
Chairperson

EMAIL

Mr Joseph Maluleke
R W Attorneys
Walker Creek Office Park
Second Floor
90 Florence Ribeiro Avenue
Muckleneuk, Pretoria
Email: joseph@rwafrica.com

Johannesburg Office
The Central
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Sandton 2196 South Africa
Private Bag 10015
Sandton 2146
Docex 111 Sandton
Tel +27 11 535 8000
Fax +27 11 535 8600
www.werksmans.com
enquiries@werksmans.com

YOUR REFERENCE:
OUR REFERENCE: Mr C Manaka/Mr C Moraitis/jc/SOUT3267.92/#4831645v1
DIRECT PHONE: +27 11 535 8145/+27 11 535 8271
DIRECT FAX: +27 11 535 8645/+27 11 535 8771
EMAIL ADDRESS: cmanaka@werksmans.com/cmoraitis@werksmans.com

19 March 2018

Dear Sirs

**VELE INVESTMENTS PROPRIETARY LIMITED VS THE MINISTER OF FINANCE AND OTHERS:
CASE NUMBER 19301/18**

- 1 We refer to the abovementioned matter, which was launched as an urgent application on 14 March 2018. We represent the second respondent, the Registrar of Banks of the South African Reserve Bank ("our client").
- 2 Our client understands that the applicant has instructed you to withdraw the abovementioned application.
- 3 Please could you let us have written confirmation by 16:00 on Monday, 19 March 2018 that you have withdrawn the matter and that a notice of withdrawal has been served on the Registrar of the High Court.
- 4 We await to hear from you.

Yours faithfully

Werksmans

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 90 Florence Ribeiro Avenue, Muckleneuk, Pretoria (Main Office)
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Web: www.rwafrica.com	

"KN4A"
RW
 ATTORNEYS

Law | Tax | Forensic | IP

TO: WERKMANS ATTORNEYS

EXTREMELY URGENT

ATTENTION: MR C MANAKA
 BY EMAIL: cmanaka@werkmans.com/
cmoraitis@werkmans.com

Your Ref:
 Mr C Manaka/Mr C Moraitis

Our Ref:
 MJ Maluleke/ T Nqini
 Direct No: (012) 452 4117
 Direct Fax: 086 545 0264
 E-mail: josephm@rwafrica.com

Date:
 19 March 2018

Dear Sirs

RE: VELE INVESTMENTS (PTY) LTD / MINISTER OF FINANCE & 4 OTHERS

1. Your letter of even date bears reference, as you are aware we act for Vele Investments (Pty) Limited and its shareholders ("our clients") herein.
2. We have noted with shock the media reports suggesting that the abovementioned matter between the parties has been withdrawn by our clients purportedly on the strength of the undated letter sent to the writer hereof and leaked to the media by the acting chairman of the board of directors, Mr B.M Manyatshe.
3. As far as our mandate is concerned we are appointed by a resolution of the directors of the company and so is the decision to institute legal proceedings against your client. The purpose of this letter is therefore to inform you that Mr B.M Manyatshe had no authority of the board to unilaterally give instructions to our firm to withdraw the court proceedings on the basis of a so-called amicable solution the contents and terms of which are not known to us and our clients.
4. There are some fundamental issues of principle that must be resolved once and for all, and if an amicable settlement will resolve those issues our clients will be more than pleased with such an outcome.

Rooth & Wessels Inc Reg No: 1998/003337/21 VAT No: 4500224342

Member of the RW Africa Group

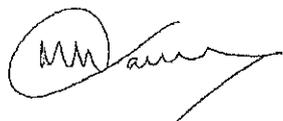
A Level 2 BBBEE Company
 CSD Supplier number MAAA0010106, Registration number FFF59FD12-062B-4136-8781-8DEFACE5590B
 Directors: MJ Maluleke LLB HDip Tax (Chairman), A Bloem BLC LLB (Managing Director), F Asmali BA LLB Adv Prog Labour Law, M Meyer LLB Senior
 Associates: LJ Botha LLB, VC Williams* B.Sc Eng(Mech), B.Proc FSAIPL, T Nqini LLB Associates: LPJ Groomer BCom LLB, BB Khwelethini LLB, M
 Coetzee LLB, AH Nichha Bcom LLB, LLM Senior Manager: JAG Nkini** MBA(IB) B.ACC FIN
 *Trademark and Patent Attorney, **Forensic

Gauteng | Bloemfontein | Polokwane | Mbombela | Mauritius

[Handwritten signature]
[Handwritten initials]

5. Absent agreed principles setting out what the terms of settlement are, patently there shall be litigation. In the best interest of all concerned the issues in dispute should be resolved amicably and speedily but our clients will not settle at all costs.
6. Consequently the purported withdrawal of the application is of no force and/or effect.
7. That notwithstanding our clients are open and commitment to urgently engage into discussions with your clients towards a possible amicable settlement. The directors of our clients together with the writer hereof will make time and put all the necessary resources towards achieving that.
8. All our clients' rights remain strictly and expressly reserved.
9. We trust that you will find the above to be in order.

Yours faithfully



Joseph Maluleke
Director: RW Attorneys



'KNS'

CMM/TN
23082018/SOU/T32e7.e2
RUCF7#4838647v1



IN THE HIGH COURT OF SOUTH AFRICA
GAUTENG DIVISION, PRETORIA

Case number: 19301/2018.

In the matter between:

VELE INVESTMENTS (PTY) LTD
and

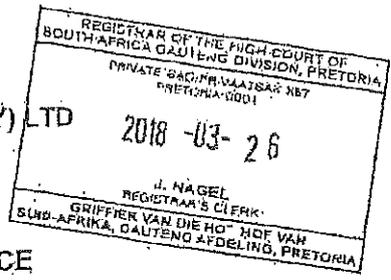
THE MINISTER OF FINANCE

THE REGISTRAR OF BANKS

SIZWE NTSALUBA GOBODO ADVISORY SERVICES
(PTY) LTD NO

(In its capacity as the curator of VBS Mutual Bank)
THE MINISTER OF JUSTICE AND CONSTITUTIONAL
DEVELOPMENT

THE MINISTER OF COOPERATIVE GOVERNANCE AND
TRADITIONAL AFFAIRS



Applicant

First Respondent

Second Respondent

Third Respondent

Fourth Respondent

Fifth Respondent

NOTICE IN TERMS OF RULE 7

TAKE NOTICE that the Second Respondent hereby dispute the authority of
R W ATTORNEYS to act on behalf of the Applicant in the above matter.

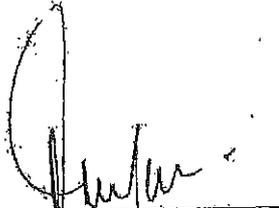
TAKE NOTICE FURTHER that the Second Respondent hereby require the Applicant
to, by no later than close of business on Monday 26 March 2018, serve and file with

RULE 7/#4830647v1
23/03/2018

2

Honourable Court, a power of attorney, evidencing the authority of R W ATTORNEYS to act on the Applicant's behalf in this matter.

Dated at Sandton on this 23RD day of MARCH 2018



WERKSMANS ATTORNEYS
Attorneys for the Second Respondent
Tel: 011 535 8000
Email: cm@manaka@werksmans.com
Ref: Mr Manaka/Mr Moraitis/SOUT3267.92
G/O MABUELA INC
4th Floor Charter House
179 Bosman Street
Pretoria
Tel: 012 325 3966
E-mail: mabuela@fiscali.co.za

TO:
THE REGISTRAR OF THE HIGH COURT
PRETORIA

AND TO:

RW ATTORNEYS
Attorneys for the Applicant
Walker Creek Office Park
Second Floor
Walker creek 2
90 Florence Ribeiro Avenue
Muckleneuk
Pretoria
Tel: 012 452 4068
Ref: J Maluleke



BY EMAIL (CC: Mr. Dondo Mohajane-Natl treasury)

Mr. Kuben Naidoo
Registrar of Banks
South African reserve Bank
Helen Joseph Street
Pretoria
001

09 MARCH 2018

Dear Kuben,

I write this personal letter to you with a very sore heart and disappointment about the country's banking system. I feel very disappointed because the events that unraveled at VBS indicated that banks are not treated the same and it was clear that VBS was never welcome in this exclusive system.

When VBS was then a struggling bank in the early 2011 under white management and white board control (even though majority of shareholders were black) it hardly had any major issues from the Reserve Bank. Other than the fact that the SARB was worried about its sustained losses. The bank then was a struggling, small bank and with no concrete business strategy in place and was slowly disappearing into irrelevance and oblivion. During 2012 when opportunity for Dyambeu came to buy shares in the bank and became a controlling shareholder all was well until Dyambeu made its intentions clear that it wants to turn around the bank and intends to remove most of the redundant white management. This was when all hell broke loose and Reserve Bank started acting in haste and starting to highlight compliance and other issues about the bank that were not highlighted with prior management, even to a point of refusing to approve black director appointments who were more qualified than their white counterparts. We fought this battle for more than a year with the SARB and the message was clear that we are not welcome. We embarked on a recruitment drive to get young and highly qualified staff from the onset amid tough budgeting conditions and an unknown brand.

When new management took over and conducted risk assessment on the bank there was very little SARB compliance issues raised about the bank but to our surprise compliance issues increased tenfold from SARB immediately after black management was appointed even though these issues should have been raised during the time of old management, this was clearly done to create an impression that black management is incompetent and non-compliant. We also inherited legacy IT systems and outdated processes, these are issues which takes years to fix but immediately this was placed on our shoulders as if we created them with heightened urgency.



Our initial business strategy was torn into pieces at the time by SARB with a clear intention to close down the bank as being unviable. We again fought this battle and asked for time to prove ourselves and immediately the bank returned to profitability. It quickly became clear that VBS is destined for greater things as it became one of the fastest growing banks. The record of VBS annual trilateral meetings between the bank and SARB indicates that the bank has been improving on most aspects and even more than its peers in certain respects but when there are one or more adverse issues as with other banks VBS issues tend to be magnified to create an impression that the problem is bigger than it is. This is always done to ensure that VBS management and board are always seen in bad light in higher echelons of the SARB and damage their reputations silently.

When VBS received an application from the former president for his loan more than three months prior to approval. We prudently informed Your Office via bank supervision department and we kept the SARB informed at every aspect of our loan approval in terms of our risk management process which bank supervision has oversight of and minutes of how we arrived at our decision. Even during this time, we even educated the bank supervision staff as to how a rural home loan works as we are experts in this field. But when news broke out and the media attacked VBS as a rogue bank with no processes. Reserve Bank kept silent throughout, this is in contrast to Capitec/viceroy saga which the privileged bank was immediately defended by the SARB within 12 hours. The silence was clearly intended to ensure the bank is judged through insinuations by the media as a rogue bank with some obscure shareholders and shady processes.

VBS received positive reception due to publicity especially by the black community and its status was elevated to that of a National bank. The fact that VBS is also the only black owned bank in the country also added to the awareness. This elevation came with its own challenges as the bank now found itself inundated with calls for more business and loans and demands from general public for the bank to expand. The bank did its best to stick to its business model and turned away many businesses that it couldn't handle. The bank also received a lot of interest from municipalities who wanted to bank and invest their excess cash with the bank. The bank made it clear it didn't have capacity to handle municipal bank accounts and can only handle investments. All this shows prudence in the bank approach instead of the reckless image that has been created.

VBS always had one or two municipal accounts albeit at a smaller scale just like the other mutual bank. With increasing enquiry by municipalities, the bank investments from municipalities grew to more than a billion by 2017. The rapid growth of these investments became a concern to our competition and some employees of municipalities who were resistant to investing with VBS. By February 2017 it was brought to VBS management attention that actually MFMA which governs municipalities prohibits mutual banks from doing business with municipalities due to its definition of a bank. This definition is contrary to PFMA which is much clearer and covers mutual banks. This anomaly in the two sister legislation confused us with the fact that it means we are allowed to bank SOE'S, Provincial and National departments but not municipalities, we obviously thought to ourselves that something was not right.



To be on the right side of the law however during March 2017 VBS decided to approach national treasury MFMA team. The enquiry from a staff employee at treasury was that we should not worry, the bank requested a written confirmation but this never came. The bank then decided to write to the accountant general at treasury and again no responses were received. The bank was then surprised around August 2017 when one of our municipalities informed us that there is an email letter from national treasury informing them not to invest their funds with VBS (and this was mentioned specifically). We again tried to contact treasury but to no avail and that was when we contacted Reserve Bank to assist us so we can engage with treasury. SARB staff came back around September 2017 but their response was inconclusive. We then decided to take treasury to court via an interdict and that was the first time treasury responded via the office of the Director General. We were then asked to put the case on abeyance while we allow for a negotiated settlement. VBS obliged and the negotiations were direct between myself and the DG.

From day one the bank position was clear that we do not want to break the law and all we were asking treasury was to withdraw the letter sent to municipalities as this was causing a run on the bank. We asked for if treasury can allow us to either wind down the municipal book quietly over a period of time or be granted a deviation to continue taking these deposits as the bank was about to apply for conversion to a bank which takes between 12 to 18 months. By January 2018 the liquidity situation at the bank due to municipalities withdrawing was becoming dire and I urged the DG so we can reach conclusion on the matter. VBS executive team then met with treasury management during January and they conveyed the same message with treasury management. During this meeting, it however became apparent that the position of the DG to assist on the matter is not in line with his management team who seemed not interested in finding any solution but rather that VBS must just return all the investments to municipalities without being concerned about the consequences to the bank. They however promised that they will provide their decision, in writing within seven days of the meeting. No written response ever came to the bank. Also throughout the 4 months of negotiation process treasury staff continued to instruct municipalities to withdraw and in many instances threatening them to do so. Our concern about non-cooperation by treasury was communicated to SARB bank supervision team and the dangerous impact this will have on the bank and our clients. It is common knowledge that SARB would have intervened to convince treasury that implementation of any of the treasury decision be done in a responsible manner but VBS was never afforded this opportunity nor given assistance. By the end of February, the bank reserves were now at dangerously low levels and this forced the SARB to start intervening. Our last meeting between myself, yourself, PIC CEO, the DG and his DDG it was then quite clear that treasury is not going to enter into any arrangement of any form on the matter. This amounted to a waste of more than eight months. From that day one then immediately realized that the fate of the bank was actually already decided from August and the negotiations drag were simply meant to drain the bank's liquidity to a point where it has no choice but face curatorship. Had the bank been aware of this scheme it had enough time and liquidity to look at alternatives like taking the matter of controlled winddown to court and having enough time to engage its shareholders under normal circumstances.



It is clear that one of our greatest sin was to give the former president a loan and running a successful black bank. We are not politicians we were just doing our job and we did it very well. The former president is now a proud owner of a bonded rural home fully registered with deeds office, something which many respected experts considered impossible: We wished to do more of this bonds across all rural villages in the country so that rural property can have equity just like the ones in proclaimed areas. To date none of my board and executive including myself have ever met the former president personally just like we have never met the thousands of home owners whose loans are with the bank.

No matter what happens to the bank and its direction going forward we will leave the space with our heads held high knowing that we achieved what was considered impossible. In the end, we were faced with a well-organized and powerful system which does not tolerate growing black banks and black excellence. Just as the old African bank was killed to prevent it from competing with the big guys in the dawn of new democracy.

To me and many black Africans this democracy is just a dream which only exists on paper.

Regards,



.....
T. Matodzi





South African Reserve Bank
Office of the Deputy Governor
Kuben Naidoo

Ref.: 15/1/

Mr N M Nene, MP
Minister of Finance
National Treasury
Private Bag X115
Pretoria
0001

Dear Minister

VBS Mutual Bank: recommendation to appoint a curator

The letter from the Office of the Registrar of Banks (this Office) dated 22 February 2018, attached hereto as Annexure A, refers.

On 26 February 2018, this Office had requested VBS Mutual Bank (VBS) to provide it with a satisfactory action plan and strategy on how the bank intended to remedy its current liquidity shortage and ease liquidity pressure going forward. At the time of drafting this letter, this Office was informed by VBS that representatives of the bank were still in the process of negotiating with one of its major shareholders, the Public Investment Corporation, for additional funding and/or investment in order to recover from its current liquidity shortage position.

As at the date of this letter, this Office has noted that VBS has failed to raise the aforementioned additional funding.

In light of VBS's current liquidity challenges, it is evident that without an injection of additional funding the bank is unable to meet its financial obligations towards its depositors, a large portion of which constitutes deposits from municipalities. Consequently, I am of the opinion that VBS is unable to repay, when legally obliged to do so, its depositors and to meet its other financial obligations.

I therefore regard it necessary and in the public interest to kindly request you, in your capacity as the Minister of Finance, in terms of section 81 of the Mutual Banks Act 124 of 1993 read with section 69 of the Banks Act 94 of 1990, to appoint SizweNtsalubaGobodo Advisory Services (Pty) Limited (registration number 2005/012995/07 as curator to VBS, with effect from 11 March 2018. SizweNtsalubaGobodo Advisory Services (Pty) Limited (registration number 2005/012995/07) will for purposes of its appointment as curator of VBS at all relevant times be represented by Mr Anoosh Rooplal (of whom an abridged CV is hereby attached marked Annexure B) or, in the event of him becoming unable to adequately fulfil his duties in this regard, by such alternate representative of the curator as the curator, with the approval of the Registrar, may designate.

This Office is of the view that such an appointment would be in the best interest of the public and VBS's depositors and would present the most suitable and most effective mechanism to facilitate the orderly management of the bank, specifically insofar as it relates to the liquidity problems experienced by VBS. (Pro forma letter pertaining to such appointment, marked Annexure C, is also attached).

In the interim, the Bank Supervision Department and the National Payments System Department of the South African Reserve Bank (SARB) continue to monitor the daily exposures for VBS in the South African Multiple Option Settlement (SAMOS) system to ensure that VBS continues to settle daily. The bank currently has minimal funds in its settlement account to settle payments. Furthermore, at the close of business 6 March 2018, VBS had R0.00 balance in its cash reserve account held at the SARB and minimal unencumbered collateral pledged in the SAMOS system.

