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

02 December 2017

Mr Lindikhaya Zide  
Acting Group CEO  
Passanger Rail Agency of South Africa (PRASA)  
Physical address: Prasa House, 1040 Burnett Street, Hatfield, Pretoria

**RE: CONFIRMATION OF INVESTMENT ACCOUNT**

This letter serves to confirm that an investment account has been opened for the Passenger Rail Agency of South Africa (PRASA) with VBS Mutual Bank, with the following account details:

**Client Name:** Passenger Rail Agency of South Africa (PRASA)

**Account Number:** 10104432001

**Bank:** VBS Mutual Bank

**Branch code:** 588000

**SWIFT Code:** VBSMZAJJ

The account carries a guaranteed interest rate of 8.25% per annum with no downside risk on the capital amount invested



XPP   
Gift Marwanqa  
VBS Mutual Bank Chief Banking Officer

BK or

"RA10"

**Mellany Kim Gilfillan**

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**From:** Yvonne Page  
**Sent:** 21 December 2017 01:42 PM  
**To:** Cromet Molepo  
**Cc:** Lindikaya Zide; Lesetja Botabota  
**Subject:** FW: VBS Investment  
**Attachments:** VBS-2016-Annual-Report.pdf

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Dear Cromet

Please find attached financials from VBS

Please note:

- Risk too high – see attached financials
- Their liquidity will not be able to manage our monies – negative cash flows as well as funding gap

Please see the well-written analyses as below from Lesetja.

Kind regards

Yvonne

**From:** Lesetja Botabota  
**Sent:** 21 December 2017 11:57 AM  
**To:** Yvonne Page <[YPage@prasa.com](mailto:YPage@prasa.com)>  
**Subject:** VBS Investment

Dear Yvonne;

As Promised, please see my mini analysis of the proposal from VBS.

This email is written keeping in mind the role government has to play in order to support emerging business in the economy, in our case in the finance sector as dictated to by the current legislation and government procurement. It is also keeping in mind that PRASA Treasury Policy (investment Policy) is mainly designed to invest surplus cash in capital preservation funds that can be recalled anytime with the capital intact.

The PRASA Treasury policy defines Counterparty risk as an economic loss arising from the failure of a counterparty to fulfil its contractual obligation. Its effect is measured by the cost of replacing cashflows if the other party defaults and capital loss if the counterparty is unable to meet its commitments. Thus to prevent this, the Counterparty Risk Management and Evaluation is done on a daily basis and some of its features are:

- A minimum short term rating of F1 or equivalent ( mostly measured by the quality of assets held against the cash), and
- Managing settlement risk

The PRASA investments policy is made out of the following 3 strategies (in order of importance);

1. Preservation of Capital (only investing in money market instruments)
2. Maintenance of liquidity to meet funding requirements; and
3. Maximise risk adjusted return in accordance to all sections of the Treasury Policy

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Also, the Investment policy allows for counterparties to have a minimum equity of R2.5 billion

Given the above, it is clear that VBS bank is disadvantaged in terms of all requirements to be counterparty to PRASA as per the approved policy. Section 16 of the Treasury policy makes provision for this as a prior written approval from the GCEO can make deviation from the policy. Even taking into account this clause, the GCEO needs to take into account the number one rule, that is capital preservation and due care is an imperative in this regards.

VBS

VBS Mutual Bank was established in 1982 and initially operated as Venda Building Society. The bank was granted a permanent Mutual Bank License on 11 October 2000.

The Bank has approached PRASA with a view for PRASA to invest some of its surplus cash with them.

The total notice and term deposits of VBS amount to just above R413 million which is below the R2.5 billion threshold as per their 2016 Financial statements.

VBS bank and its funds if any are not rated which again raises issues if we wanted to invest there. Due to the fact that don't know what is in the call facility that we are investing in, questions have to be asked the following:

1. This cash as per the presentation from will earn an interest of 8.25%, which is a high rate in the market with 3 month jibar (reference rate for banks short term rates) at 7.158% and even higher than 1 year Jibar of 8,03 this morning. A bank offering higher rates than other in a similar market will naturally raise question a to what assets will be held again a proposed investment to earn the required interest ( more return= higher risk)
2. Will this cash be invested with further counterparties with VBS managing the investment for fees or will it be used to fund their operations. If the cash is used to fund operations the problem comes in if PRASA experiences a liquidity shortage and we need to withdraw the funds, with VBS be in a position to do so?
3. According to their Financials, by us investing with VBS we will be increasing their funding gap mismatch, the question needs to be asked, what takes precedence between us and the ordinary customer on the streets in terms of withdrawals. This will even manifest in reputational risk for PRASA.

I have attached the latest VBS financials as a reference as I have referred to their numbers above.

