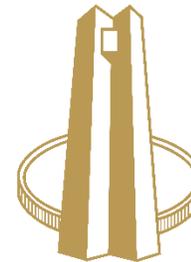


# VBS Mutual Bank

Presentation to Parliament

May 2018



South African Reserve Bank

---

Prudential Authority

# Agenda

1. Recap: Timeline of key events
2. Recap: Major issues of concern raised by the SARB
3. Preliminary findings of Curator's assessment
4. Appointment of Forensic Investigator
5. Forensic investigation – way forward
6. Municipalities and Auditors
7. Way forward



# 1. Recap: Timeline of key events

- 16 Feb '18:** VBS failed to settle on the South African Multiple Option Settlement system.
- 20 Feb '18:** SARB sent a letter to the Chairman of the Board of VBS requesting a detailed action plan.
- 21 Feb '18:** VBS indicated that it was negotiating for assistance from the PIC.
- 22 Feb '18:** VBS officially non-compliant with SARB liquidity requirements and failed to correct liquidity shortage. SARB notified Minister of Finance of VBS's liquidity distress.
- 26 Feb '18:** VBS submitted its application to convert to a commercial bank.
- 2 Mar '18:** Senior members within SARB met to discuss possible supervisory intervention options.
- 6 Mar '18:** SARB met with representatives from National Treasury (NT) to discuss possible solutions to the VBS liquidity crisis.
- 8 Mar '18:** SARB and NT met with VBS's Board and Management to discuss the bank's failure to obtain a viable solution to the liquidity distress and to communicate the regulator's intent to place the bank under curatorship.
- 10 Mar '18:** Media coverage began to emerge which indicated that VBS was "about to go bust".
- 11 Mar '18:** The Registrar of Banks recommended that the Minister of Finance place VBS under curatorship, which the Minister approved.
- 11 Mar '18:** VBS was placed under curatorship and SizweNtsalubaGobodo was appointed as the curator. Mr Anoosh Rooplal was deployed to VBS's offices to conduct his assessment and investigation.

## 2. Recap: Major issues of concern raised by SARB

- Inadequate and questionable governance and risk management practices.
- A deficient compliance function and culture.
- Aggressive growth strategy in balance sheet amidst funding challenges.
- Weak asset and liability management practices (high liquidity risk).
- Sectorial depositor concentration risk (Municipalities were 32 days, 3, 6 and 12 months maturations).
- Possible illegality of municipality deposits accepted by the bank and the legal developments in that regard.
- Volatility in financial performance as well as regular and significant losses caused by high operating expenses due to aggressive infrastructure expansion plans.
- The negative impact of these losses on capital.
- Venture into new products and services without commensurate investment in the enhancement of internal controls.
- Negative media coverage of the bank (reputational risk).
- Lack of proactive communication with the regulator on significant developments and delayed responses by management to crises.
- Poor quality of regulatory reports and other information submitted to the regulator.



# 3. Preliminary findings of Curator's assessment

**On 22 March 2018, the Curator presented his preliminary findings:**

- Integrity of financial information in the bank is highly compromised.
- Significant number of large Rand value related party transactions between bank, related companies and staff.
- Nine out of the 20 biggest advances flagged as non-performing. Staff are reluctant to follow up on large clients which owe the bank money, more so those directly related to the executive and main shareholder of the bank.
- Governance at the bank was weak: mismanagement by the executives and their management committee.
- Management and control of the bank has been dominated by certain key individuals.
- Analysis of the general ledger and trial balance identified suspense accounts with large balances and possible fictitious creation of deposits on the banking system.
- Key controls around procurement and payments appear to be deficient or non-existent.
- It is alleged that a team of consultants was deployed specifically to bring in business from the municipalities and the unions. These consultants were apparently remunerated on a commission basis based on the Rand value of deposits brought in.



# 4. Appointment of Forensic Investigator

Preliminary findings of Curator's assessment of VBS indicated that a forensic investigation was necessary.

**13 April 2018:** Advocate T Motau SC was appointed as the forensic investigator, with Werksmans appointed as the assistant to the investigator. Based on his findings, the SARB will take appropriate follow-up action.

## Primary objective of the forensic investigation:

Advocate Motau is to establish whether:

1. Any of the business of VBS was conducted with the intent to defraud depositors or other creditors of the bank, or for any other fraudulent purpose.
2. VBS's business conduct involved questionable and/or reckless business practices or material non-disclosure, with or without the intent to defraud depositors and other creditors.
3. There had been any irregular conduct by VBS's shareholders, directors, executive management, staff, stakeholders and/or related parties.