As at 31 January 2018, VBS had disclosed that it had 13 703 individual retail depositors and 7 688 depositors from non-profit organisations (e.g. 'stokvels') to the value of R226 million, which this Office recommends being guaranteed the repayment of their deposits.

Should you require any further detail in this regard, please do not hesitate to contact me. I am also available to meet should you have a need to discuss any of the issues raised in this letter.

Yours sincerely

Kubensaidoo

Kubensaidoo
Deputy Governor and Registrar of Banks

Date: 8 MARCH 2018

I concur with your recommendation to appoint a curator for VBS

Encl. 4

cc Mr Dondo Mogajane

- Director General: National Treasury

Mr Ismail Momoniat

- Deputy Director General: National Treasury

[Signature]
5/03/2018

Minister

I recommend that you approve the request of the Registrar, as the Tax Policy division has been engaging with the office of the Registrar, and I believe your approval is in the best interests of depositors, and to try and save the bank

[Signature] 10/3/2018

Recommended
[Signature] 10/3/2018

From: Phophi Mukhodobwane <PMukhodobwane@vbsmbank.co.za>
Sent: 16 February 2018 10:23 PM
To: NPS-SUPPORT
Cc: SARB-BANKSUP; Nhlanhla Mduduzi Nkuna; Ronewa Rabali; Andile Ramavhunga; Delarese VanderMerwe; Kabelo Mokoena; Philip Truter; Rego Ntsle; SARB-BANKSUP; Takalani Madzhadzi; Wessel Mostert
Subject: VBS Mutual Bank: Failed Batch. Settlement 16/02/2018
Importance: High

Hi All

VBS Mutual Bank would like to advise the SARB that that we have experienced a liquidity shortage that was caused by a concentration of maturing large deposits as well as early termination of other large deposits that we lost during the course of the week.

Throughout the month and also into this week the Bank had been heightened its efforts to raise new deposits. These efforts were however muted due to the recent PRASA debacle involving the tabloids in which the proposal for a ZAR 1 Billion deposit submitted by VBS Mutual Bank to PRASA manifested into a media/public furor questioning the legitimacy/eligibility of the Bank to raise deposits from government entities. Over the last week the Bank had in excess of ZAR 300 million in deposits maturing of in which we had taken measures to mitigate against the adverse impact of the roll-off of these deposits.

The Bank had planned for a credit in deposits of circa ZAR 400million from Municipalities during this week, of this amount we only received ZAR 120 million and we are still awaiting for more of these funds to come into the Bank.

As at close of business today 16/02/2018 our expected outgoing EFT settlement received totalled ZAR 15 554 484.62 which we received late in the afternoon, we tried to manage this EFT outflow by raising additional emergency funds from clients. Throughout the day we had been expecting an amount of ZAR 20 million to be paid into our SAMOS account by today however the client was unable to make the transfer due to the fact they had passed the interbank cut-off time for real time transfers. The client will make the transfer funds to our SAMOS account on Monday 19/02/2018.

As an emergency we managed to raise an additional ZAR 6 million for our settlements which was transferred into our account held at FNB account. Funds were credited to our FNB account as follows and we expect the funds to be credited into our SAMOS account tomorrow: 17/02/2018:

Date	Amount
16/02/2018	R 4 000 000.00
17/02/2018	R 2 000 000.00

We were expecting the funds to settle into our FNB account instantaneously as the depositors were using FNB as their primary Bank account, however the delays in funds clearing into account increased the time lag as we still need to transfer the funds into our SAMOS account.

VBS Mutual Bank is treating this matter with the utmost importance and we are working towards a swift resolution. We intend to have resolved the shortage in our current daily settlement batch, the shortage General Reserve over the next 3 working days.

We are expecting an inflow of funds in the following quantum and dates which will assist in resolving the Banks current position:

Date	Amount	Counterparty
19/02/2018	R 20 000 000.00	Ephriam Mogale Municipality
20/02/2018	R 50 000 000.00	Mafikeng Municipality
20/02/2018	R 20 000 000.00	Glyani Municipality
21/02/2018	R 30 000 000.00	Dr Ruth Mompoti Municipality
21/02/2018	R 50 000 000.00	Medscheme

22/02/2018	R 200 000 000.00.	Msunduzi Municipality
<u>R 370 000 000.00</u>		

We will be sure to keep you abreast of changes in our position and more importantly with respect to the releasing today's outgoing EFT batch settlement that we have had to hold back for tonight.

Thank you



Phophi Mukhodobwane

Head: Treasury and Capital Management

82 Wessel Road, Metropolitan Office Park, Block C Ground Floor, Rivonia, South Africa

Tel +27 (0)11 037 5417 Cell: +27 (0)82 948 8388

email pmukhodobwane@vbsmbank.co.za Website: www.vbsmutualbank.co.za

VBS Mutual Bank is an authorised financial services and credit provider.

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Status feedback - VBS Mutual Bank

On Friday, 16 February 2018 VBS Mutual Bank (VBS) started the night window with a zero settlement account balance, loan account balance of R106,800,377.36 and Reserve account balance of R10,638,159.90. The reserve account at that stage was used to its maximum of the allowed 70% and a warning message was generated indicating that VBS is utilising more than the allowed 25% of LAR (for loans)

AT 19h07 the EFT CR batch discarded with VBS having insufficient funds to settle as net payer the amount of R11,231,565.81. The SAMOS system operator instructed BankservAfrica as payment system operator(PSO) to remove VBS from the batch. The revised batch excluding VBS settled at 23h39. The SAMOS system operator change the allowable Reserve account % from 70% to 100% which is the agreed standard procedure to assist with liquidity provision for batch settlement. This was done at 22h00. During discussion with VBS representatives' indications was given that they will be receiving funds on 17th Feb that will be able to facilitate settlement.

Saturday 17 February morning VBS transferred the total balance in their reserve account (R10,638,159.900 to their settlement account (30% made available the previous night). The PSO submitted the outstanding EFT CR batch of the 16th and it settled at 10h45. The settlement of all retail batches for Saturday settlement completed without intervention with VBS being the net receiver at all batches totalling R525,273.78. At the start of the night window for the 17th VBS closed with a loan account balance of R94,237,171.25, zero settlement account balance and zero available in the reserve account.

On Monday, 19th February we continued to monitor the exposures for VBS in the SAMOS system. At the start of the night window VBS closed off with a loan account balance of R110,174,838.54, zero settlement account balance and zero available in the reserve account. VBS total exposure in the retails batches was them being a nett receiver of a total of R768,449.56. All retail batches settled successfully in the night window.

On Tuesday, 20 February we continued with the monitoring. At the start of the night window VBS closed off with a loan account balance of R109,426,559.34, zero settlement account balance and zero available in the reserve account. SAMOS System operator changed the B% for available LAR intraday from 50% to 60% at the start of the night window. As a result VBS had a total estimated capacity of R10,914,495.46 to ensure successful batch settlement. VBS total exposure in the retails batches for the day was them being a nett receiver of a total of R636,794.76. All retail batches settled successfully in the night window. VBS was a nett receiver of R381,228.77. At 19h22 VBS advised that they received a deposit of ZAR 7.5 million however the funds were paid into their FNB account due to cut-off times. They indicated that they will transfer the funds into their SAMOS account on the morning of 21st Feb. The SAMOS system operator changed the B% back from 60% to 50% at 23h10. VBS total estimated capacity changed to R1,558,275.43.

On 21 Feb, during the morning conference call, VBS advised that they are expecting a one-year deposit of R150 mil from PIC this afternoon. BSD requested VBS to provide written confirmation. VBS furthermore advised that they are in negotiation with PIC for a loan of R750 mil. VBS also advised that they requested transfer of the R7.5 mil into their SAMOS account. This was received from ABSA at 7h51. It was established that VBS has two corporate accounts at both ABSA and FNB and first transferred the funds from the FNB account to their ABSA account before instructing ABSA to transfer via SAMOS to VBS settlement account. BSD advised VBS again that they did not meet the certification

requirements and requested that VBS submit letters (one to the Governor –Reserves and one to the Registrar – LAR) for condonation.

VBS also received R2,6m through RTC (Real time clearing) from ABSA Bank. The depositor is unknown because the details of the payments in the RTC stream are not visible in the SAMOS system. None of the other anticipated funds was received. VBS could also not provide us with any further update on the status of the funds expected from PIC. At the start of the night window VBS closed off with a loan account balance of R98,668,750.03, zero settlement account balance and zero available in the reserve account. VBS has a total estimated capacity RTL of R11,934,855.97 to facilitate settlement of retail batches in the night window. VBS total exposure in the retail batches for the day was them being a net receiver of a total of 1,940,511.08. All retail batches settled successfully in the night window. VBS was a *net payer* of R809,194.05

On 22 February VBS advised that the PIC management commission submitted their matter to the PIC investment committee which will meet today to discuss the advancement of approximately R1,5bn to VBS in order to cover all short term deposits however the type of funding from PIC still needs to be clarified. It was also confirmed that VBS received R5m through RTC (Real time clearing) from ABSA Bank. This was mainly inflows from "petrol financing" clients as part of their repayment obligations. As per NPS, the current available SAMOS capacity is approximately R26.4m. No changes to the reserve account or the liquid assets. During the afternoon conference call we requested VBS to confirm how and when they plan to top-up their reserve account as well as submitting their Reserve requirement for the next month to SAMOS. VBS updated their LAR requirement on SAMOS yesterday (certification date) from R99,384,488.00 to R77,944,589.00. VBS subsequently updated their RA Holdings amount on SAMOS for next period to R38,922,628.00. At the start of the night window VBS closed off with a loan account balance of R94,150,791.48, zero settlement account balance and zero available in the reserve account. VBS has a total estimated capacity RTL of R28,726,614.02 to facilitate settlement of retail batches in the night window.

On the 23rd of February Bank Sup confirmed that they've received the letter of Condonation from VBS. VBS is still awaiting the finalisation of the PIC funding. During the day VBS was a *net payer* of R16,500,000.00 in the real time line settlement. VBS Mutual is expecting the following amounts to settle in the SAMOS night window for value today:

VBS Mutual is expecting the following amounts to settle in the SAMOS night window for value today:

	23/02/2018	22/02/2018
POS Batch + ATM/ Saswitch	R 390 315.26	R 250 000.00
EFT Settlement batch value today	R 4 368 775.06	R 1800 000
Total Outgoing	R 4 759 090.32	R 2 050 000

At the start of the night window VBS closed off with a loan account balance of R 105,345,295.77, zero settlement account balance and zero available in the reserve account. VBS has a total estimated capacity RTL of R18,333,259.73 to facilitate settlement of retail batches in the night window. NPS will monitor over the weekend and if need be change the B% to 60% again to facilitate settlement and change it back again. Bank Supervision department advised that VBS currently have approximately R14m capacity (including an inflow of R6m from RTC) to ensure successful batch settlements tonight. This is down from

yesterday's R23m capacity following outflow to municipalities that withdrew funds in order to pay salaries. Some funds are expected to flow in with respect to mortgage payments. There is no further update on PIC funding negotiations. VBS advised that they have no further possible deposits lined up from municipalities as apparently all potential depositors, after they consulted with national treasury, got notice, as recent as during this month, not to invest in VBS. On our question regarding possible funding from other banks VBS commented that they have previously approach some of the big banks (FNB, SBSA and ABSA) without success. VBS is not a rated entity and therefore the bigger banks have no appetite investing with them. VBS total exposure in the retail batches for the day was them being a net receiver of a total of R13,363,833.34. All retail batches settled successfully in the night window. VBS was a net receiver of 1,595,240.10

For settlement cycle date 24 Feb 2018 VBS was a net receiver of R107,351.03 for the day. In the night window they were a net receiver of R247,970.32. No funds were received or paid on the real time line.

On 26 February VBS started the day with a Total Estimated RTL capacity of R18,841,784.22. No instructions were processed on the real time line. VBS was a net payer for R312,549.17 in the retail batches this morning. During the afternoon call VBS advised that their position is unchanged. They expected some inflow of payments on Friday and today that did not realise. Furthermore they advised that they also expect R43 million from one of their creditors tomorrow and a further R100 million by Friday. The funding that they wanted to source from the PIC is now on hold and they are waiting for some feedback from National Treasury. VBS had RTL settlement during the day of R3,687,880.00 and was a net receiver in retail batches during the day of R869,912.93. At the start of the night window VBS closed off with a loan account balance of R106,527,911.24, zero settlement account balance and zero available in the reserve account. They have a Total Estimated RTL capacity of R16,023,344.26 to facilitate settlement of retail batches in the night window. We will continue to monitor their position.

On 27th of February VBS started the day with a Total Estimated RTL capacity of 2,917,833.13. VBS received an amount of R40 million from WestRand municipality. They are expecting another R50 million by this afternoon latest tomorrow morning from Medscheme. VBS is expecting another R21 million tomorrow. Furthermore they advised that they also expecting between R150 and R200 million from Msunduzi municipality by Friday 02 March 2018. VBS processed SI's as the payer to the value of R37 373 230.78. VBS received funds as a beneficiary via SI's to the value of R43 530 811.39. At the start of the night window VBS closed off with a loan account balance of R112 949 084.52, zero settlement account balance and zero available in the reserve account. They have a Total Estimated RTL capacity of R10 568 520.98 to facilitate settlement of retail batches in the night window. We will continue to monitor their position. VBS advised their exposure in the night window will be:

Please see below for our expected settlement in the Night Window for the 27/02/2018.

27/02/2018	
POS Batch + ATM/ Saswitch	R 311 016.37
EFT Settlement batch value today	R 2 816 374.51
Total Outgoing	<u>R 3 127 390.88</u>

For settlement cycle date 27 Feb 2018 VBS was a nett receiver of R5,227,429,44 for the day. In the night window they were a nett receiver of R3,621,504.71.

On 28th of February VBS started the day with a Total Estimated RTL capacity of R13,458,787.21. VBS advised during the conference call that the R50 million from Medscheme did not come in time and might be coming tomorrow. VBS is still expecting the R21 million today. VBS is expecting between R150 and R200 million from Msunduzi municipality but that might only be coming through next week. VBS received funds as a beneficiary via SI's to the value of R5,939,722.20. During the day VBS received R1,587,607.77 in the retail batches. At the start of the night window VBS closed off with a loan account balance of R101,827,038.32 DB, zero settlement account balance and zero available in the reserve account. They have a Total Estimated RTL capacity of R20,986,117.18 to facilitate settlement of retail batches in the night window. We will continue to monitor their position. VBS advised that the exposure in the Night Window is as follows:

VBS Mutual is expecting the following amounts to settle in the SAMOS night window for value today against our closing RTL of ZAR 20 986 117.18.

28/02/2018	
POS Batch + ATM/ Saswitch	R 672 037.23
EFT Settlement batch value today	R 6 653 021.40
Total Outgoing	R 7 325 058.63

On 1 March 2018 VBS started the day with a Total Estimated RTL capacity of R22,110,994.05. VBS advised during the conference call that the R50 million from Medscheme did not come in as well as the R21 million. VBS is expecting between R150 and R200 million from Msunduzi municipality but that might only be coming through next week. VBS has not received any feedback from the PIC but they are aware that the investment committee is meeting today. VBS did not receive any funds as a beneficiary via SI's during the day. VBS received R774,266.13 in the retail batches. VBS advised that the exposure in the Night Window is as follows:

VBS Mutual is expecting the following amounts to settle in the SAMOS night window for value today against our closing RTL of ZAR 20 595 646.65

28/02/2018	
POS Batch + ATM/ Saswitch	R 857 638.22
EFT Settlement batch value today	R 15 397 991.28
Total Outgoing	R 16 255 629.50

At the start of the night window VBS closed off with a loan account balance of R101,740,858.85, zero settlement account balance and zero available in the reserve account. They have a Total Estimated RTL capacity of R20 595 646.65 to facilitate settlement of retail batches in the night window. We will continue to monitor their position.

On 2 March 2018 VBS started the day with a Total Estimated RTL capacity of R6,424,757.40. VBS advised during the conference call that the PIC investment committee did not meet as advised yesterday. The investment committee is now scheduled to meet Monday afternoon, 5 March. VBS advised during the conference call that they received the R50 million from Medscheme today. VBS received R50,000,000.00 as a beneficiary and paid R30,178,911,44 via SI's during the day. VBS received R10,479,688.06 in the retail batches. VBS advised that the exposure in the Night Window is as follows:

VBS Mutual is expecting the following amounts to settle in the SAMOS night window for value today against our closing RTL of ZAR 36 725 535 02

26/02/2018	
POS Batch + ATM/ Saswitch	R 428 518.95
EFT Settlement batch value today	R 17 802 742.93
Total Outgoing	R 18 231 261.88

At the start of the night window VBS closed off with a loan account balance of R85,373,420.48, zero settlement account balance and zero available in the reserve account. They have a Total Estimated RTL capacity of R36,725,535.02 to facilitate settlement of retail batches in the night window and for Saturday's settlement. During this morning's meeting between BSD, NPSD and DG Naidoo NPSD received approval to change the LAR% to a maximum of 75% allowed if there is a problem with batch settlements over the weekend. We will continue to monitor their position.

On 5 March 2018 VBS started the day with a Total Estimated RTL capacity of R 20,733,917.05. VBS advised during the conference call that the PIC investment committee will give a definitive answer either tomorrow or Wednesday. VBS advised that the R50 million received on Friday was from Dr Ruth Mompoti Municipality. A R20 million and a further R10,178,911.44 was paid to Municipalities. The R50 million from Medscheme is on hold for now. VBS received R340,955.55 in the retail batches. VBS advised that the exposure in the Night Window is as follows:

VBS Mutual is expecting the following amounts to settle in the SAMOS night window for value today against our closing RTL of ZAR 20 582 010.20

05/03/2018

POS Batch + ATM/ Saswitch	R 511 382.07
EFT Settlement batch value today	R 3 537 279.19
Total Outgoing	R 4 048 661.26

At the start of the night window VBS closed off with a loan account balance of R. 100,956,995.30, zero settlement account balance and zero available in the reserve account. They have a Total Estimated RTL capacity of R20,582,010.20 to facilitate settlement of retail batches in the night window. We will continue to monitor their position.