Further discussions need to take place if the GCEO gives a written approval for us to seriously consider this investment in VBS in order for the GCFO and Treasurer to can further understand the risk and report accordingly.

Regards  
Lesetja

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FSP No. 30857

21 December 2017

Physical address: Prasa House, 1040 Burnett Street

Hatfield

Pretoria

To Whom It May Concern

Re: **POOL OF FUNDS FOR PRASA INVESTMENT**

By way of background, it is important to note that total assets currently under our management and placed with us as investment is R38 Billion.

In response to your enquiry regarding the pool of funds or asset class that the PRASA monies will be placed with, please see the below details.

- Quantum of funds in the specific asset class: R16 Billion
- Risk level of asset class: Zero, no downside risk in capital invested in line with SARB stringent compliance and insurance policies
- Rate of return on asset class: 8,25% per annum (fixed)

Should you require any further information, please do not hesitate to contact us.

Regards,

Bhekwayinkosi Gift Manyanga  
Chief Banking Officer

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**Mellany Kim Gilfillan**

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**From:** Yvonne Page  
**Sent:** 22 December 2017 02:32 PM  
**To:** Lesetja Botabota  
**Cc:** Cromet Molepo  
**Subject:** FW: PRASA Pool of Investment Letter  
**Attachments:** PRASA INVESTMENT CLASS OF ASSET LETTER.docx

Dear Lesetja

This will not suffice, we need proof, so I would suggest we need financials signed off by an auditor, unless there may be other options.

Kind regards

Yvonne

-----Original Message-----

**From:** Lesetja Botabota  
**Sent:** 22 December 2017 01:51 PM  
**To:** Yvonne Page <[YPage@prasa.com](mailto:YPage@prasa.com)>  
**Subject:** FW: PRASA Pool of Investment Letter

These guys have sent this as proof of where the cash will be deployed and it does not sufficiently address Mr Molepo issues.

-----Original Message-----

**From:** Gift Manyanga [<mailto:GManyanga@vbsmbank.co.za>]  
**Sent:** 22 December 2017 01:46 PM  
**To:** Lesetja Botabota; Lindikaya Zide  
**Cc:** Mpumelelo Ndamane  
**Subject:** Re: PRASA Pool of Investment Letter

Dear Lesidja

Please find the attached letter as requested.

Looking forward to wrap up this process with yourself today if possible.

Regards,  
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**Mellany Kim Gilfillan**

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**From:** Yvonne Page  
**Sent:** 16 January 2018 04:07 PM  
**To:** Gift Manyanga; Lesetja Botabota; Cromet Molepo  
**Cc:** Mpumelelo Ndamane; Brian Alexander  
**Subject:** RE: VBS Prasa Investment update and file as discussed

Dear Gift

Please note:

We have not agree to opening the account as per below, once we decided to go ahead, the necessary processes will be followed. Please also note we did not agree to invest R500 million as a first instalment to R1 billion.

where we are now - there is no proposed transaction from our side at the current moment.

We will have discussion with Lesetja once he is back as was committed yesterday and where needed we will follow up with Treasury etc.

Kind regards  
Yvonne

-----Original Message-----

**From:** Gift Manyanga [mailto:GManyanga@vbsmbank.co.za]  
**Sent:** 16 January 2018 01:07 PM  
**To:** Yvonne Page <YPage@prasa.com>; Lesetja Botabota <LBotabota@prasa.com>; Cromet Molepo <Cromet.Molepo@prasa.com>  
**Cc:** Mpumelelo Ndamane <MNdamane@vbsmbank.co.za>  
**Subject:** VBS Prasa Investment update and file as discussed

Good Day Yvonne,

As discussed during our meeting yesterday, please find attached breakdown of the depositors within the asset class where PRASA monies will be placed. Note that on the spreadsheet I used a threshold of R10 million. The R7 billion you see is only for corporate and municipalities with investment of R10 million and more. And then we have the balance of the R16 billion being corporate and municipalities less than R10 million and Retail Deposits (Individuals and Stokvels).

Please note that for companies we deleted their names for confidentiality while we are comfortable to share the names of the municipalities as they are public sector institutions.

Below are the next steps that were discussed during our meeting yesterday:

- VBS to send list of deposits within the specific class (attached)
- Yvonne to send through the following documents to finalize PRASA investment account with VBS (PRASA proof of Address, Proof of Address for signatories and clear uncertified ID copies) - VBS to collect the documents once advised that they are ready.
- VBS to load signatories on the account as per details provided above.
- Prasa to map their VBS Investment account to their main current account.

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Further to this, please note that we have agreed to the investment parameters as proposed by Prasa for the first R500 million of the R1 billion investment commitment, which can be summarized as follows:

- Interest rate of 8.25% will be paid monthly so as to give comfort around the liquidity of the asset class
- the monies will be on a 30 day notice, renewed monthly
- VBS investment facility will be at the back of the queue for withdrawal, owing to the the higher interest VBS Mutual Bank offers.