## Commencement of investigations:

**17 April 2018:** Private Investigator Operation commenced with a search and seizure in three buildings (Rivonia Corporate Office, Makhado Head Office and Thohoyandou branch) to secure records:

- All documents found during search were scanned and sorted;
- Laptops and cell phones found on the premises were seized and mirrored; and
- Oral evidence of persons able to assist was gained.



# 5. Forensic investigation: the way forward

The investigator intends to make regular interim reports to the Prudential Authority within SARB to:

- 1 Enable the PA to inform the Curator of the progress of the investigation;
- 2 Assist the Curator in initiating such legal processes as may be necessary to recover the vast amounts of money that may have been misappropriated from VBS; and
- 3 Enable the PA and/or the Curator to lay criminal charges against the perpetrators.

# 6. Municipalities and Auditors

## Municipality deposits

- It is alleged that VBS solicited substantial deposits from municipalities by paying large “commissions” to “middle men” who negotiated these deposits.
- The National Department of Cooperative Governance and Traditional Affairs, SARB, and NT have collaborated to form a tripartite working group with the primary objective of conducting an in-depth analysis of the circumstances leading up to the potential loss of the municipality funds.

## Auditors

- Both the Curator and the Forensic Investigator have engaged with the internal and external auditors.
- KPMG issued its unqualified audit opinion on 17 July 2017. The Curator has withdrawn the 2017 AFS due to there being material misstatements. Concerns were raised about the independence of KPMG due to personal family interests held by the engagement partners.

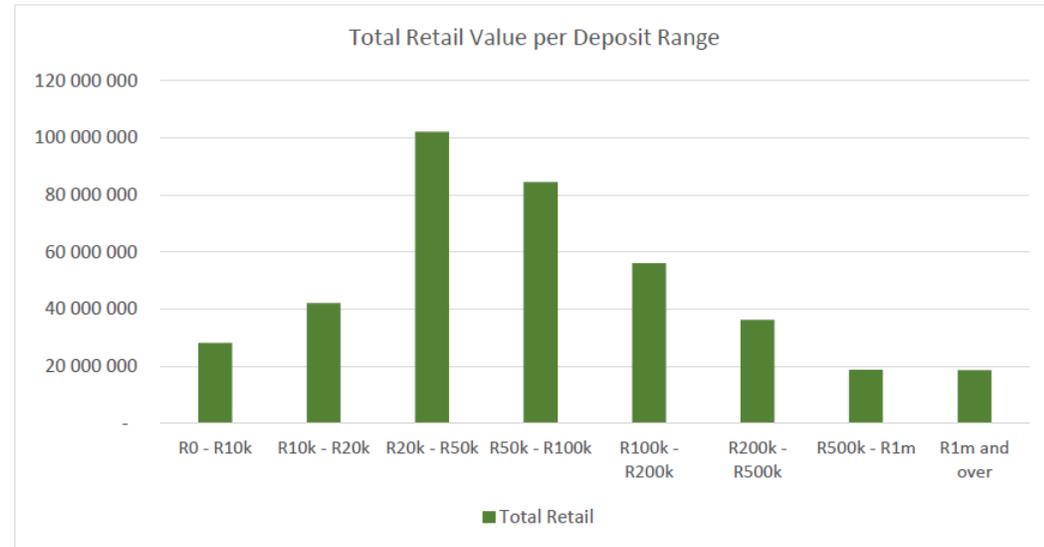
# 7. Way forward

## Guarantee

On 11 March 2018, the SARB confirmed that retail deposits at VBS amounting to R50 000 per depositor were guaranteed.

Retail deposit analysis (based on information available at the time):

	<u>Count</u>	<u>Value</u>
<b>Individual</b>	12,091	154,303,913
<b>Group Retail</b>	9,261	232,476,866
<b>Total</b>	<b>21,352</b>	<b>386,780,780</b>



- The bank continues to operate under strict cash management processes put in place by the Curator. All unnecessary and irrelevant operational services were suspended or terminated immediately.
- Payments to critical service providers are being prioritised and monitored.
- The Curator has now turned his attention to recoveries and collections in order to improve the cash position.
- The SARB continues to be in discussions with relevant stakeholders regarding the future of VBS.