A conference call is scheduled for 15h00 Tuesday, 6 March.

On 6 March 2018 VBS started the day with a Total Estimated RTL capacity of R 18,069,003.08. VBS advised during the conference call that the PIC investment committee is meeting again tomorrow. VBS received R88,911.58 in the retail batches. VBS advised that the exposure in the Night Window is as follows:

VBS Mutual is expecting the following amounts to settle in the SAMOS night window for value today against our closing RTL of ZAR 17,840,874.53

06/03/2018

POS Batch + ATM/ Saswitch	R 308 861.47
EFT Settlement batch value today	R 3 288 466.72
Total Outgoing	R 3 597 327.19

VBS advised that the attached list of municipalities requested withdrawals

Please see attached hereto Municipality Withdrawal request received:

Sl. No.	Municipality Name	Amount (R)	Date	Remarks
1	VHEMBE DISTRICT MUNICIPALITY	R 156 125 063,26	2017-09-14	We requested a 7 working day extension from the client on the 05/03/2018
2	VHEMBE DISTRICT MUNICIPALITY	R 156 656 883,33	2017-09-15	We requested a 7 working day extension from the client on the 05/03/2018
3	FETAKGOMO-GREATER TUBATSE LOCAL MUNICIPALITY	R 30 000 000,00	2018-02-19	We requested a 7 working day extension from the client on the 05/03/2018
4	MAKHADD MUNICIPALITY	R 41 893 633,28	2017-08-14	We requested a 7 working day extension from the client on the 05/03/2018
5	UM 345 LOCAL MUNICIPALITY	R 122 410 520,55	2017-10-23	We requested a 7 working day extension from the client on the 05/03/2018
		R 507 085 100,42		

At the start of the night window VBS closed off with a loan account balance of R 103,055,280.97, zero settlement account balance and zero available in the reserve account. They have a Total Estimated RTL capacity of R17,840,874.53 to facilitate settlement of retail batches in the night window. We will continue to monitor their position.

A conference call is scheduled for 15h00 Tuesday, 7 March.

On 7 March 2018 VBS started the day with a Total Estimated RTL capacity of R 20,469,294.21. VBS advised during the conference call that the PIC investment committee is meeting On Friday again. VBS received R105,278.77 in the retail batches. VBS advised that the exposure in the Night Window is as follows:

VBS Mutual is expecting the following amounts to settle in the SAMOS night window for value today against our closing RTL of ZAR 19 379 262.45

07/03/2018

POS Batch + ATM/ Saswitch	R 186 583.03
EFT Settlement batch value today	R 2 768 864.55
Total Outgoing	R 2 945 437.58

At the start of the night window VBS closed off with a loan account balance of R 102,703,193.05, zero settlement account balance and zero available in the reserve account. They have a Total Estimated RTL capacity of R19,379,262.45 to facilitate settlement of retail batches in the night window. We will continue to monitor their position.

A conference call is scheduled for 15h00 Thursday, 8 March.

On 8 March 2018 VBS started the day with a Total Estimated RTL capacity of R 17,237,201.67. VBS advised during the conference call that the PIC investment committee is meeting On Friday again. VBS received R 1,587,852.65 in the retail batches and a further R 6,029,000.00 in customer payments from ABSA.

A payment of R5 million was made to the West Rand Municipality.

VBS advised that the exposure in the Night Window will be as follows:

VBS Mutual is expecting the following amounts to settle in the SAMOS night window for value today against our closing RTL of ZAR 19 768 071.57

08/03/2018

POS Batch + ATM/ Saswitch	R 532 908.54
EFT Settlement batch value today	R 1 779 762.57
Total Outgoing	R 2 312 671.11

At the start of the night window VBS closed off with a loan account balance of R 102,463,583.93, zero settlement account balance and zero available in the reserve account. They have a Total Estimated RTL capacity of R 19,768,071.57 to facilitate settlement of retail batches in the night window. We will continue to monitor their position.

A conference call is scheduled for 15h00 Friday, 9 Mar 2018.

On 9 March 2018 VBS started the day with a Total Estimated RTL capacity of R 23,275,609.68. VBS advised during the conference call that they have not received feedback from PIC investment committee yet. VBS received R 10,020,680.46 in the retail batches.

VBS advised that the exposure in the Night Window will be as follows:

VBS Mutual is expecting the following amounts to settle in the SAMOS night window for value today against our closing RTL of ZAR 29,4 million.

09/03/2018

POS Batch + ATM/ Saswitch	R 529 052.91
EFT Settlement batch value today	R 5 332 723.79
Total Outgoing	R 5 861 776.70

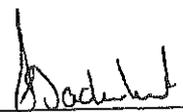
At the start of the night window VBS closed off with a loan account balance of R 93,104,957.13, zero settlement account balance and zero available in the reserve account. They have a Total Estimated RTL capacity of R 29,463,198.37 to facilitate settlement of retail batches in the night window. We will continue to monitor their position.

A conference call is scheduled for 15h00 Monday, 12 Mar 2018.

The bank was placed under curatorship on Sunday 11 March 2018.

This summary is a true reflection of the telephonic discussion held between the representatives of VBS Mutual, the National Payment System Department and the Bank Supervision Department of the South African Reserve Bank.

Signed:



Rhona Badenhorst

Lead Operations Analyst: National Payment System Department

2018/03/28

Date



Delarese Van der Merwe

Senior Manager: Bank Supervision Department

28 March 2018

Date



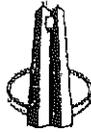
Regomoditswe Ntsie

Analyst: Bank Supervision Department

28/03/2018

Date





South African Reserve Bank
From the Office of
the Registrar of Banks

Confidential

Ref.: 15/1/_ VMB

Mr T Matodzi
Chairman of the Board of Directors
VBS Mutual Bank
82 Wessels Road
Metropolitan Office Park
Rivonia
2191

Dear Mr Matodzi

VBS Mutual Bank: action plan and strategy to recover from liquidity stress position

The Office of the Registrar of Banks (this Office) views:

- the liquidity difficulties experienced by VBS Mutual Bank (VBS) on 16 February 2018 in ensuring the facilitation of successful settlements in the retail streams in the South African Multiple Option Settlement (SAMOS) system;
- the full utilisation of all the minimum reserve account balances required to be maintained by VBS; and
- the close monitoring required by this Office and the National Payment System Department of the liquidity position since 19 February 2018 to ensure the prevention of further failure of settlements in the SAMOS system.

in a very serious light.

As the liquidity position at VBS demands drastic action, this Office therefore instructs VBS to provide it with the information as listed below by no later than close of business 22 February 2018 in order to remedy the liquidity shortages currently being experienced by VBS:

1. A clearly stated action plan and strategy to mitigate the continued liquidity shortages experienced and especially those posed by the large municipal deposits that have or may become due and are at risk of not 'rolling over' or being re-invested as expected.
2. An action plan and strategy to ensure that it is fully compliant with the prudential requirements as outlined below:
 - 2.1 the maintenance by VBS of a minimum reserve balance in an account with the South African Reserve Bank, as required in terms of section 10A(8) of the South African Reserve Bank Act 90 of 1989;

2.2 an indication of how VBS intends to maintain a buffer in the reserve balance account going forward and the action to be taken to ensure that adequate procedures are in place to ensure future compliance with the minimum statutory reserve requirements at all times; and

2.3 the maintenance by VBS of minimum liquid assets, as required in terms of section 50(1) of the Mutual Banks Act 124 of 1993 and regulation 22(2) of the Regulations relating to Mutual Banks, as well as compliance with the prescribed minimum levels of liquid assets to be held at close of business.

Yours sincerely



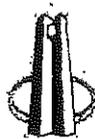
K Naidoo
Deputy Governor and Registrar of Banks

Date: 20/2/2018

cc Andile Ramavhunga

Chief Executive Officer





South African Reserve Bank.
From the Office of
the Registrar of Banks

"KNII"

Confidential

Ref.: 15/1/_

Mr M K N Gigaba, MP
Minister of Finance
National Treasury
Private Bag X115
Pretoria
0001

Dear Minister

VBS Mutual Bank: liquidity distress requiring regulatory intervention

I believe it important to inform you of the recent developments at VBS Mutual Bank (VBS), specifically the signs of weaknesses experienced insofar as they relate to the liquidity position of the bank, which demands immediate remedial action.

If not adequately addressed, the liquidity distress that VBS is currently experiencing has the potential to threaten the sustainability of the bank and thus the safety of its deposits as soon as in the short term.

1. The current liquidity position of VBS Mutual Bank

On the evening of 16 February 2018, the Head of Treasury and Capital Management at VBS, Mr Phophi Mukhodobwane, informed the Office of the Registrar of Banks (this Office) by way of an email that VBS was experiencing a liquidity shortage which had been caused by a large concentration of deposits that had matured as well as an early termination of another large deposit that the bank had lost during the course of that week. This liquidity shortage had resulted in a failed batch settlement for the day on the national payment system. Consequently, the South African Multiple Option Settlement (SAMOS) system operator had instructed BankservAfrica, as payment system operator, to remove VBS from the batch. The revised batch, which excluded VBS, was settled at 23:39.

Mr Mukhodobwane had further mentioned that the outflows and muted inflows of deposits which had been experienced during the previous two weeks of February 2018 had likely been as a result of the adverse media coverage involving VBS and the Passenger Rail Agency of South Africa published on 4 February 2018 and had likely caused the public to question the legitimacy of the bank to raise deposits from government entities. VBS had anticipated an inflow of deposits to the value of R400 million from

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municipalities during the course of the week of 12 February 2018, but had in fact only managed to secure R120 million.

VBS is currently awaiting an inflow of funds from its client municipalities and its major shareholder, the Public Investment Corporation (PIC), to ease the current liquidity constraints.

On 21 February 2018, at the start of the night window, VBS had closed off with a loan account balance of R98.67 million, a R0.00 settlement account balance, and a R0.00 balance in its cash reserves account held at the South African Reserve Bank (SARB). VBS has a total estimated capacity real-time line of R11.93 million to facilitate the settlement of retail batches in the night window.

2. Previous liquidity constraint events experienced by VBS Mutual Bank

This liquidity stress event, however, is not the first of its kind to occur at VBS in the past year. Since June 2017, the following events have taken place:

2.1 VBS Mutual Bank's credit excess and failure to settle (20 June 2017)

On 20 June 2017, Rand Merchant Bank (RMB), a division of FirstRand Bank Limited (who act as custodian for VBS in relation to its dematerialised securities holdings), informed this Office that VBS had been unable to settle more than R295 million related to a purchase of Treasury bills made on its behalf. VBS had previously bought and successfully settled Treasury bills with RMB seven times since December 2016. RMB had outlined a payment plan with VBS which VBS had repeatedly failed to honour.

On 21 June 2017, RMB filed a final written demand for the outstanding payment and began the process of taking legal action against VBS.

This Office intervened and, on 23 June 2017, VBS confirmed full settlement of the funds. The funds that VBS had utilised for the settlement did not affect its reserves with the SARB. VBS also disclosed that the liquidity shortage had been caused by an early redemption of a R250 million deposit by one of its clients, which had been paid out unexpectedly due to internal control failures in a branch.

In response to the liquidity shortage, this Office engaged extensively with the Chairman of the Board of Directors (Board) of VBS (Mr Tshifhiwa Matodzi), the Chief Executive Officer of VBS (Mr Andile Ramavhunga), and the Chief Financial Officer of VBS (Mr Phillip Truter) on the need to strengthen VBS's asset and liability management processes and the internal controls at its branches so as to ensure that an event of this kind does not occur again.



2.2 Deposits from municipalities (18 August 2017)

On 18 August 2017, VBS informed this Office that it had lodged an urgent court application to prevent National Treasury from issuing a directive to municipalities advising them that the placement of deposits with mutual banks was in contravention of the Municipal Finance Management Act 56 of 2003 (MFMA) and thereby instructing municipalities not to deposit funds with mutual banks. However, the directive had already been sent to a few municipalities and VBS had already begun to experience an outflow of these deposits, which had begun to place the bank in a position of liquidity distress.

- a) After consultation with National Treasury and VBS, this Office acknowledged that, in compliance with the MFMA, VBS should not have accepted deposits from municipalities.
- b) This Office and the General Counsel of the SARB decided that the SARB was not in a position to enter into litigation on this issue. It was concluded that the issue fell within the area of responsibility of National Treasury.
- c) However, since a bank was involved, the Bank Supervision Department (BSD) of the SARB continued to monitor VBS's liquidity position from an ongoing supervision point of view.
- d) This Office currently awaits National Treasury's conclusion on the matter. However, subsequent communication with VBS has revealed that the bank has had discussions with National Treasury and that it has been granted dispensation for 18 months to hold deposits from municipalities, in which time VBS is required to either convert to a commercial bank registered in terms of the Banks Act 94 of 1990 or release the municipality deposits. This Office is yet to receive formal communication regarding the discussions, nor has it received an application from VBS to convert to a commercial bank.

On 21 February 2018, VBS confirmed that it holds municipality deposits to the value of R1.54 billion. This Office has had numerous engagements with the bank and has urged VBS to diversify its sources of funding and to reduce its reliance on large municipality deposits which, due to the concentration risk that they introduce, had begun to threaten the liquidity position of the bank.

2.3 Large maturities and a delayed settlement from a bank (15 November 2017)

On 15 November 2017, Mr Mukhodobwane once again informed this Office that VBS's liquidity position had deteriorated significantly during the course of that week due to large maturities as well as a delayed settlement from one of the commercial banks. VBS had experienced an outflow of R300 million against maturities which it had settled, but the bank was utilising all of its pledged liquid assets as well as its available reserves.



On 16 November 2017, VBS mentioned that it had received an inflow of R10 million which had improved its liquidity position to R14.7 million with expected outflows for the night-window batches to the value of R5.2 million. VBS anticipated further inflows of R129 million to rectify the liquidity position by 17 November 2017.

2.4 Liquidity pressure caused by a delay in receiving expected funds (29 November 2017)

On 29 November 2017, VBS informed this Office that it was again experiencing liquidity pressures due to a delay in payment of R150 million and that it was utilising its reserves placed with the SARB to ensure settlement. The bank also mentioned that it had been expecting a deposit of R150 million in the previous week but had been advised by the client that the delay in the payment was being caused by delays in acquiring all the required account signatories timeously in order to release the funds. The client subsequently obtained all the required signatories and the funds were released in full. VBS then posted the funds back into its general reserves account, which corrected its liquidity position once again.

This Office had previously cautioned VBS executives and its Board about the bank's dependence on municipality deposits for funding and its unstable liquidity management practices which threatened the viability of the business.

3. Other supervisory concerns

Besides the above, this Office's ongoing supervisory interaction with VBS had revealed various areas of concern. These included, but were not limited to:

- a) inadequate corporate governance practices;
- b) a deficient compliance function and culture;
- c) volatility in financial performance as well as regular and significant losses caused by high operating expenses due to infrastructure expansion and an increase in the staff complement;
- d) the negative impact of the aforementioned losses on capital;
- e) a high reliance placed on its fuel guarantee and contract finance business as part of its strategy to increase its profitability;
- f) significant growth on the balance sheet and venturing into new products without commensurate investment in the enhancement of internal controls;
- g) inept risk management functions and practices;
- h) the lack of proactive communication with the regulator on significant developments;
- i) delayed timing of responses to crises;
- j) the failure to submit regulatory reports on time;
- k) the poor quality of regulatory reports; and
- l) the reputational risk introduced to the bank by adverse media coverage.



In response to the increase in the inherent risk within VBS in 2017, this Office, in a letter dated 27 June 2017 and as contemplated by Government Notice No. 1007 published in *Government Gazette No. 22738* on 5 October 2001, increased VBS's prescribed minimum capital and reserve funds from 10% to 11% with effect from 1 October 2017. Furthermore, this Office continued to have extensive engagements with VBS as part of its supervisory programme with the bank and on an ad hoc basis, during which the remediation of concerns was discussed at length with VBS's executive management, its Board, its internal auditors (PwC), and its external auditors (KPMG).

Prior to the current liquidity crisis, and as part of its 2018 supervisory programme with VBS, this Office had scheduled a full review of VBS's Asset and Liability Management (ALM) processes and Recovery Plan, which was due to take place on 21 February 2018. This Office's preliminary assessment of these areas had confirmed the concerns raised by BSD, as it revealed a lack of updated Board-approved policies, a lack of adequate ALM processes and controls (as evidenced by the severe mismanagement thereof), as well as a lack of a clearly defined action plan and strategy to mitigate against stress events. In light of the current state of the bank and the urgent action that the regulator needs to take with regard to its current liquidity position, the meeting was postponed indefinitely.

Based on the information that VBS furnished to this Office on its top 20 depositors as at 21 February 2018, it has been noted that there are large deposits totalling R868 million which have matured and which can potentially be withdrawn with immediate notice. VBS has lodged liquid assets in excess of the minimum requirement with the SARB within the SAMOS system. The bank is required to hold R99 million in liquid assets and has lodged R170 million in nominal value, but R110 million of this amount has already been encumbered in the SAMOS system, which leaves the bank with just R60 million in nominal value that is unencumbered. VBS has utilised all its cash reserves in the SAMOS system and currently has a R0.00 balance with the SARB. In order to meet its cash reserves requirement, VBS needed to deposit R330 million by 20 February 2018; it failed to do so, meaning that the bank is currently non-compliant with the cash reserves requirement.

VBS is illiquid. It will experience extreme difficulty in meeting its obligations, particularly pertaining to the large municipality deposits that have become or may become due in the short term and for which the bank has not secured commitment of reinvestment. VBS has no other assets that can be readily liquidated. This Office is concerned that the retail depositors in the bank are ultimately being placed at risk.

On 20 February 2018, this Office sent a letter to VBS, addressed to the Chairman of the Board (attached hereto as an annexure), wherein the bank is instructed to furnish this Office with a detailed plan of action to remediate its current liquidity position so as to ensure full compliance with the prudential requirements set by this Office. The National Payment System Department of



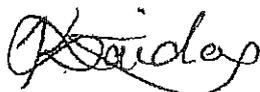
the SARB also continues to monitor the daily exposures for VBS in the SAMOS system.