May we kindly suggest that we have a follow up meeting this Thursday so as to track progress made on the above and accordingly to be able to give feedback to Mr Molepo on Friday.

Regards,

Gift Manyanga  
VBS Mutual Bank: CBO



BK Handwritten initials 'BK' followed by a signature or flourish.



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Mr. Cromet Molepo  
Acting Group CEO  
Passenger Rail Agency of South Africa  
1040 Burnet Street, PRASA House  
Hatfield  
Pretoria  
0001

24 January 2018

Dear Mr. Molepo

## RE: INVESTMENT MANDATE

I am pleased to hear that your meeting with our Chairman Mr. Matodzi was fruitful and constructive. I am in agreement that I will be the point of contact for this investment and will avail myself to you and your team for all matters that you require clarity on regarding the investment.

We thank you for your business and I am pleased to inform you that we have approved the betterment of the rate on your investment by an additional 100 basis points to 9.25% from the previously quoted rate.

I would also like to highlight that VBS is a registered bank (license number 1051) as registered by the Registrar of Banks. VBS is a bank as defined in section 7 of PFMA act and section 31 of treasury regulations. It therefore qualifies to take deposits and investments with entities regulated by PFMA.

It is important to note that section 31.2.2 of treasury regulations on bank and investments states that:

“31.2.2” When going out on tender, and if the relevant treasury has not proposed its own bank, the public entity must take into account:-

- (a) that the bank is registered with the South African Registrar of Banks;
- (b) that the bank is a member or sponsored by a member of the Payments Association of South Africa (PASA);
- (c) contracting by the bank with persons, or categories of persons historically disadvantaged by unfair discrimination on the basis of race, gender or disability;
- (d) the cost effectiveness; and
- (e) the ability of the bank to provide the required services which includes sufficient systems, infrastructure and branch networks.”

VBS is fully compliant with all the above. It is also important to emphasize section 31.2.2(c) which encourages public entities to do business with previously disadvantaged banking institutions like VBS which is currently the only black owned bank in the country.

BK





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FSP No. 30857

I would also like to highlight that all investments held by the bank are accounted and managed using stringent liquidity and risk management framework approved by the board and reported accordingly to the Reserve Bank on a monthly basis. VBS is also one of the most highly capitalized banks in the country, with a current capital adequacy of 32% against industry average of 15%.

The two largest shareholders of VBS are the Public Investment Corporation (PIC) and Vele investments, a 100% black owned investment company with more than 50 billion in assets. These shareholders are registered as VBS shareholders of record by the Reserve Bank. The bank is therefore owned by highly capitalized institutions.

Yours sincerely

\_\_\_\_\_  
Andile Ramavhunga  
Chief Executive Officer

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**Yvonne Page**

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**From:** Yvonne Page  
**Sent:** 24 January 2018 01:54 PM  
**To:** Cromet Molepo  
**Cc:** Maxwell Ramagaga; Lesetja Botabota; Danny Baloyi  
**Subject:** RE: Prasa letter - Investment Mandate

Dear Cromet

Please note where we are at the moment the investment cannot be made – as discussed, we will give you a full write up.

Kind regards

Yvonne

**From:** Cromet Molepo  
**Sent:** 24 January 2018 12:04 PM  
**To:** Yvonne Page <YPage@prasa.com>  
**Cc:** tanmakhubele@me.com  
**Subject:** FW: Prasa letter - Investment Mandate

Dear Yvonne

I refer to the approval of the investment in VBS by my predecessor LK Zide, and the several discussions we have had over the past weeks.

I have had follow discussion with the Chairperson and negotiated an improvement on the original proposal which we had accepted, and the improved offer of 100 basis point is attached.

Because of the strategic nature of the proposal in terms of transformation, kindly prepare a submission for approval by the nominee of the BOC.

Kind Regards  
NC Molepo

**From:** Busisiwe Makutu [<mailto:BMakutu@vbsmbank.co.za>]  
**Sent:** 24 January 2018 11:28 AM  
**To:** Cromet Molepo  
**Cc:** Andile Ramavhunga; Tshifhiwa Matodzi; Gift Manyanga  
**Subject:** Prasa letter - Investment Mandate

Dear Mr Molepo

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Please find attached correspondence from Mr Andile Ramavhunga CEO VBS Mutual Bank.

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Kind regards

Busi on behalf of

Andile Ramavhunga  
CEO



**Busisiwe Mukutu**  
Acting Executive Assistant to | CEO-Andile Ramavhunga  
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Website: [www.vbsmutualbank.co.za](http://www.vbsmutualbank.co.za)

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BK A handwritten signature or initials, possibly 'BK', followed by a stylized flourish or mark.