

**NATIONAL ASSEMBLY**  
**QUESTION FOR WRITTEN REPLY**  
**QUESTION NUMBER: 740 [NW817E]**  
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**740. Adv A de W Alberts (FF Plus) to ask the Minister of Finance:†**

- (1) (a) When the decision was taken to make the investment of the Public Investment Corporation (PIC) on behalf of the Government Employees Pension Funds (GEPF) in the Venda Building Society Mutual Bank and (b) based on what investment principle was the decision taken;
- (2) whether the PIC monitored the investment on an ongoing basis and what was the modus operandi of the monitoring; if so, whether the PIC realised at any stage that the specified bank was using short-term deposits to extend long-term loans; if so, when the PIC realised this;
- (3) whether the PIC has taken any steps to protect the GEPF's investment in the specified bank; if not, (a) why no monitoring mechanisms are in place and (b) if there is a legal basis for monitoring this;
- (4) whether the mandate that the GEPF gave the PIC is with or without conditions; if so, what are the full relevant details and concomitant conditions;
- (5) what are the relevant details of the current strategy of the PIC concerning the fact that the specified bank has been placed under curatorship by the Reserve Bank?

[NW817E]

**REPLY:**

- (1)(a) VBS Mutual Bank was established in 1982 and traded as the Venda Building Society. The Government Pension Fund of Venda was a shareholder in the Venda Building Society. The Public Investment Corporation (PIC) became a shareholder in VBS Mutual Bank (VBS) with the enactment of the Government Employees Pension Law, 1996 (Proclamation No. 21 of 1996) (GEPF Law) on the 1st of May 1996. Section 14 of the

GEPF Law provided for the discontinuance of inter alia the Government Pension Fund of Venda as well as the Government Superannuation Fund of Venda and for these funds to be amalgamated into the Government Employees Pension Fund. There has however since been following-on of rights issues over the years.

(1)(b) Subsequent support for VBS has been provided on the basis of:

- delivering financial returns for the GEPF;
- support for an empowered business in a relatively untransformed sector; and
- enhancing financial inclusion, as VBS offers financial products and geographic reach that other financial institutions do not.

(2) The monitoring of an investment is an ongoing process that occurs at multiple levels. PIC on behalf of GEPF has rights as a shareholder stemming from the legal agreements between VBS and GEPF. PIC appointed two directors to the Board of VBS. PIC routinely monitors all of its investments, including VBS, in terms of financial performance, Environmental Social and Governance, compliance with legal agreements and other investments related aspects.

VBS provided PIC with Audited Financial Statements and interim management accounts, as well as other information as per legal agreements between VBS and GEPF. PIC conducts monitoring meetings with investee companies, including VBS, to discuss all aspects of their business, including financial performance, capital adequacy and regulatory compliance.

PIC and regulators have been aware of VBS's longstanding reliance on retail deposits for funding of its loan book. The need for VBS to diversify its funding sources has been a focus area of the VBS strategy. In order to strengthen VBS and sustainably attract capital, VBS has sought to grow, modernize, strengthen internal controls and has considered conversion to a commercial bank in terms of the Banks Act (Act No. 94 of 1990).

Therefore, PIC's monitoring has included continuous assessment of diversifying the banks' funding sources and liquidity management during implementation of the growth strategy. The liquidity crunch, as well as other reportable events and conditions, were not fully disclosed to PIC, and have only come to light following the failure of VBS to meet its

settlement obligations in February 2018. Subsequent events indicate that the information PIC placed reliance on, including audited financial statements, may have been inaccurate.

The findings of the ongoing investigations into the affairs of VBS will be instructive in understanding the true nature and causes of VBS's challenges.

- (3) PIC has taken multiple steps to protect the GEPF's investment. PIC appointed two directors who served on the VBS Board and its sub-committees. PIC's legal agreements also provide protection for the GEPF's investment. There has also been continuous monitoring and engagement with VBS as discussed above.
- (4) The GEPF mandate with the PIC is a full discretionary mandate subject to the Financial Advisory and Intermediary Services (FAIS) Act, 2002 (Act No. 37 of 2002).
- (5) VBS is currently under curatorship. This mechanism allows the SARB to assume control of VBS and direct its activities for the protection of stakeholders, preservation of the institution, management in the public interest, maintenance of the integrity of the financial system, or any other purpose as may be appropriate. On the advice of the Curator, The SARB has also commissioned a forensic investigation to investigate the conduct of VBS and its engagements with stakeholders.

PIC has engaged with the Curator. PIC does not wish to pre-empt the current processes and awaits the outcomes of the various work under way at VBS.