During all the conversations held with VBS, the bank has maintained that it is awaiting funds from clients and that it is in negotiations with the PIC, its major shareholder, to provide the bank with additional funding in order to improve its liquidity position. As at the date of this letter, none of the funds anticipated by VBS to ease its liquidity shortage have been received.

Should VBS not provide this Office with a satisfactory action plan and strategy on how it intends to remedy the current liquidity shortage and ease liquidity pressure going forward, this Office will be obliged to consider invoking appropriate actions within its mandate in order to protect depositors' funds.

Please do not hesitate to contact me should you require any further detail in this regard. I am also available to meet should you have a need to further discuss any of the issues raised in this letter.

Yours sincerely



K Naidoo
Deputy Governor and Registrar of Banks

Date: 22/2/2018

Encl. 1

cc Mr Dondo Mogajane
Mr Ismail Momoniat

- Director General: National Treasury
- Deputy Director General: National Treasury



The Governor of the South African Reserve Bank
 370 Helen Joseph Street
 Pretoria
 001

22 February 2018

Att: The Governor of the South African Reserve Bank

CONDONATION REQUEST IN TERMS OF SECTION 50(1) OF THE MUTUAL BANKS ACT 124 OF 1993 AND REGULATION 22(2) OF THE REGULATIONS RELATING TO MUTUAL BANKS

VBS Mutual Bank ("the bank") hereby requests condonation in terms of section 50(1) of the Mutual Banks Act 124 of 1993 and regulation 22(2) of the Regulations relating to Mutual Banks, as well as compliance with the prescribed minimum levels of liquid assets to be held at close of business:

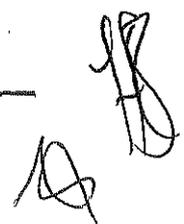
MAINTENANCE PERIOD - 22 January 2018 to 21 February 2018

VBS Mutual Bank was short on its Liquids Assets Reserved during the following period:

Opening Balance	R 107 973 150.00		
	REQUIREMENT		
	2018/01/22		
D1310 Requirements	R 99 384 000.00	Liquid Asset Shortage for the period	LAR Required for Average for previous Period/Average
Effective D1310 Req	R 99 384 000.00	R 19 088 145.33	R 797 828 925.61

From 2015 VBS Mutual Bank has been working to resolve a legacy structural mismatch caused by the long dated nature of a majority of our Asset book, which was predominantly made up of mortgage loans. In an attempt to address this challenge the Bank embarked on raising funds from new markets which also included municipalities and other institutional depositors. This move attracted large depositors which provided temporary relief in the short term time buckets as this increased cash holding in the 0 to 30 days. As a result of this the Bank introduced a new risk in the form of single large depositor concentration risk.

Though the Bank was running a single large depositor concentration, this risk was masked by the fact that as a Bank we were able to rollover the maturing large deposits very quickly and also raise new deposits from new municipal counterparts. This constant rollover ensured that the mismatch risk and concentration risks were relatively subdued though the risk was still there. This strategy proved wrong after communication was sent in the Month of August 2017 from the South African National Treasury to all Municipalities pertaining to their contravention of section 7(3)(b) of the MFMA which states "municipality may not open a bank account with an institution not registered as a bank in terms of the Banks Act 94 of 1990."



It is however worth noting that VBS Mutual Bank had in the past made several attempts to engage National Treasury on this matter as early as 03 March 2017. However we did not receive a response from National Treasury regarding this matter as well as our requests for a meetings also proved unsuccessful.

Since this communication from National Treasury to all our municipal counterparts the Bank has found it very difficult to raise new deposits from these institutions leaving us exposed to the risk of a liquidity crisis in the advent of one of these large maturities not rolling over.

This risk became very apparent over the last month and half (Since December 2016) whereby we a series of large deposits maturing with no new/meaningful deposits coming in. For the better part of the maintenance period started 22 January 2018 to 21 February 2018, VBS Mutual Bank was utilising its General Reserves until we received a deposit of ZAR 300million on the 03 February 2018 from a single client. This deposit was used to repay reserves, however we also had upcoming maturities which exceeded the funds that had come in the weeks following. This led to the Bank having to utilise general reserves from the 13/02/2018 and also Non Distributable Reserves from the 16 February 2018 in order to ensure settlement over SAMOS.

In addition to the above the bank also experienced further pressure from large depositors calling on funds that have not matured following the article on the Sunday Times regarding the Passenger Rail Agency of South Africa (PRASA) depositing money with the bank.

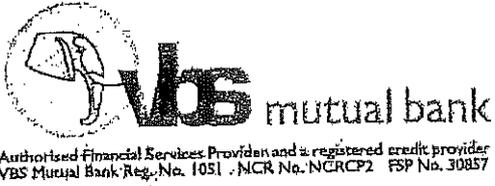
During the maintenance period 22 January 2018 to 21 February 2018 the bank was utilising its Liquid Assets pledged at the SARB in order to fund its intraday settlement. The Bank has always been of the view to hold surplus liquid assets in order to absorb liquidity shocks in times of distress, however in this instance the Bank found itself utilising all of its available liquid assets available for loans for settlement.

The Bank is aware that and appreciated that this position is not ideal and will ensure that in future it maintains required adequate levels of Liquid Assets Reserved.

VBS Mutual Bank would like to point out that this crisis has been dealt with at the highest level with further emphasis on more stringent measures put in place to ensure that it doesn't find itself in this position again in the future.

We have introduced and formalised the following measures:

- More stringent single depositor concentration limits, per counterparty and by time bucket
- Diversification of our depositor base with the intention to deleverage from municipal deposits and other single large depositors
- Addressing the current on balance sheet mismatch risk by raising longer term funding in the form of deposits, debt funding as well as securitising the bank's Asset backed loans.
- The Bank has also frozen all lending until further notice and until all of the above matters have been addressed.



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Swift Code: VBSMZAJJ

We view this matter in an extremely serious light and are fully committed to not have a repeat of this.

Regards,

A handwritten signature in black ink, appearing to be 'AR', is written over a horizontal line.

Andile Ramavhunga

Chief Executive Officer

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The Governor of the South African Reserve Bank
 370 Helen Joseph Street
 Pretoria
 001

22 February 2018

Att: The Governor of the South African Reserve Bank

CONDONATION REQUEST IN TERMS OF SECTION 10A (8) OF THE SOUTH AFRICAN RESERVE BANK ACT 90 OF 1989

VBS Mutual Bank ("the bank") hereby requests condonation in terms of section 10A (8) of the South African Reserve Bank Act 90 of 1989 for the minimum reserve balances held in the general reserve account. VBS Mutual Bank experienced shortages for the following certification periods:

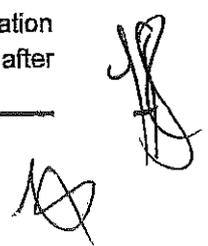
MAINTENANCE PERIOD - 22 January 2018 to 21 February 2018

VBS Mutual Bank was short on its General and Non-Distributable Reserves over the following dates and amount:

Effective DI310 Req.	R 35 461 000.00				
Date	Reserve Account Movement	Reserve Account Balance	Cumulative	Required Balance	Required Payment to maintain the Average
13 February 2018	R -30 000 000.00	R 17 627 920.00	R 700 434 560.00	R 51 913 634.29	R 34 285 714.29
14 February 2018	R -6 989 760.10	R 10 638 159.90	R 711 072 719.90	R 58 792 880.02	R 48 154 720.12
15 February 2018		R 10 638 159.90	R 721 710 879.80	R 68 423 824.04	R 57 785 664.14
16 February 2018		R 10 638 159.90	R 732 349 039.70	R 82 870 240.08	R 72 232 080.18
17 February 2018	R -10 638 159.90	R 0.00	R 732 349 039.70	R 110 493 653.43	R 110 493 653.43
18 February 2018		R 0.00	R 732 349 039.70	R 166 740 480.15	R 166 740 480.15
19 February 2018		R 0.00	R 732 349 039.70	R 331 480 960.30	R 331 480 960.30
20 February 2018		R 0.00	R 732 349 039.70		

From 2015 VBS Mutual Bank has been working to resolve a legacy structural mismatch caused by the long dated nature of a majority of our Asset book, which was predominantly made up of mortgage loans. In an attempt to address this challenge the Bank embarked on raising funds from new markets which also included municipalities and other institutional depositors. This move attracted large depositors which provided temporary relief in the short term time buckets as this increased cash holding in the 0 to 30days. As a result of this the Bank introduced a new risk in the form of single large depositor concentration risk.

Though the Bank was running a single large depositor concentration, this risk was masked by the fact that as a Bank we were able to rollover the maturing large deposits very quickly and also raise new deposits from new municipal counterparts. This constant rollover ensured that the mismatch risk and concentration risks were relatively subdued though the risk was still there. This strategy proved wrong after



communication was sent in the Month of August 2017 from the South African National Treasury to all Municipalities pertaining to their contravention of section 7(3)(b) of the MFMA which states "municipality may not open a bank account with an institution not registered as a bank in terms of the Banks Act 94 of 1990."

It is however worth noting that VBS Mutual Bank had in the past made several attempts to engage National Treasury on this matter as early as 03 March 2017. However we did not receive a response from National Treasury regarding this matter as well as our requests for a meetings also proved unsuccessful.

Since this communication from National Treasury to all our municipal counterparts the Bank has found it very difficult to raise new deposits from these institutions leaving us exposed to the risk of a liquidity crisis in the advent of one of these large maturities not rolling over.

This risk became very apparent over the last month and half (Since December 2016) whereby we a series of large deposits maturing with no new/meaningful deposits coming in. For the better part of the maintenance period started 22 January 2018 to 21 February 2018, VBS Mutual Bank was utilising its General Reserves until we received a deposit of ZAR 300million on the 03 February 2018 from a single client. This deposit was used to repay reserves, however we also had upcoming maturities which exceeded the funds that had come in the weeks following. This led to the Bank having to utilise general reserves from the 13/02/2018 and also Non Distributable Reserves from the 16 February 2018 in order to ensure settlement over SAMOS.

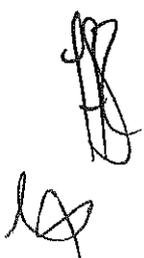
In addition to the above the bank also experienced further pressure from large depositors calling on funds that have not matured following the article on the Sunday Times regarding the Passenger Rail Agency of South Africa (PRASA) depositing money with the bank.

The Bank utilised all of its reserves well into the end of the maintenance period end date of the 20 February 2018.

VBS Mutual Bank would like to point out that this crisis has been dealt with at the highest level with further emphasis on more stringent measures put in place to ensure that it doesn't find itself in this position again in the future.

We have introduced and formalised the following measures:

- More stringent single depositor concentration limits, per counterparty and by time bucket
- Diversification of our depositor base with the intention to deleverage from municipal deposits and other single large depositors
- Addressing the current on balance sheet mismatch risk by raising longer term funding in the form of deposits, debt funding as well as securitising the bank's Asset backed loans.
- The Bank has also frozen all lending until further notice and until all of the above matters have been addressed.





Authorised Financial Services Provider and a registered credit provider
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Andile Ramavhunga

Chief Executive Officer

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LIQUIDITY RECOVERY ACTION PLAN – 22 FEBRUARY 2018

INTRODUCTION

Since its establishment as the Venda Building Society, VBS (“the bank”) was a banker of the old Bantustan Government. In 2011, VBS converted into a mutual bank, however the introduction of the Municipal Fund Management Act (MFMA) did not make provisions of mutual banks accepting deposits from non “Bank” institutions. However, VBS continued to accept deposits from municipalities and during the 2017, the bank came to realise that there is a discrepancy between the Public Funds Management Act (PFMA) and the MFMA. The bank tried to engage National Treasury and the office of the Account General to discuss this matter and find a solution. However there was no response from the office of the Account General. It was to VBS’ surprise when a letter from National Treasury sent to municipalities that have investments with VBS. The letter was sent without any consultation with the bank.

Following the letter, a number of municipalities did not renew their deposits on maturity and for the months i.e. December 2017 until February 2018 the number of municipalities renewing their deposits reduced. Following the article on the Sunday Times regarding the Passenger Rail Agency of South Africa (PRASA) depositing money with the bank, a number of clients started to withdraw their funds leading to the liquidity crisis experienced by the bank.

Following the liquidity crisis experienced by the VBS Mutual Bank, the aim of this document is to outline strategies to deal with liquidity shortages experienced by the bank.

IMMEDIATE ACTION PLAN

The bank’s total exposure to local municipalities is approximately R1.5billion with maturities of “on call” to 6 months.

The deposits which are due for immediate payment are as follows:

Name	LedgerBalance	ProductDesc
MADIBENG LOCAL MUNICIPALITY	R50 677 674.31	60 DAY NOTICE
MAKHADO MUNICIPALITY	R41 707 947.21	6 MONTHS SMART FIXED DEPOSIT
MORETELE LOCAL MUNICIPALITY	R20 000 000.00	32 DAY NOTICE GROUP
DR JS MOROKA MUNICIPALITY	R10 118 218.87	32 DAY NOTICE GROUP
ELIAS MOTSOLEDI LOCAL MUNICIPALITY	R20 302 087.50	60 DAY NOTICE
WEST RAND DISTRICT MUNICIPALITY	R10 064 972.60	FIXED DEPOSIT
	R152 870 900.49	

The bank has been engaging with these depositors in order to secure “roll over” of these deposits with no success. The amounts are large and were unexpected and therefore could not be included in the management’s forecasts.



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To manage the current exposures and imminent maturities the bank is relying on a funding line from the PIC, one of the bank's main shareholders. The table below indicates the different lines of credit applied from the PIC to meet the immediate need to pay back municipalities.

DESCRIPTION	AMOUNT	DEPOSIT TERM	DATE	REMARKS
PIC Deposit	R150Million	1 YEAR	23-Feb-18	Key consideration here is the timing of the inflows. We have have had positive feedback from PIC that R150million is to be released before end of the week with the R640million following next week
Pic Deposit / Loan	R640Million	1 YEAR - DEPOSIT 5 YEAR - LOAN	28-Feb-18	
PIC Funding Line	710Million	Long term Facility / Loan	Mar-18	We anticipate the rest of the funding to be made available during March 2018.
Total PIC Line	R1,5Billion			

Feedback on the above application is expected on the 23rd of February 2018.

Delaying of branch expansion and drastic cost cutting measures

The Bank is in the process of increasing its national foot print via branches. Given the costs associated with this, the bank will temporarily stop such projects. Other discretionary costs will be eliminated until there is certainty. This will ensure that there are funds available to fulfil any deposit withdrawals.

Stop extension of long term credit to clients

Until long term funding is secured the bank will not be extending any credit to the any clients.

Credit will be extended once long term funding has been secured from other sources. Ring fenced and specific funding facilities will be raised from funders to match with on-lending to clients.

MEDIUM TERM STRATEGIES

Conversion application

VBS Mutual bank is in the process of completing and submitting an application to convert to being a bank regulated under the Bank's Act. During interactions with National Treasury, the Director General made an undertaking that a circular will be sent to all municipalities to allow them to deposit funds with VBS Mutual Bank when the South African Reserve Bank confirms that the bank has applied to convert from a mutual bank to a commercial bank.

The bank believes that this will ensure that municipalities with current investments do have call for early withdrawals.

Converting to a commercial bank will also enable the bank to have a wider variety of depositors e.g. corporates etc.



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Introduce a new major shareholder

Currently the bank has two major shareholders i.e. Vele Investments (Pty) Ltd and the Public Investment Corporation. Currently the bank has R1.2billion authorised shares and only R350 million is in issue. The bank will seek an additional shareholder of reference who will provide liquidity into the bank.

1. ACTION PLAN AND STRATEGY TO MITIGATE THE CONTINUED LIQUIDITY SHORTAGES AND ESPECIALLY THOSE POSED BY THE LARGE MUNICIPAL DEPOSITS:

The Bank will be implementing more stringent liquidity management practices to ensure that that it doesn't find itself exposed to single large depositors, with the exception of deposits from Shareholders and intercompany related entities.

The measure that the Bank will putting in place will include revising the early warning current liquidity triggers to incorporate additional liquidity buffers in order to absorb shocks caused by early termination of deposits by large depositors. The triggers here will be calculated as aa function of the Balance Sheet contractual mismatch and will be as follows

Time bands	Maximum Mismatch guideline
1 - 2 months	+5%
2 - 3 months	-2.5%
3 - 6 months	-5%
6 - 12 months	-7.5%
1-2 years	-10%
2-3 years	-20%
3-5 years	-30%
Over 5 years	-35%

VBS Mutual Bank will be introduction concentration limits in which it will not accept a single counterparty deposits exceeding 10% of its total depositor base. The limits will be applied as follows:

Depositor concentration limits

Ratio	Maximum Exposure Limit
Largest depositor concentration	10%
Top 10 depositor concentration	30%
Top 20 depositor concentration	30%



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This single counterparty concentration limit will also be limited by time bucket as follows:

Permissible single depositor limit by time bucket						
2 to 7 days	8days to 1 month	1 - 2 months	2 - 3months	Greater than 3months to 6months	Greater than 6months to 1year	Greater than 1year to 2years
5.00%	5.00%	5.00%	5.00%	7.50%	10.00%	10.00%

DIVERSIFYING FUNDING SOURCES

Retail fixed deposit product

VBS is working on a launching a long term investment product to the retail market. This will ensure the diversification of funders and remove the reliance on a few large funders.

The investment product will be market beating as VBS is not a well-known bank by the general market and will have to offer above average deposits in order to attract new customers.

Membership system

VBS is developing a membership system which will serve the Stokvel market and large membership groups such as churches.

The system is in the final stages of development and will be launched end of March 2018 or beginning of April 2018.

We believe that this system will give VBS a competitive edge in attracting Stokvels and large membership groups due the ease of management and reporting capabilities in this system.

In that way, VBS Mutual Bank will be able to grow its retail depositor numbers which positively impact the Bank Net Stable Funding Ratio as these deposits remain very stable and carry a greater Weighted Average Life compared to Institutional deposits.

LONG TERM STRATEGIES

Securitisation structures

The bank has a well performing advances book which is currently not significantly impaired. For example, the mortgage book is of high quality. Historically these debtors have kept up their payments as they have used these properties as their primary residences outside of the metropolitan areas.

The current mortgage book is approximately R450 million and amounts in arrears only make up 1.08% of the balance.

Hence, the mortgage book could be securitised and the funds released in order to provide the much needed liquidity.



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The process will be lengthy, however if no long term funding is secured, it will be a necessary strategy.

2. Action plan and strategy to ensure that it is fully compliant with the prudential requirements:

2.1 Maintenance by VBS of a minimum reserve balance in an account with the South African Reserve Bank, as required in terms of section 10A(8) of the South African Reserve Bank Act 90 of 1989

Through the introduction of the liquidity triggers and limits mentioned in point 1, these will ensure that the Bank is able to avert the need to utilise reserves at all times.

However should VBS Mutual Bank utilise reserves, it will monitor the reserve account and ensure that it only utilises the reserve account as a last resort only when necessary over a short period, preferably overnight if need be. The Bank will ensure that it replaces the reserves utilised by also keeping a reserve account schedule in line with that maintained with the SARB Financial Markets Division.

2.2 VBS Mutual bank will maintain a liquidity buffer of +5% in the 0 to 60day time bucket, of which the Bank will 2% of the excess/buffer in the Balance Sheet mismatch is used as a buffer in the reserve balance account.

2.3 Maintenance by VBS of minimum liquid assets in terms of section 50910 of the Mutual Banks Act of 1993 and regulation 22(2) of the Regulations relating to Mutual Banks, and prescribed minimum levels of liquid assets to be held at close of business.

- Going forward VBS Mutual Bank will be building its liquid Asset book in order to hedge against the potential windfall of deposits especially those from single large depositors. The Bank will be building its liquid Asset Buffer to equate to 30% of its total depositor base. The Bank will be monitoring and calculating utilisation on a daily basis to ensure that firstly it doesn't exceed 50% of the LAR allowed for loans.
- The Bank will ensure that it only uses the portion equating to the excess position for loans and not those securities pledged for prudential asset requirement.

"KN15"

Commercial Banking License – VBS Mutual Bank

The issue of VBS's commercial banking license application is very closely linked with the challenges they had been experiencing with the municipality deposits. In its updates to the BSD regarding its interactions with National Treasury, VBS had indicated that National Treasury had granted the bank an 18 month dispensation to retain the municipality deposits on condition that they begin taking the necessary steps to convert to a commercial bank registered in terms of the Banks Act. This Office had requested formal communication from VBS in this regard and never received it. VBS had highlighted its intentions to expedite the conversion from a mutual bank to a commercial bank.

- In a telephonic meeting with VBS held on 25 January 2018, the bank had indicated that VBS was on course to submit an application to convert the mutual bank to a full commercial bank. VBS had indicated that they would be ready to submit the application by end of March/ beginning April. VBS had indicated that it had enlisted the assistance of consultants in the compilation of the application, and had allocated significant resources in this regard.
- On 7 February 2018, this Office's legal and frontline analysis had held a telephonic meeting with the CRO of VBS, in order to provide guidance on the compilation of the commercial banking licence process, and on what would be required from VBS by this Office, in order to assist the bank to submit all required documentation (so as to ensure that the turnaround time is not made longer by an incomplete application.) Legal and frontline analysis had endeavoured to answer any and all queries which VBS had, and to provide clarity on the application process.
- On 26 February 2018, at 8:32 AM, VBS had submitted its application for the conversion of a mutual bank into a bank (10 days after the liquidity position became dire). The application consisted of:
 - A cover letter signed by the CEO on 26 February 2018 indicating intent to convert to a commercial bank (1 page)
 - 11 forms BA020 indicating who the Executive Management of the bank were to be.
 - A draft proposed conversion scheme document (11 pages)
 - Memorandum of Incorporation for VBS Bank Holdings Limited (19 pages)
 - Memorandum of Incorporation for VBS Bank Limited (19 pages).

VBS were notified (in an email sent on 8 February 2018) and knowledgeable of all the information that would be required of them in their application to convert (*see below an extract from the Regulations relating to Banks which details the minimum information required in the application*). For all intents and purposes, and based on a preliminary assessment of the documentation submitted by VBS in its conversion of a mutual bank into a commercial bank, the application can be said to be an incomplete draft at best.

Handwritten signature and initials, possibly 'AB' and '14'.

Description	Authorisation ¹	Registration ¹
a) Name of applicant - in own capacity (Yes/No) - as agent (attach written consent of principal)		
b) Full and abbreviated name of institution, as well as literal translation thereof, together with address of head office and postal address		
c) Two copies of memorandum and articles of association, or memorandum of incorporation - Registered by Registrar of Companies and Close Corporations - not registered by Registrar of Companies and Close Corporations		
d) Predominant business activities in which applicant is likely to be engaged and proportion in which each activity stands to total business activities of applicant		
e) Outline of the proposed, strategic and operating or business plans in the short, medium and long term Please include sufficiently detailed information in respect of - the relevant systems related to corporate governance, risk management and internal controls, including those related to the detection and prevention of criminal activities; and the oversight of proposed outsourced functions - the scope and stages of sophistication of the proposed activities		
f) Form BA 100 (balance sheet) - proposed for ensuing year		
g) Form BA 110 (off-balance sheet activities) - proposed for ensuing year		
h) Form BA 125 (return regarding shareholders of a bank/controlling company) - current and proposed for ensuing 12 months as from date of application, and when applicable, written confirmation by a public accountant, as defined in section 1 of the Auditing Profession Act, 2005, that designated share capital received from proposed shareholders is held in a trust account		
i) Form BA 120 (income statement) - proposed for ensuing year		
j) Contemplated future policy with regard to payment of dividends		
k) Form BA 300 (liquidity risk) - proposed for ensuing year		
l) Guidelines (policy) to be followed in connection with maximum deposits, in relation to total deposits, to be accepted from a single depositor		
m) Form BA 700 (capital adequacy) - proposed for ensuing year		
n) Form BA 350 (derivative instruments) - proposed for ensuing year		
o) Form BA 130 (restriction on investments, loans and advances) - proposed for ensuing year		

1. Indicate with an 'X', under appropriate heading, type of application being submitted.

Description	Authorisation ¹	Registration ¹
p) Name(s) and address(es) of auditor(s)		
q) Form BA 008; Application for approval of appointment of auditor(s)		
r) With regard to the management, by the applicant in the conduct of its business, of the risks specified in regulation 36(3), the policy to be followed by the applicant in the management of each type of risk and the effect, quantified if possible, of each type of risk on the business of the applicant (refer to annexure to form)		
s) Names, and <i>curricula vitae</i> , of directors and executive officers of bank, together with duly completed forms BA 020		
t) With regard to the group of companies of which the applicant is a member, a schematic representation reflecting all interests held in, and by the applicant and, in the case of such interests held by the applicant, the nature of the business of the entities in which interests are so held by the applicant		
u) With regard to the internal auditing of the transactions of the applicant, the applicant's findings relating to the adequacy and efficiency of the internal auditing processes applied in respect of the applicant's deposit book, advances book and foreign exposures during the period of 12 months immediately preceding the date of the application		
v) Any instance of non-compliance by the applicant with any of the provisions of the Act or these Regulations during the period of 12 months immediately preceding the application		
w) A report by a public accountant, as defined in section 1 of the Auditing Profession Act, 2005, on funds received from anticipated shareholders and held in a trust account		
x) Additional information the Registrar deems necessary		
y) The prescribed registration fee of R.....		

1. Indicate with an 'X', under appropriate heading, type of application being submitted.



South African Reserve Bank
From the Office of
the Registrar of Banks

Confidential

Ref.: 15/1/_VMB

Mr A Ramavhunga
Chief Executive Officer
VBS Mutual Bank
82 Wessels Road
Metropolitan Office Park
Rivonia
2191

Dear Mr Ramavhunga

VBS Mutual Bank: action plan and strategy to recover from liquidity stress position

A copy of our letter to Mr T Matodzi, Chairman of the Board of Directors of VBS Mutual Bank, with regard to the above, is enclosed for your information.

Yours sincerely


K L Mokoena
Divisional Head

Date: 26/02/2015



South African Reserve Bank

From the Office of
the Registrar of Banks

Confidential

Ref.: 15/1/_VMB

Mr T Matodzi
Chairperson of the Board of Directors
VBS Mutual Bank
Metropolitan Office Park
82 Wessel Road
Rivonia
2191

Dear Mr Matodzi

VBS Mutual Bank: action plan and strategy to recover from liquidity stress position

The following engagements refer:

- the letter from the Office of the Registrar of Banks (this Office) dated 20 February 2018, signed by Deputy Governor and Registrar of Banks, Mr Kuben Naidoo;
- your response letter dated 22 February 2018, wherein VBS Mutual Bank (VBS) detailed its Liquidity Recovery Action Plan to address the current liquidity crisis and any further liquidity shortages that may arise in future; and
- the meeting held at National Treasury in Pretoria on the morning of 26 February 2018 at which the following parties were present: VBS's two largest shareholders (Vele Investments and the Public Investment Corporation) and representatives of both National Treasury and the South African Reserve Bank (SARB).

This Office has noted the contents of the aforementioned Liquidity Recovery Action Plan. VBS is nonetheless requested to submit a revised Liquidity Recovery Action Plan, which reflects the conclusions reached by the majority shareholders that were communicated to the representatives of National Treasury and the SARB in the aforementioned meeting.

The revised action plan should clearly detail VBS's strategy to mitigate against the immediate liquidity risk posed by those deposits which have already reached their maturity date and those which will reach their maturity date in the short to medium term.

Furthermore, this Office would like to reiterate that it is incumbent on VBS to ensure that it maintains sufficient liquidity required to facilitate the settlement of payments due on a daily basis throughout this period of liquidity distress, failing which this Office will be obliged to consider invoking the appropriate actions within its mandate to ensure the protection of depositors' funds and the continued stability of the financial system as a whole.

This Office requests that VBS submit the revised Liquidity Recovery Action Plan, duly signed by the required authorities, by no later than close of business on 28 February 2018.

Yours sincerely



K L Mokoena
Divisional Head

Date: 26/02/2018

cc Mr A M A Ramavhunga

— Chief Executive Officer



South African Reserve Bank
From the Office of
the Registrar of Banks

"KN16"

Confidential

Ref.: 15/1/_VMB

Mr A Ramavhunga
Chief Executive Officer
VBS Mutual Bank
82 Wessels Road
Metropolitan Office Park
Rivonia
2191

Dear Mr Ramavhunga

VBS Mutual Bank: action plan and strategy to recover from liquidity stress position

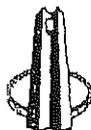
A copy of our letter to Mr T Matodzi, Chairman of the Board of Directors of VBS Mutual Bank, with regard to the above, is enclosed for your information.

Yours sincerely


K L Mokoena
Divisional Head

Date: 26/02/2015





South African Reserve Bank
From the Office of
the Registrar of Banks

Confidential

Ref.: 15/1/_VMB

Mr T Matodzi
Chairperson of the Board of Directors
VBS Mutual Bank
Metropolitan Office Park
82 Wessel Road
Rivonia
2191

Dear Mr Matodzi

VBS Mutual Bank: action plan and strategy to recover from liquidity stress position

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Yours sincerely



K.L. Mokoena
Divisional Head

Date: 26/02/2018

cc Mr A M A Ramavhunga — Chief Executive Officer



82 Wessel Road
Metropolitan Office Park
Rivonia
Tel: (011) 037 5400
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"KN17"

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www.vbsmutualbank.co.za

Authorised financial services and registered credit provider
VBS Mutual Bank Reg. No. 1051 NCR No. NCRCP2
FSP No. 30857

Mr K Naidoo
Deputy Governor and Registrar of Bank
370 Helen Joseph Street
Pretoria
001

28 February 2018

Dear Mr K Naidoo



VBS Mutual Bank: action plan and strategy to recover from a liquidity stress position

This letter references your letter dated 26 February 2018 requesting a revised Liquidity Recovery Action Plan ("the Plan") and signed by the Divisional Head, KL Mokoena.

The revised plan requested by your office is largely dependent on the outcome of the PIC investment committee decision. The Investment committee meeting is set to take place on the 1st of March 2018 after which the funding structure and final amounts will be known.

VBS Mutual Bank ("the Bank") therefore requests an extension to submit the revised plan by an additional one working day. The bank will submit the revised plan by close of business on the 1st of March 2018.



Yours sincerely

Andile Ramavhunga
Chief Executive Officer

"KN18" 166

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BANK SUPERVISION DEPARTMENT

VBS Mutual Bank

Options to consider for orderly resolution

2/26/2018

[Handwritten initials]

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Summary of options:

Option	Description of Option	Page nr	Concluding remarks on option
Option 1	Cancellation or suspension of registration by court	2	
Option 2	Cancellation or suspension of registration by Registrar	3	
Option 3	Restriction by registrar of activities of mutual bank	3	
Option 4	Judicial management	5	
Option 5	Voluntary winding-up of the mutual bank	6	
Option 6	Winding-up by court	7	
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	Sub-option 1	8	
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Option 8	Transfer of assets and liabilities/ Transfer of part of a mutual bank's business Facilitate and orderly private sector solution: Purchase and assumption	11	
Option 9	Liquidity assistance by existing shareholders	12	
Option 10	Approaching 6 large banks for liquidity assistance	14	
Option 11	Liquidity assistance by the SARB (ELA)	14	
	Conclusion and recommendation	17	

Comments included:

Comments received are colour coded per contributor

Colour	Name of person commented
Red	Nicola Brink

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VBS liquidity concerns: options to consider for orderly resolution

Options in terms of Mutual Banks Act and Banks Act				Is this viable	Funding/cost implications
Option	Legislation	Detail to consider	Implications impacting option		
1. Cancellation or suspension of registration by court	Section 23(1) and (4) of the Mutual Banks Act	<p>(1) The Registrar may by way of application on notice of motion apply to a competent court for an order cancelling or suspending the registration of a mutual bank if, in the opinion of the Registrar, there are grounds justifying such cancellation or suspension.</p> <p>(2) Sec 23(4) circumstances: In addition to any other grounds that the court may consider sufficient to justify the granting of an order, cancelling or suspending the registration of a mutual bank, <u>such an order may be granted if the institution concerned</u></p> <p>a. Or any of its directors or executive officers has been convicted of any offence in terms of this Act</p> <p>b. Does not satisfactorily carry on business as a mutual bank</p> <p>c. Has failed to comply with a requirement of this Act that is applicable to it in its capacity as a registered mutual bank;</p> <p>d. Continues to employ an undesirable practice; or</p> <p>e. Has in a material respect misrepresented the facilities which it offers to the general public,</p> <p>or if, in any other ground advanced by the Registrar in the relevant application, the court is of the opinion that it is</p>	<p>Positives:</p> <ul style="list-style-type: none"> No conviction of directors or executives of any offence in this Mutual Banks Act <p>Negatives:</p> <ul style="list-style-type: none"> It can be argued that the bank does not successfully conduct the business of a mutual bank The entity has failed to comply with a requirement of this Act that is applicable to it in its capacity as a registered mutual bank since it does not meet the liquidity requirements and minimum reserve requirements of the Act This Office is of the view that the management of the mutual bank is not fit and proper to execute their responsibilities regarding the business of the bank 	<ul style="list-style-type: none"> It can be argued that the bank does not successfully conduct the business of a mutual bank The entity has failed to comply with a requirement of this Act that is applicable to it in its capacity as a registered mutual bank since it does not meet the liquidity requirements and minimum reserve requirements of the Act This office is of the view that the management of the mutual bank is not fit and proper to execute their responsibilities regarding the business of the bank This is the ultimate options once curatorship has been executed. And non-viability of the bank has been confirmed. 	<p>If there is a sudden stop in the activities of the bank, the impact on customers could be severe, eg if they suddenly lose access to their funds or cannot perform any transactions. We don't think this is a realistic option.</p>

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			not in the public interest to allow the institution concerned to continue its activities as a mutual bank.			
2.	Cancellation or suspension of registration by Registrar	Sec 21 of MB Act	The Registrar may, subject to sec 22 (refer option 3 (2)), in the case of mutual bank registered as such, with the consent of the Minister and by notice in writing to the institution concerned cancel, or suspend on such conditions as the Registrar may deem fit, such registration if the institution has not conducted any business as a mutual bank during the period of six months commencing on the date on which the institution was registered as a mutual bank.			<ul style="list-style-type: none"> This is not an option since the institution was established in 1982 and has been conducting business as a mutual bank since 1992.
3.	Restriction by registrar of activities of mutual bank	Section 24 of Mutual Bank Act	<p>(1) The Registrar may, in lieu of (instead of) an application under section 23(1) by written notice to a mutual bank in respect of which, in the opinion of the Registrar, any of the circumstances as per sec 23(4) of MB Act is present (refer option 1 (4) above), restrict the activities of the institution concerned as a mutual bank in such respects and on such conditions as the Registrar may specify in the notice.</p> <p>(2) Provisions of sec 22 shall apply in the restriction of the activities:</p> <p>a. The Registrar shall, in a written notice addressed to the chairperson or CEO of the institution concerned –</p> <ol style="list-style-type: none"> Inform the institution of its 	<p><u>Consideration options:</u></p> <ul style="list-style-type: none"> Replacing or enhancing the management of the bank, especially the CEO Main concern is liquidity and sourcing of reliable and stable funding followed by sustainable profitability <p><u>Option:</u></p> <ul style="list-style-type: none"> Enter into discussions with the Board/chairman of the board regarding the replacement of the CEO Instruct the bank to stop all lending activities until such time as sufficient and stable funding has been sourced Instruct the bank to limit its 	<ul style="list-style-type: none"> Restriction of their activities will mainly result in a negative impact on: <ul style="list-style-type: none"> attracting liquidity as main source of deposits is from municipalities Profitability as main income streams is derived from providing contract financing, fuel financing and extending mortgages. 	<p>Restriction of certain activities may not restore viability (or may even further threaten viability), but if we think the bank is not viable in any case, a restriction on lending and non-core activities may assist an orderly wind-down over a longer period with a less severe impact on retail depositors. Probably better to do this under curatorship anyway.</p> <p>Although the CEO seems to a problem, the roots of the</p>

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			<p>intention...</p> <p>ii. Furnish the institution with the reasons for the intended suspension...</p> <p>iii. Call upon the institution to show cause within a period specified in the notice, which shall not be less than 30 days as from date of notice, why.....</p> <p>b. After considering any representation received within the specified period from the institution concerned by virtue of the provisions as in a(ii) above, the registrar may in his discretion -</p> <p>i. Proceed with the cancellation or suspension</p> <p>ii. Refrain from taking any further steps...</p> <p>and the registrar shall in writing inform the chairman or CEO of the institution concerned of his decision...</p>	<p>lending activities within strict set parameters until such time as sufficient and stable funding has been sourced.</p> <ul style="list-style-type: none"> • Bank to stop all non-core products targeting wholesale clients like fuel financing and contract financing and focuses on core products serving retail customers, mainly short-term products until liquidity has been restored satisfactorily. • To call-back overdraft facilities /not renew existing loan agreements to reduce the book • Instruct the bank to stop taking on deposits from municipalities until such time as NT has finalised their stance regarding municipalities placing funds with mutual banks. This will worsen the problem if the bank if it can't take deposits. My understanding was that NT's position is based on legislation (PFMA) - it was only the manner in which it was communicated that could have been different? • Restrict the opening of new branches and business activities <p><u>Positives:</u></p> <ul style="list-style-type: none"> • Limitation of outflow of funds 		<p>bank's distress are probably wider and deeper, so removing the CEO will not necessarily help the bank survive.</p> <p>This is a non-diversified bank - restricting activities will only bring forward the failure of the bank.</p>
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				<ul style="list-style-type: none"> • Will buy time during which liquidity positions can be enhanced • Restriction of municipal deposits will decrease riskiness of depositors • Will enable them to focus on enhancements to back office and middle office, including staff, IT systems and infrastructure. <p>Negatives:</p> <ul style="list-style-type: none"> • Limitation on lending activities will negatively impact on income streams resulting in negative impact on profitability • Limitation of deposits from municipalities which is currently the main source of deposits, will negatively impact on their liquidity position as VBS currently have difficulties with attracting alternative sources of funding This is the current reality, not related to any limitation BSD may impose 		
4.	Judicial management	Sec 73 of Mutual Bank Act	<p>(1) The provisions relating to the judicial management of companies contained in the Companies Act, shall mutatis mutandis apply to mutual banks.</p> <p>(2) Order may be granted by the court on application of the Registrar or of the mutual bank if there is a special provision for a</p>	<p>Judicial management has been replaced by business rescue in the new Companies Act.</p> <p>In the business rescue regime, the board of directors of the company remains in place, but the directors must now work under the instructions of the</p>	<ul style="list-style-type: none"> • Current board and management will then remain responsible for the day to day activity of the bank but under the instruction of the judicial manager • The management of the board of VBS have on a consistent basis demonstrated to BSD that 	<p>Similar to curatorship, but the latter is better suited to a bank</p>

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			short process? Otherwise it could take too long.	business rescue practitioner. This will allow the business rescue practitioner to focus his attention on the critical changes that the company needs to make in the way it does business, while leaving the day to day management of the company to the board of directors.	they are not capable of effectively managing the day to day operations of the bank, irrespective of the guidance provided by the BSD.	
6.	Voluntary winding-up of the mutual bank	Sec 74 of Mutual Banks Act	<ul style="list-style-type: none"> Members to decide by special resolution A solvent company may conduct voluntary wind-up No cost to the SARB Alternatively, a director or shareholder may apply to the court in terms of Section 81 of the Companies Act on the grounds that: <ul style="list-style-type: none"> (i) the directors are deadlocked in the management of the company, and the shareholders are unable to break the deadlock, and— <ul style="list-style-type: none"> (aa) irreparable injury to the company is resulting, or may result, from the deadlock; or (bb) the company's business cannot be conducted to the advantage of shareholders generally, as a result of the deadlock; (ii) the shareholders are deadlocked in voting power, and have failed for a period that includes at least two consecutive annual general meeting dates, to elect successors to directors whose terms have expired; or (iii) it is otherwise just and equitable for the company to be wound up; 	<p><u>Positives:</u></p> <ul style="list-style-type: none"> Usually the least-cost solution. Deposit book of R1.8 billion could be transferred to other sound banking institutions. Cash and other easy liquidable assets could be transferred to other sound banking institutions. No/minimal losses to depositors, smaller losses to investors. <p>These positives are also available for other options, eg curatorship, P&A. They seem worth pursuing in the absence of deposit insurance and if we want to avoid hardship of depositors lose access to their funds.</p> <p><u>Negatives:</u></p> <ul style="list-style-type: none"> Not yet considered by shareholders as an option 	<ul style="list-style-type: none"> Application by any one director or shareholder or the Registrar of Banks for the voluntary winding up of the bank when there is a deadlock as discussed above No deadlock identified/evidenced 	Not an option under control of BSD

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			<ul style="list-style-type: none"> Notwithstanding the provisions of section 74 of the Mutual Banks Act and anything to the contrary contained in the Companies Act - in terms of Section 75(2) of the Mutual Banks Act, an order for the winding up of a mutual bank may be granted by the court on the application of any creditor or of the Registrar or of the judicial manager of the mutual bank: provided that the Registrar shall have the right to oppose any such application made by any other person. 			
6.	Winding-up by court	Section 75 of MB Act Companies Act Insolvency Act	<p>75(2) An order for the winding-up of a mutual bank may be granted by the court on the application of any creditor or of the Registrar or of the judicial manager of the mutual bank: Provided the Registrar shall have the right to oppose any such application made by any person.</p> <p>75(3) The court may give to the liquidator any directions which to it may appear to be suitable in the circumstances, due regard being had to the interest of members and creditors of the mutual bank.</p> <p>75(4) An order for the winding-up of a mutual bank by the court shall not be made unless the court is satisfied that it is not desirable that the mutual bank be placed under judicial management.</p>	<ul style="list-style-type: none"> Winding-up only an option if court is satisfied that it is not desirable to place MB under judicial management. <p><u>Positives:</u></p> <ul style="list-style-type: none"> Provides certainty. The closure of a non-viable or badly managed bank contributes to market disciplines in the longer term. Limited amount of retail deposits makes compensation arrangements easier. <p><u>Negatives:</u></p> <ul style="list-style-type: none"> Drawn out liquidation process Creditors and depositors likely to suffer some losses Depositors lose access to their funds Further loss of investor confidence Insolvency is a trigger: need 	<p>Not a viable option</p> <ul style="list-style-type: none"> Drawn out liquidation process Creditors likely to suffer some losses Further loss of investor confidence Insolvency is a trigger: need to be factually insolvent or have committed an act of insolvency Political risk 	<p>Unless NT pays out depositors directly, this will cause hardship.</p>

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				<p>to be factually insolvent or have committed an act of insolvency</p> <ul style="list-style-type: none"> • Political risk 		
<p>7.</p>	<p>Appointment of curator to mutual bank</p>	<p>Sec 81 of Mutual Bank Act</p> <p>Section 89 of the Banks Act</p>	<p>(1) Provisions of sec 89 of Banks Act No. 94 of 1990, relating to the appointment of a curator to a bank, shall <i>mutatis mutandis</i> apply to any mutual bank that in the opinion of the Registrar is in financial difficulties</p> <p>(1) <u>If, in the opinion of the Registrar, any bank will be unable to repay, when legally obligated to do so, deposits made with it or will probably be unable to meet any of its obligations,</u> the Minister may, if he deems it desirable in the public interest, by notifying the chief executive officer or the chairperson of the board of directors of that bank in writing, appoint a curator to the bank.</p> <p>Curatorship</p> <ul style="list-style-type: none"> • Protect the interest of depositors • If the bank is put under curatorship, the main purpose should be to raise the necessary capital and to rectify governance and system issues. • Investigate and confirm the solvency position of the bank • Possibility to run down the book • Can facilitate an orderly wind-down under curatorship • Depends on asset quality • The registrar may appoint a person who is in the employ of the bank 	<p>Trigger events:</p> <ul style="list-style-type: none"> o The bank is unable to repay, when legally obliged to do so, any deposit or is unable or will probably be unable to meet any other of its obligations. o Obligations can be interpreted more widely than just for example repaying any liabilities when they fall due. It can also refer to any prudential obligation that the bank has to comply with, for example the maintenance of good corporate governance (including having a dedicated CEO, CFO, Chief Risk Officer and experienced directors on the board), meeting capital and liquidity minimum requirements (including the securing of capital by stipulated deadline) and maintaining updated systems that produce accurate financial results. <p>Positives:</p> <ul style="list-style-type: none"> • The bank can continue operations. The objectives of the bank deeply embed principles of financial 	<p>Conclusion on curatorship option:</p> <p>Sub-Option 1: Appoint curator to attempt to restore liquidity and viability of the bank</p> <ol style="list-style-type: none"> 1. The first important measure would be the conclusion reached by the Registrar of Banks and the decision by the Minister of Finance to place VBS under curatorship. 2. Decide on who to appoint as curator 3. The Registrar can appoint a person who is in the employ of the bank under the curator, who has wide experience of and is knowledgeable about the specific field of activities in which the bank is engaged. This person to replace the current CEO. 4. Agree on the fees in respect of the curator, inclusive of the team supporting the curator. Agree on a cap to be set on the annual payments. Any cost above the cap would need to be approved by the SARB 5. Banking operations to remain open (depositors to have access to their deposits) and collections to continue effectively and efficiently. VBS customers should continue to 	<p>We favour Sub-Option 2</p> <p>What about Postbank as a potential purchaser? Not sure about the status of the application, but it could possibly help both VBS and Postbank to diversify their assets and liabilities. (Just an idea...)</p>

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			<p>under the curator, who has wide experience of and is knowledgeable about the specific field of activities in which the bank under curatorship is predominant engaged, to assist the curator in the management of the affairs of the bank under curatorship.</p>	<p>Inclusion.</p> <ul style="list-style-type: none"> • The ineffective management team of the bank can be replaced and the management of the bank can be conducted by an appointed person with the necessary experience and knowledge in the management of the affairs of the bank; • Curator can develop and introduce a strategy to enhance the governance and management of the business of the bank, including risk management, processes, etc. which will contribute to ensuring the viability of the business of the bank • Curatorship provides time to properly establish the state of the bank, including its solvency and viability. • Curatorship can precede liquidation, but also provides time to cushion the effect on bank clients, eg by negotiating a transfer of assets and liabilities to another bank. ELA can play a supporting role in such a strategy. • <i>Process could be managed and depositors reassured through proper communication of a winding-down strategy or strategy for bank to pay its debts or meets its</i> 	<p>use their existing VBS branches.</p> <ol style="list-style-type: none"> 6. Helplines to be set up where curator will answer questions from bank clients. 7. Curator's mandate should be to: <ol style="list-style-type: none"> a. Provide certainty in respect of the viability of the bank b. Consider proposals to restore liquidity of the bank c. Provide shareholders opportunity to participate in restoration actions d. Consider strategy and actions to reconstruct the management and risk processes and practises in the bank e. Ascertain the asset quality and long-term viability of the the bank f. Address governance and system issues at the bank; and g. Review current operations to ensure future sustainability of the bank. <p>Sub-Option 2: Appoint curator with intention to transfer assets and liabilities to a possible suitor with ultimate intention of winding down of entity</p> <ol style="list-style-type: none"> 1. The first important measure would be the conclusion reached by the Registrar of Banks and the decision by the Minister of Finance to place VBS under curatorship. 	
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				<p><i>obligations and become a successful concern (refer sect 69(2D)???)</i></p> <ul style="list-style-type: none"> • Estimation of curatorship fees - there is less complexity compared to African Bank and therefore less cost would be incurred for any restructuring or to prepare for any sort of deal. Furthermore, the period of curatorship would probably be shorter. Curator can consider proposals to restore liquidity to acceptable levels; • Curator may secure funds for the needed improvement of risk management processes and systems • Address governance and system issues at the bank • Curatorship may ensure the future sustainability of the bank <p>Negatives:</p> <ul style="list-style-type: none"> • Minimizing the extent of losses which may be suffered by depositors depends on asset quality • A public announcement and open process that may erode confidence in the entire banking system. • Political risk 	<ol style="list-style-type: none"> 2. Decide on who to appoint as curator 3. Agree on the fees in respect of the curator, inclusive of the team supporting the curator. Agree on a cap to be set on the annual payments. Any cost above the cap would need to be approved by the SARB; 4. Curator to enter into a transfer of assets and liabilities or transfer of part of mutual bank's business agreement with possible suitors (?????). For purpose of the discussion we will call the interested suitor Bank X. 5. The interested bank (????) to assume all the deposits of VBS. 6. Total deposit book of R1,8 billion (87.24% of total liabilities (R2.0bn) as at the end of January 2018 to be transferred to Bank X and depositors of VBS will automatically become depositors Bank X. 7. Bank X to agree on the purchase of assets. Cash and cash equivalent assets (Money including deposits at SARB)) amounted to R21,3m at the end of January 2018. Bank X to agree on the purchase of the loans and advances book R1,8bn (probably at a significant discount - who funds the shortfall?) 8. VBS customers should continue to use their existing VBS branches. VBS branches may open and continue its operations as Bank X branches 	
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					<p>until they receive further instructions from Bank X on which branches of Bank X could be accessed.</p> <p>9. The assets and liabilities not part of the transfer of assets and liabilities/ part of mutual bank's business agreement to remain in the VBS legal entity for collection or disposition by the curator.(or liquidator?)</p> <p>10. Depending on the negotiations reached on the loan book, loan customers should continue to make their payments as usual at VBS branches or branches as indicated by Bank X.</p> <p>11. Lending activities to continue based on the credit criteria of Bank X. (not really relevant – this becomes part of the business of Bank X)</p>	
B	<p>Transfer of assets and liabilities/ Transfer of part of a mutual bank's business</p> <p>Facilitate and orderly private sector solution: Purchase and assumption</p>	<p>Sec 71 of MB Act Sec 72 of Mutual Banks Act</p>	<ul style="list-style-type: none"> • An orderly private sector solution (through transfer of assets and liabilities) with potential suitors (Mutual bank or bank) which can be facilitated by the SARB so as not to cause unnecessary disruption to the financial system and losses to depositors' funds. • Will protect depositors and result in losses for shareholders. • Possible suitors are the 4 large banks Standard Bank, Absa Bank, Nedbank and FirstRand • In the assessment of potential suitors, at least the following were 	<p>Positives:</p> <ul style="list-style-type: none"> • This option can be facilitated at any time • An orderly solution which can be facilitated by the SARB so as not to cause unnecessary disruption to the financial system and losses to depositors' funds. • All the identified suitors have reasonably good to strong board of directors, executive management and committees that are well structured and there is good oversight. 	<ul style="list-style-type: none"> • Purchase and assumption with the transfer of deposits and easily liquidable assets to possible interested banks likely to result in a possible shortfall which the SARB will have to inject in the form of cash into the acquiring bank. The purchase and assumption transaction would be the safest for the acquiring bank divorcing itself from any potential legal and other contingent liabilities. 	

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			<p>considered;</p> <ul style="list-style-type: none"> o Whether the suitor have similar product offerings o Whether the suitor has sufficient, high quality surplus capital to without raising additional capital to conclude the deal specifically when the instalment debtors, mortgages and term loans are included. The capital after the transaction should comfortably meet regulatory capital requirements. o The ability of the suitor to raise capital in future (access to capital markets). o The ability of the suitor to comply with the minimum leverage ratio post the purchase and assumption transaction. o Existence of established and mature operational risk frameworks, policies, procedures, systems and infrastructure. o Ability to maintain appropriate corporate governance, management, internal control and risk-management systems, including internal audit and a compliance officer after the acquisition. 	<ul style="list-style-type: none"> • Usually the least-cost solution • No losses to depositors, • Continuation of services <p><u>Negatives:</u></p> <ul style="list-style-type: none"> • This option may be considered by a Curator in Curatorship. • Requires Ministerial approval, which could be a lengthy process. • Official participation by the SARB in the negotiation process could be seen as implicit guarantee. • May result in a SARB cash injection as the 		
9	Liquidity assistance by existing shareholders		<ul style="list-style-type: none"> • 91.08% of share capital held by 3 major shareholders: Vele Investments (Pty) Ltd (Vele) 58.85%; PIC 27.63%; Dyambeu 4.6% • Largest shareholder, Vele Investments, holds 58.85% of share capital; significant owner is also chairman of VBS; chairman also a 	<p><u>Positives:</u></p> <ul style="list-style-type: none"> • Largest shareholders support, especially PIC and Dyambeu (Kings Council) may restore confidence and attract further funding • Additional funds from the PIC will reduce the concentration risk relating to the reliance on the largest 	<ul style="list-style-type: none"> • Source a quasi-equity injection from main shareholders (rights issue, PIC facility or attract new shareholder) to settle municipal deposits. • Unlikely to receive more capital or liquidity from major shareholder (Vele) as it already placed significant amount of 	<ul style="list-style-type: none"> • R1,5bn funding line requested from PIC equal to total exposure to local municipalities of R1,5bn with maturities of "on call" to 6 months

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			<p>large funding depositor through Insure Group and Vele Investments.</p> <ul style="list-style-type: none"> PIC as second largest shareholder holds 27.63% of share capital 	<p>shareholders, Vele's entire investment could be at risk should they decide not to inject liquidity and SARB decide to put entity under curatorship</p> <ul style="list-style-type: none"> Insure Group Managers Ltd, a subsidiary of Vele Investments, is also one of the largest sources of deposit funding; however the stability of the source is volatile. <p>Negatives:</p> <ul style="list-style-type: none"> The current business model and future viability of the bank is questioned – the longer the problem persists and the more money is put in, the greater the ultimate cost of failure. Increased contribution by major shareholder (Vele 58,85%) further increases concentration risk Over and above being largest shareholder, Vele is also one of the top 20 depositors Insure Group Managers Ltd, a subsidiary of Vele Investments, is also one of the largest sources of funding; however the stability of the source is volatile. Funding from the PIC could be at a costly price 	<p>capital into entity in order to salvage the business.</p> <ul style="list-style-type: none"> Negotiations with the PIC are underway since 19 February 2018 to provide liquidity support PIC has been approached previously and it is very reluctant to place more funding into the business. Other shareholders are of the view the PIC is the only shereholding entity that can now provide liquidity solutions since the other shareholders in the recent past was the main contributors of liquidity and capital. Insure Group Managers Ltd, a subsidiary of Vele Group, is also one of the largest sources of funding; however the stability of the source is volatile. Insure group, through Chairman Mr Matodzi, who is also chairman of Vele group, could be approached to reinvest longer term funding as a source of funding to assist with liquidity. 	<ul style="list-style-type: none"> PIC funding will consist of 1 year deposits, 5 year loan and a long term funding line Outcome from meeting between Registrar and NT, PIC and Chairman of VBS dated 26 February 2018.: <ul style="list-style-type: none"> PIC to possibly provide only between R300m and R500m funding Vele Investments(Pty) Ltd to possibly provide R300m Question remains how the gap between the possible R800m funding and the required R1,5m will be funded.
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10	Approaching 5 large banks for liquidity assistance		<ul style="list-style-type: none"> Loans or facilities 	<p>Positives:</p> <ul style="list-style-type: none"> Diversify funding which will provide confidence in order for alternative liquidity to start flowing in Can be repaid to banks when surplus liquidity is available <p>Negatives:</p> <ul style="list-style-type: none"> Exposure of banks to an entity with a non-viable business plan 	<ul style="list-style-type: none"> VBS is not a listed entity and therefore not rated Other financial entities therefore do not want to invest in a non-rated entity Highly unlikely to get funding from other banks 	
11	Liquidity assistance by the SARB (ELA)		<ul style="list-style-type: none"> Decision to be made under SARB Act, with final decision making to be taken by Governor of SARB at the request of the Registrar. This decision will be based on inputs by various departments in the SARB to determine the systemic impact of a possible bank failure. Framework document for provision of emergency liquidity assistance by SARB to be considered Key considerations for ELA: <ul style="list-style-type: none"> Will failure of the bank damage the stability of the financial system? The bank should be viable and have sufficient margin of accounting solvency The bank should meet the minimum prudential requirements in normal circumstances 	<p>Positives:</p> <ul style="list-style-type: none"> Failure of the bank will not damage the stability of the system Bank is solvent ELA: quick turnaround time; can be done immediately. Established process through SARB liquidity facility ELA can be helpful to support successful curatorship or P&A. ELA can protect the functioning of the payment system for a short while to facilitate the orderly exit from the NPS. <p>Negatives:</p> <ul style="list-style-type: none"> ELA is only bridging finance – it cannot save a bank that has weak management and a non-viable business model. Fit and propeness of management is questioned 	<ul style="list-style-type: none"> Failure of the bank will not damage the stability of the system (provided that failure is avoided) Bank is solvent (are we absolutely certain?) Bank does not meet the requirement regarding liquid assets and minimum reserves. Are compliant with capital requirements 	<ul style="list-style-type: none"> R880m deposits from municipalities are due total municipal deposit exposure with maturities of "on call" to 6 months totals R1,5bn Liquid asset shortfall R110m, i.e. encumbered in SAMOS; Min cash reserves required R50m These numbers exclude retail deposits. <p>ELA to VBS will create significant moral hazard because it is non-systemically significant with</p>

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		<ul style="list-style-type: none"> o ELA will have to be collateralised adequately o Bank had sought other reasonable available sources of funding before seeking ELA o No prima facie evidence that the management is not fit and proper, or that the liquidity problem is due to fraud o Bank must be prepared to take appropriate remedial actions to deal with liquidity problems o <u>Co-operation and co-ordination with National treasury</u> o Registrar to notify Governor and Minister of Finance as soon as early distress signals has been identified. 	<p>as evidenced by poor/lack of appropriate risk and liquidity management over a long period of time. Limited oversight, communication and involvement from CEO, especially in time of distress</p> <ul style="list-style-type: none"> • The ELA requires acceptable collateral and SARB typically cherry picks the highest quality collateral ahead of other creditors. • No Cat 1 statutory liquid assets available as collateral. Bank has a liquid asset shortage for the period. No Cat 2 assets. Cat 3 assets consisting of overdrafts and loans, mortgages and instalments • High haircut (25%-50%) on Cat 3 assets as collateral • Spill-over effect to other banks if information leaks • If ELA fails to rescue bank, the time delay could result in further asset value deterioration • In terms of ELA, the SARB lends public money to a bank, against collateral. If the bank fails despite having received ELA and collateral is of a poor quality, the losses ultimately fall to the tax payers and also puts other unsecured creditors in a subordinated position relative to SARB, making them worse off in liquidation. • ELA may increase moral 	<ul style="list-style-type: none"> • No Cat 1 statutory liquid assets available as collateral. Bank has a liquid asset shortage for the period. No Cat 2 assets. Cat 3 assets consisting of overdrafts and loans, mortgages and instalments • Bank in discussion with PIC since 19 February 2018 for additional funding. No feedback yet. • No suspicion of fraud. Fit and propeness of management is questioned as evidenced by poor/lack of appropriate risk and liquidity management over a long period of time. Limited oversight, communication and involvement from CEO, especially in time of distress. • Bank provided BSD with an updated strategy and liquidity recovery action plan – 22 February 2018, however it is mainly a "wish list" for the future medium and long term, with minimal immediate recovery options with exception of reliance on funding from PIC. 	<p>doubtful viability and weak governance.</p>
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			<ul style="list-style-type: none"> o Registrar to keep Minister informed o Governor will inform Minister if need for ELA arise, irrespective of systemic or non-systemic bank o Governor will have to get Minister's approval for ELA that cannot be adequately collateralised by a bank. NT will have to provide a guarantee o Should a bank not have adequate Cat1 collateral available, special arrangements could be put in place to accept other assets as collateral in repos transactions with the SARB. 	<p>hazard: if the SARB becomes generous in its provision of ELA, especially to a non-systemic bank with doubtful viability and weak governance, it may also create an expectation among all banks that ELA can be relied upon as a source of funding in distress, thereby increasing risk taking</p> <ul style="list-style-type: none"> o ELA is typically provided at a penalty rate, with haircuts applied to collateral. This makes ELA a more expensive form of funding for a bank, which can affect its profitability and viability o ELA gives rise to disclosure issues for the SARB. ELA is typically kept confidential, which may give rise to legal challenge later on, or investors could argue that they had been misled about the difficulties experienced by the bank. The SARB should be able to justify the ELA given based on well-considered grounds. 		
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Conclusion and recommendation

1. After having carefully considered all of the above options, the BSD is of the opinion that the best identified option is to place the bank under curatorship, by applying sub-option 1 under the curatorship option. Sub-option 1 proposes to appoint a person who is in the employ of the bank under the curator, who has wide experience of and is knowledgeable about the specific field of activities in which the bank is engaged in who will replace the current CEO to attempt to restore liquidity and viability of the bank
Finstab recommends Sub-Option 2, unless it transpires that the bank does indeed have a viable business model.
1. The curatorship can:
 - a. Secure sources of funds to recover liquidity position of the bank is this possible, given the legal constraint on taking local govt deposits? How will they replace such a large bulk of deposits?
 - b. develop and introduce a strategy to enhance the governance and management of the business of the bank, including risk management, processes, etc. which will contribute to ensuring the viability of the business of the bank
 - c. secure funds for the needed improvement of risk management processes and systems;
 - d. Address governance and system issues at the bank;
 - e. ensure the future sustainability of the bank.
2. The triggers for curatorship:
 - 3.1 The bank is unable to repay, when legally obliged to do so, any deposit; or is unable or will probably be unable to meet any other of its obligations, including the following:
 - 3.1.1 A continuation of failed batch settlement for on the national payment system
 - 3.1.2 Continued breach of liquid asset requirements and minimum reserve balance requirements
 - 3.1.3 Failure to enter into agreements with the PIC or other shareholder/third party in order to secure the much needed liquidity funding
 - 3.1.4 Continued outflow of matured deposit from the 20 largest depositors who mainly consists of deposits from municipalities
4. Although curatorship may cost more than the other options, BSD is of the view that this type of approach for resolution would result in the formation of a core team of specialists with extensive knowledge and established approaches. The formation of such a team would ensure that the process is efficiently and effectively executed.
5. Only when the triggers as outlined above are activated, the recommendation would be to consider curatorship.
6. Important to note is that the Registrar of Banks should provide solid and motivated reasons to the Minister of Finance for the Minister's consideration for the imposition of curatorship.



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Att: The Office of the CFO

MUNICIPALITY INVESTMENTS WITH VBS MUTUAL BANK

The above matter refers

In light of the discussions held between the VBS Mutual Bank and the National Treasury regarding the eligibility to take deposits from Municipalities as per the Municipal Finance Management Act No. 56 of 2003 (Regulation pertaining to Municipality Investment), it was decided by VBS Mutual Bank Management to relinquish/pay back all the municipal deposits held at the bank.

Due to the magnitude of this unwind process, the bank would like to inform you that the process will be finalised within the next 7 working days, as this will be lengthy, manual and has an impact on our books.

Over the next twelve months, VBS Mutual Bank will be working towards converting to a full commercial bank registered under the South African Bank's Act of 1990. This will ensure we do not have this issue again in future.

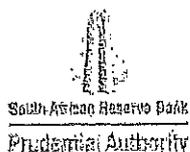
We sincerely apologise for the inconvenience caused.

Should you require any additional information please don't hesitate to contact (Philip Truter at +27-11 037 5453 or ptruter@vbsmbank.co.za)

Kind Regards,

Andile Ramavhunga
Group CEO

"KN19A"



Meeting requested by the Registrar of Banks regarding VBS Mutual Bank

Held at South African Reserve Bank – 4th Floor Ndlovu

Thursday 8 March 2018 (10:30 – 11:30)

South African Reserve Bank (SARB) Representatives:

1. Kuben Naidoo (*Host*)
2. Lesetja Kganyago
3. François Groepe
4. Daniel Mminele
5. Denzel Bostander
6. Kabelo Mokoena
7. Delarese Van der Merwe
8. Rego Ntsie
9. Johann De Jager
10. Hendrik Nel
11. Tim Masela
12. Edward Leach
13. Zamandlovu Ndlovu

National Treasury Representatives

1. Ismail Momoniat
2. Dondo Mogajane
3. Roy Havemann
4. Vukile Davidson
5. Mmatsepo Maldi
6. R. Tau

SizweNtsalubaGobodo Representatives

1. Anoosh Rooplal
2. Victor Sekese
3. Walter Stander

Two handwritten signatures in black ink, one above the other, located in the bottom right corner of the page.

VBS Mutual Bank (VBS)

1. Tshifhiwa Matodzi
2. Andile Ramavhunga
3. Philip Truter
4. Takalani Madzhadzi
5. Phophi Mukhodobwane
6. Ms Belinda Mapongwana
7. Mr Avhashoni Ramikosi
8. Mr Ernest Nesane
9. Mr Wilson Muvhulawa
10. Mr Nathaniel Mudau
11. Mr Mangalani Nevhuhulvi
12. Mr Mbulaheni Manwadu
13. Mr Paul Magula
14. Mr Thilivhali Ramawa

Apologies

1. Lesetja Kganyago
2. Kabelo Mokoena
3. Johann De Jager
4. Tim Masela
5. Ismail Momoniat
6. Victor Sekese
7. Nathaniel Mudau
8. Paul Magula

Discussions:

1. Mr Kuben Naidoo opened meeting, and meeting attendants introduced themselves.
2. Kuben gave a brief background to the history of VBS, and the reason for the convening of the meeting:
 - VBS had grown significantly in the past three years. VBS's balance sheet size was now R2.5 billion, which growth had mainly been driven by the injection of funds by the major shareholders and investments made by municipalities.
 - The municipality deposits however, were short term. SARB had repeatedly warned the bank that it is not a good business model to lend long term loans on short term deposits.

- The area of loans that had increased significantly over the past three years were mostly loans made to Small to Medium Micro Enterprises with government contracts (fuel guarantee and contract financing).
- At present, VBS is experiencing severe liquidity problems, and had breached several regulatory requirements. VBS's depositors had called upon their funds invested with the bank, however the bank has been unable to meet its obligations, particularly those pertaining to municipality deposits.
- In the last 6 months alone, VBS had been unable to meet its liquidity obligations on at least 3 separate occasions.
- The bank's Board and executive management were requested to provide an immediate solution to remedy the liquidity distress in the short term.
- Whilst it was acknowledged that some of the outflows had been a direct result of the National Treasury circular distributed to municipalities regarding the illegality of placing funds with banks not registered in terms of the Banks Act No 94 of 1990, the Office of the Registrar of Banks (this Office) was still of the view that VBS's strategy of lending short term deposits long term, was not viable.
- Currently, VBS had a R1,5 billion liquidity risk against municipality deposits.
- The Registrar together with representatives from National Treasury had held a meeting with the major shareholders of VBS, Vele Investments (Vele) and the Public Investment Corporation (PIC), and neither of them had been able to provide a solution to VBS's immediate liquidity shortage.
- After due consideration of the liquidity shortage being experienced by VBS, and the failure to timeously obtain a solution to rectify the liquidity position, the Registrar was of the view that the only option which the SARB can take is to recommend to the Minister of Finance that the bank be placed under curatorship.
- The Registrar intended to write to the Minister on 8 March 2018, to make the abovementioned recommendation.
- The Registrar was of the opinion that the best way to ensure the future viability of the bank was to replace board and management of VBS. After some time, curatorship may lead to bank being recovered.
- The SARB believed the business could be saved and made viable, albeit on a more conservative trajectory.
- This outcome however, was still dependent on the outcome of the Curator's assessment regarding the viability of the bank, and the willingness of the shareholders to recapitalise the bank.
- Under the old Bank's Act, the Registrar still needed the Chairman and the executive management's approval prior to recommending that the



bank be placed under curatorship, however with the amendments to the Banks Act, this requirement had be done away.

- This Office would however, certainly still appreciate the full cooperation of the Board in its recommendation to place the bank under curatorship.

Kuben had opened the floor to the Board and executive management of VBS for any comments.

3. Mr Tshifhiwa Matodzi commented that the issue of VBS's short term deposits had been a problem to the Board and Management since they had inherited the bank from their predecessors.
- Tshifhiwa had mentioned that the bank had attempted to engage and collaborate with National Treasury in March 2017 on a viable solution to wind down its exposure to the municipalities in an orderly manner, but had gotten no support in this regard.
 - In August 2017 VBS had become aware that their municipal clients had received communication from the National Treasury which indicated that their investments with the bank were illegal.
 - The bank had also approached the SARB to intervene on the matter, however the SARB's response had been inconclusive.
 - The bank had initially approached the courts as a means to get the attention of National Treasury after a number of failed attempts to obtain their guidance and support, however their attempts were to no avail as the letter to the municipalities was already in circulation and the withdrawals had begun to take place.
 - Tshifhiwa had mentioned that through its discussions and negotiations with National Treasury, VBS were made to believe that the bank had two years dispensation to retain the municipality deposits, on condition that the bank applied to the SARB for a full commercial banking license.
 - The Chairman maintained that had they been aware of the National Treasury's unwillingness to assist the bank in winding down its municipality in an orderly manner, they could have explored other options since August 2017, without exposing the bank to such crippling liquidity shortages.
 - VBS was currently at advanced stages with its negotiations with the major shareholders, PIC and Vele, and the Chairman affirmed that there was an indication that the solution to VBS's immediate liquidity issues was likely to be reached the next day, on Friday 9 March 2018, following the sitting of PIC's Investment Committee.
 - The Chairman and the rest of the Board of Directors indicated that in the event that the bank fails to obtain the required liquidity funding

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necessary to rectify the banks liquidity shortage position in the short term, then the Registrar may very well place the bank under curatorship.

- The bank had pledged its entire loan book, and requested one more day to try and source the necessary funding from the PIC.
4. A representative of the PIC, Mr Ernest Nesane who also sits on the Board of VBS as a permanent member, also confirmed that the PIC Investment Committee as due to meet on Friday 9 March 2018 in order to consider VBS's application for funding. The reason for the meeting tomorrow was to discuss the conditions under which the PIC was considering granting VBS the requested funding of R1,5 billion.
 5. Mr Dondo Mogajane mentioned that they had met with the two major shareholders in order to ascertain that they would provide liquidity to the bank, however the required funds had not been forthcoming. He mentioned however, that the National Treasury was not in a position to withdraw the communication sent out to the municipalities, as the legislation was clear that only banks registered in terms of the Banks Act may hold funds from municipalities.
 6. Dondo had noted the upcoming meeting to be held by the PIC's Investment Committee on Friday 9 March 2018, which indicated a possible commitment by the shareholder to find a viable solution to VBS's immediate liquidity shortage. He further suggested that the recommendation to place VBS under curatorship be postponed until such time that the aforementioned meeting had taken place.
 7. Tshifhiwa confirmed that the bank had agreed to stop taking deposits from municipalities until such time as the legalities regarding the issue had been resolved. Going forward, it was intended that the bank would grow organically as in the past. Again, he agreed that if the PIC does not provide the necessary funding, then the board and the management would have no objection to the placing of VBS under curatorship.
 8. Kuben commented on the following:
 - National Treasury, as the custodians of the legal framework under discussion, had a legal obligation to enforce the law, and it cannot be expected that they should withdraw the circular.
 - This Office had received a banking license application from VBS on 26 February 2018, however such applications had historically taken between 12 to 18 months to process, therefore it cannot be said that

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the conversion would provide a solution to VBS's immediate liquidity constraints.

9. The Registrar had resolved to postpone the recommendation to place VBS under curatorship until Monday 12 March 2018, pending the outcome of the decision reached by the PIC in the meeting to be held on Friday 9 March 2018.
10. Mr Denzel Bostander had raised a concern that since the Bank Supervision Department had started engaging with VBS in February on a viable solution to remedy the liquidity shortage in the short term, VBS had maintained that it was in advance stages of negotiating funding from the PIC. However, the funding had not been forthcoming. There had been no commitment of funds in writing received from the PIC. The Investment Committee of the PIC had previously met to discuss VBS's application for funding, however no firm commitment had since been made by the shareholder to provide funding. Denzel was concerned that VBS's depositors had already been placed at risk. Furthermore, VBS had, from a legal perspective, already triggered curatorship as it had a zero reserve balance of funds held at the SARB, had breached the South African Multiple Options Settlement System's limits, and the bank was also unable to meet its obligation to the municipality deposits when the depositors had called on their funds.
11. Ernest informed that the PIC Investment Committee had requested VBS's executive management to compile a plan of action to the remediation of VBS's issues as identified. He had mentioned that it was indicated that should the PIC provide the R1,5 billion as requested by VBS, the funding would have stringent conditions attached. Ernest further mentioned that should the PIC conclude on the outcome of the application tomorrow, it was envisaged that the solution would be one that can be deployed in the immediate term.
12. Consensus was reached by the representative of the SARB and National Treasury that VBS be granted one more day to attempt to obtain funding from the PIC.
13. Kuben asked the Board and the management if they would have any objections if the PIC said it would provide funding only on condition that the current Board and management step down. The Board and the executive management said they would have no objections to such a request, as the continued viability of the bank was of more importance to them.
14. Kuben advised that should the PIC impose such a condition, the most effective way of removing the entire Board and executive management would in fact be through curatorship, as it offered a legal bypass of certain legal



requirements, and therefore may be the most effective way of getting the bank recapitalise in the immediate term.

15. The Registrar concluded that if by 10h00 Monday 12 March 2018, this Office had not received written confirmation of the PIC's commitment of funds to the liquidity shortage that VBS was experiencing, then he would, by close of business, write to the Minister of Finance to recommend that the bank be placed under curatorship.
16. Dondo advised that he would notify the Minister that the recommendation letter would not be sent by the Registrar today (Thursday 8 March 2018), as had been anticipated.
17. The Registrar advised that if the PIC would like to meet with the SARB and the National Treasury on Monday 12 March 2018, then the representatives from both institutions would avail themselves accordingly.
18. The meeting was adjourned.

Approval of minutes

Date:

8 MARCH 2018

Registrar's signature:

Dondo

[Handwritten initials]

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South African Reserve Bank

Remarks by the Governor of the South African Reserve Bank, Lesetja Kganyago

Press Conference March 11th, 2018: VBS Mutual Bank

Members of the media,
Ladies and Gentlemen,

Thank you all for being here today.

We have called today's press conference in connection with VBS Mutual Bank, hereafter referred to as VBS.

VBS is registered with the South African Reserve Bank as a mutual bank. It was established in 1982 and initially operated as the Venda Building Society in the former Venda Homeland. VBS was granted a permanent mutual bank license on 11 October 2000. The legislative requirements of mutual banks are different from the regulatory framework for the supervision of commercial banks.

VBS has several branches, predominantly in the Limpopo province, with a head office and a corporate office located in Makhado and Johannesburg respectively.

VBS experienced increasing liquidity challenges over the last 18 months. These problems emanated from a failure of the board of directors and executive management to manage the mutual bank's rapid growth and its funding and

liquidity position. This resulted in VBS being placed under increased regulatory scrutiny.

The liquidity challenges emanated from the maturity of a large concentration of deposits from municipalities, and was exacerbated by the termination of other sizeable deposits and the inability to source sufficient funding timeously. It was highly risky for VBS to take sizeable municipal deposits that were short-term and lend them out long term. The liquidity challenges faced by VBS resulted in difficulty to settle its obligations in the National Payments System on several occasions.

Against the backdrop of the severe liquidity crisis which prevails at VBS, the Minister of Finance, upon recommendation by the Registrar of Banks, has decided to place VBS Mutual Bank under curatorship with effect from 17:00, Sunday 11 March 2018.

The office of the Registrar of Banks is tasked, amongst other things, with the promotion of the safety of depositors' funds placed with banks. This function is essential in ensuring that depositors retain confidence and trust in the South African banking system.

The SARB wishes to confirm that retail deposits at VBS amounting to R50 000 per depositor are guaranteed. Other depositors are hereby also informed that the curator will act in the best interest of all creditors.

VBS will remain open for business. The curator will ensure that all loans due are collected as part of the normal collections processes, but also importantly, that lending and transactional banking services continue.

The SARB is of the view that the appointment of a curator is in the best interest of the public and VBS' depositors. Furthermore, curatorship presents the most

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suitable and most effective mechanism to facilitate the orderly management of the bank.

Through curatorship, the SARB is given the legal means to create the necessary mechanisms to implement a resolution plan which will seek to ensure the sustainability of VBS. With the appointment of the curator, the current board and management are relieved of their powers and these are vested in the curator.

In this regard, SizweNtsalubaGobodo Advisory Services (Proprietary) Limited has been appointed, in terms of section 81 of the Mutual Banks Act 124 of 1993 read with section 69 of the Banks Act 94 of 1990, as the curator to VBS Mutual Bank. SizweNtsalubaGobodo Advisory Services (Proprietary) Limited will at all relevant times be represented by Mr Anoosh Rooplal.

Mr Rooplal is a partner and the head of the Financial Services Group of SizweNtsalubaGobodo Advisory Services. His CV will be provided to you as part of the press pack.

The SARB wishes to assure the public that the South African banking system remains safe, sound and adequately capitalised.

Issued by SARB Media Relations
media@resbank.co.za



IN THE HIGH COURT OF SOUTH AFRICA
(GAUTENG DIVISION, PRETORIA)

Case no. 19301/18

In the matter between:

VELE INVESTMENTS (PTY) LTD

Applicant

and

MINISTER OF FINANCE

First Respondent

THE REGISTRAR OF BANKS

Second Respondent

SIZWE NTSALUBA GOBODO ADVISORY
SERVICES (PTY) LTD (in its capacity as the
curator of VBS Mutual Bank)

Third Respondent

MINISTER OF JUSTICE AND
CONSTITUTIONAL DEVELOPMENT

Fourth Respondent

MINISTER OF COOPERATIVE GOVERNANCE
AND TRADITIONAL AFFAIRS

Fifth Respondent

CONFIRMATORY AFFIDAVIT: ANOOSH ROOPLAL

I, the undersigned,

ANOOSH ROOPLAL

do hereby make the following statements under oath:

- 1 I am an adult male director of SizweNtsalubaGobodo Advisory Services and the curator of VBS Mutual Bank.
- 2 The facts to which I depose are true and correct and are within my personal knowledge except where it is apparent from the context that they are not.
- 3 I have read the affidavit deposed to by Kuben Naidoo, and confirm the content thereof as true and correct insofar as they relate to me.



 DEPONENT

I hereby certify that the deponent has acknowledged that he knows and understands the contents of this affidavit, which was signed and sworn to before me, Commissioner of Oaths, at PRETORIA..... on this the 27th day of MARCH, 2018 the regulations contained in Government Notice No R1258 of 21 July 1972, as amended, and Government Notice No R1648 of 19 August 1977, as amended, having been complied with.



 COMMISSIONER OF OATHS

FULL NAMES:

ADDRESS:

EX OFFICIO:

<p>HANS DIMPANYANA RAMMUTLA Suite 519 - 5th Floor, Premium Towers Cnr. Lilian Ngoyi & Pretorius Street Pretoria, 0002 COMMISSIONER OF OATHS Practising Attorney, RSA</p>



DELIVERED BY EMAIL

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90 Florence Ribeiro Avenue
Muckleneuk, Pretoria

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YOUR REFERENCE :

OUR REFERENCE: Mr C Manaka/Mr C Moraitis/mr/SOUT3267.92/#4842004v1
DIRECT PHONE: +27 11 535 8145/+27 11 535 8271
EMAIL ADDRESS: cmanaka@werksmans.com/cmoraitis@werksmans.com

26 March 2018

Dear Sir

URGENT

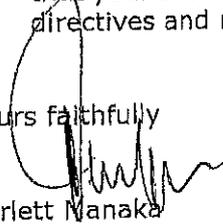
"With Prejudice"**VELE INVESTMENTS PROPRIETARY LIMITED VS THE MINISTER OF FINANCE AND OTHERS:
CASE NUMBER 19301/18**

- 1 The abovementioned matter refers.
- 2 The application herein was served upon our client, the second respondent, on 14 March 2018 at 11h15, requiring a notice of intention to oppose to be filed on 19 March 2018 and the answering affidavit to be filed on 26 March 2018 (today).
- 3 On 15 March 2018, our client was made aware the deponent to the founding affidavit in writing, informed the National Treasury that the application is being withdrawn. We confirm that a letter instructing you to withdraw was indeed addressed to you by the deponent of the founding affidavit. A copy of the letter is attached marked "A".
- 4 On Monday, 19 March 2018, we learnt from media reports that the authority of the deponent to the founding affidavit to withdraw the application is being challenged and that the application is proceeding. We immediately addressed a letter to yourselves, seeking a written confirmation by 16h00 on the same day, Monday, 19 March 2018, that you have withdrawn the matter and that the notice of withdrawal has been filed with the Registrar of the High Court.
- 5 After not receiving a response from yourselves, we proceeded to serve and file a notice to oppose the matter.

Werksmans Inc. Reg. No. 1990/007215/21 Registered Office The Central 96 Rivonia Road Sandton 2196 South Africa
Directors D Hertz (Chairman) C Andropoulos BA Aronoff DA Arteiro T Baka LM Becker JD Behr AR Berman MNM Bhengu Z Bleden HGB Boshoff GT Bossr
TJ Boswell MC Brönn W Brown PF Burger PG Cleland JG Cloete PPJ Coetser C Cole-Morgan JN de Villiers R Driman S Fodor D Gewer JA Gobetz R Gootkin
ID Gouws GF Griessel J Hollisen MGH Honiball VR Hoslosky BB Hotz HC Jacobs TL Janse van Rensburg N Harduth G Johannes S July J Kallmeyer A Kenny
A Khumalo R Killoran N Kirby HA Kotze S Krige PJ Krusche P le Roux MM Lessing E Levenstein JS Lochner K Louw JS Lubbe BS Mabasa PK Mabaso
MPC Manaka H Masondo JE Meiring SM Moerane C Moraitis PM Mosebo KO Motshwane L Najdoo J Nicklg JJ Niemand BPF Olivier WE Oosthuizen S Padayachy
M Pansegrouw S Passmoor D Pisanzi T Potter BC Price AA Pyzikowski RJ Raath A Ramdhan MDF Rodrigues L Rood BR Roothman W Rosenberg NL Scott
AA van der Merwe HA van Niekerk FJ van Tonder JP van Wyk A Vatalidis RN Wakefield DC Walker L Watson D Weglerski G Wickins M Wiehahn DC Willans
DG Williams E Wood BW Workman-Davies Consultant AL Armstrong

- 6 On 22 March 2018, we addressed a further letter to yourselves in which, amongst others, we noted that you had not responded to our letter of 19 March 2018. It was only on 22 March 2018 at 13h15 that you sent an e-mail to us advising that you had responded to our letter of 19 March 2018 on the same day. Upon perusal of your e-mail of 22 March 2018, which attached your purported response of 19 March 2018, it was noted that you had misspelt the e-mail addresses of our Messrs Manaka and Moraitis and hence we never received your response. We duly informed you of this fact. Accordingly your response was only received on 22 March 2018 at 13h15.
- 7 In our abovementioned letter of 22 March 2018 we placed on record that:
- 7.1 your client's application is aimed at attacking the constitutionality of the provisions of the Banks Act, the Mutual Banks Act and certain regulations which cannot be determined in an urgent court; and
- 7.2 the constitutional validity of statutes are complex matters and the question of justification for any limitation of rights requires extensive evidence to be produced about the purpose of the legislation, the means employed to achieve that purpose and the proportionality of the means selected.
- 8 Notwithstanding the above, you insisted on proceeding with the application in the urgent court and have, under the circumstances, placed unreasonable time periods upon our client.
- 9 Our client would like to adequately answer to your client's application, however, in light of the extensive evidence that our client has to deal with and address in the answering affidavit, our client is not in a position to meet the self-imposed timelines as stipulated in your notice of motion. Our client cannot be prejudiced as a result of your self-imposed timelines.
- 10 We, together with our client, are doing our best to collate the necessary evidence to adequately respond to your client's application. Our client's affidavit will be filed as soon as it is ready but definitely not today.
- 11 Having regard to the severe time constraints prescribed in your client's notice of motion and the fact that it became apparent that your client was proceeding with the urgent application only on 22 March 2018 at 13H15, as per the response received from you:
- 11.1 we had to arrange extremely urgent consultations with our client in order to obtain instructions;
- 11.2 we had to source the services of counsel on extremely urgent basis and short notice; and
- 11.3 counsel had to peruse the documents and an extremely urgent consultation was arranged.
- 12 This letter is made with prejudice in order to rely on same on the day of the hearing, more so, that your client's application is not urgent and furthermore, it does not comply with the practice directives and manual governing urgent applications.

Yours faithfully


Corlett Manaka
Werksmans Inc.



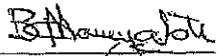
Messrs R.W Attorneys
Walker Creek Office Park
Second Floor
90 Florence Ribeiro Avenue
Muckleneuk
Pretoria

ATTENTION: MR. JOSEPH MALULEKE

RE: CASE AGAINST RESERVE BANK & NATIONAL TREASURY

1. We refer to the above matter.
2. Please note that Vele Investments and the delegation from the key met late yesterday with both the Reserve Bank and National Treasury and it was agreed that the parties will opt for an amicable resolution of their dispute.
3. It was further agreed that Vele Investments will withdraw its Court action.
4. Accordingly, we hereby instruct yourselves to withdraw the matter and to notify the Court accordingly.

Yours faithfully


B.M. MANYATSHE
Chairperson

VELE INVESTMENTS (PTY) LTD | Unit AS21, Grosvenor Square, Century City, Cape Town, 7441
TELEPHONE: +27 11 772 1000 | EMAIL: info@veleinvestments.com | www.veleinvestments.com
DIRECTORS: T. Matodzi (Chairman); R.M. Madzonga (CEO); P. Makhavhu (Non-Executive); B.M. Manyatshe (Non-Executive)

REGISTRATION NUMBER: 2014/253321/07



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 Web: www.rwafrica.com



Law | Tax | Forensic | IP

TO: WERKSMANS ATTORNEYS

WITH PREJUDICE

ATTENTION: MR C MANAKA/ MR C MARAITIS

BY EMAIL: cmanaka@werksmans.com/cmoraitis@werksmans.com

Your Ref:
 Mr C Manaka/Mr C Moraitis

Our Ref:
 MJ Maluleke/ T Nqini
 Direct No: (012) 452 4117
 Direct Fax: 086 545 0264
 E-mail: josephm@rwafrica.com

Date:
 27 March 2018

Dear Sirs

RE: VELE INVESTMENTS (PTY) LTD / MINISTER OF FINANCE & 4 OTHERS - CASE
 NUMBER: 19301/18

1. We acknowledge receipt of your letter dated 26 March 2018 marked urgent and sent to us with prejudice.
2. At the outset, we wish to set the record straight and confirm that we duly served above – mentioned application on your client on 14 March 2018.
3. Furthermore, if there was a withdrawal of the application as alleged and having regard to the letter by Mr B.M Manyatshe purporting to instruct us to withdraw the application, we would have filed a notice of withdrawal as the rules of court are clear on withdrawal of court proceedings.
4. Aside from the challenges surrounding validity of the aforesaid letter itself, which by the way, was a correspondence sent between an attorney and client. As the letter was addressed to us it was improper for your client to rely thereon and in the absence of a withdrawal notice by us.
5. Your client's convenient reliance on correspondence which was not meant for it under the circumstances lacks any legal basis whatsoever, is disingenuous and opportunistic to say the very least.
6. We note with serious concern that it appears that your client does not wish to engage and/or deal with the merits of the application at all. Instead of answering to the case that is pending

before court it is hell - bent on invoking all manners of delay tactics to buy itself more time in order to undermine and frustrate the urgency of our client's case.

7. While we regret the inconvenience occasioned by the misspelling of your email addresses which not intentional but a genuine human error, the same cannot be used as an excuse justifying your client's inability to file its papers on time. Given the deadline which you imposed on us to reply by, it is not unreasonable for us to expect that when you saw that our response was not forth coming by the said deadline you would called our offices to inquire as to why there was no such response.
8. Therefore your excuse relating to incorrect email addresses being responsible for your delayed reaction is rejected forthwith.
9. Despite our averments above, it is our view that our letter of the 19th March 2018 replying to your correspondence of same date was a mere courtesy in that absent a withdrawal notice it was clear to the parties that the matter will proceed. You ought to know the rules of court.
10. Any reliance by your office on the abovementioned excuses is not sufficient to condone non - compliance with the uniform rules of court.
11. It is distasteful that you and your client are choreographing all manners of technicality aimed at not addressing the merit of the case but solely at undermining the urgency of our client's case by seeking to paint a picture of prejudice that does not in fact exist.
12. This is more emphasised and demonstrated by your recent stunt in the form of a Rule 7 Notice wherein you even question our authority to act on behalf of our client. This is too desperate a measure to take.
13. The time spent on all these technicalities could have been properly utilised to prepare your client's opposing papers and to file same timeously. Once again we implore you to apply the rules of court to address the late filing of your answering affidavit.
14. Having regard to the above your stance that your client will file their opposing papers as soon as they are ready is unacceptable and rejected outright.
15. Our client does not wish to embroil itself in litigation by way of correspondence and therefore all legal arguments raised in your letter under reply will be addressed in court when the matter is heard which is the appropriate forum.
16. All our client's rights are fully and expressly reserved.

Yours faithfully



Joseph Maluleke
Director: RW Attorneys

