INSTITUTE OF DIRECTORS
SOUTHERN AFRICA

African Governance Showcase 2017

African Bank Investment Ltd (ABIL): A South African corporate governance failure

International Finance Corporation
WORLD BANK GROUP

Schweizerische Eidgenossenschaft
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Eidgenössisches Volkswirtschaftsdepartement EVD
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The problem

Wednesday 6 August 2014 –9:45am

It was the start of a long weekend for Ian Matthews, head of equities at BG Wealth, who was mountain biking in the picturesque Elgin Valley in the Western Cape. After his first early morning cycle, Matthews checked his phone. To his surprise, he had four missed calls from Deryck Medley, his boss and the chief investment officer at BG Wealth:

"Ian, we have a serious problem! ABIL (African Bank Investments Limited) has just announced that CEO Leon Kirkinis has resigned and it needs to raise at least R8.5 billion in additional capital. The share is tanking, and we need to make a call on what to do. We have an emergency investment committee today at 4:00pm and you need to present a review of the ABIL investment case. This cannot wait."

Matthews knew what the implications could be for BG Wealth if ABIL went under. The asset manager owned 12.87% of ABIL's shares, and had exposure to the company across most of their unit trust funds. Their clients could lose a lot of money. Reluctantly, Matthews headed back to Cape Town. En route he called Lohan Levy ± an experienced financial analyst who reported to Matthews ± to compile all the investment reports he had produced on ABIL and any other information on the company.

Matthews had been in the asset management industry since 1991 and thought he had seen it all. But had he and his team made a huge mistake?

Contextual background

1. ABIL and its charismatic CEO

Wednesday 6 August 2014 – 11:05am

As Matthews walked into his office he knew how much rested on his shoulders. On his desk was the information from Levy from which he had to find the answers he needed. Four reports had been written on the company. The first analysis of ABIL contained the history on the company, information on the unsecured lending industry, and some background on African Bank's CEO, Leon Kirkinis.

As he started to read, Matthews remembered that before Kirkinis had arrived on the scene in the early Nineties, he had been sceptical about the financial viability of the unsecured lending industry. He was worried that the risks the lenders were taking on were too large and at some point, everything would come crashing down. It was clear though that ABIL's founder believed his company's purpose was to create something far bigger than just shareholder returns. He was running a highly profitable business while providing a crucial service to South Africa's poor.

Between 2008 and 2013 the unsecured lending industry experienced a period of rapid growth, doubling its value from R51 billion to R119 billion. By the second quarter of 2013, ABIL had captured just over 25% of the market. From 1999 to 2012, ABIL's earnings per share (EPS) showed annualised growth of 10%, and the company's return on equity (ROE) peaked as high as 59% in 2007. By 2012 its ROE had dropped to 20%, but this was still very good in the South African context, especially because it also reflected the negative effect the purchase of Ellerines had on ABIL's earnings.

Yet, despite Matthews' belief in ABIL and Kirkinis, BG Wealth had not shared the same view and had not been willing to invest in the company during this period. This frustrated Matthews as ABIL had attracted some of SA's largest institutional investors. However, Medley had always voted against any investment.

On 2 May 2013, ABIL released a very disappointing trading statement advising shareholders that headline EPS for the six months to 31 March 2013 would decline by 25%. This came as a shock to the market, as not even six months earlier ABIL had reported annual profit of R2.8 billion ± up from R2.3 billion in 2011. This statement led to a sharp drop in the company's share price, from R28.49 on 30 April 2013 to R23.90 on 3 May 2013 (Exhibit 5). This finally got Medley's attention as he thought it might signal a buying opportunity.

2. First Investment Committee: 7 May 2013

When the first meeting began, Levy was confident that his analysis was thorough. Medley wanted him to concentrate on the risks in the business and he identified the following:

- Aggressive credit impairment policies: Compared to its main competitor, Capitec, ABIL allowed a client to miss more repayments before a loan was classified as non-performing.
- Tough trading conditions: The South African economy was struggling to produce growth, and this led to rising bad debts.
- Ellerines: In 2008 ABIL purchased Ellerines for R9.1 billion to grow its customer base into the informally employed sector. But Levy was concerned that ABIL's board was inexperienced.
- Reckless lending: In 2013 the National Credit Regulator (NCR) fined ABIL R300 million for providing loans to customers without performing an affordability test. This was an isolated incident at one branch.

During the presentation, Matthews noticed a look on Medley's face: one of uncertainty. He voiced his concern that they were not seeing Kirkinis as the visionary he was, but Medley was not swayed. He decided that BG Wealth should wait for ABIL's interim results announcement on 22 May and reassess then. Meanwhile, Levy was to put together a formal research report on ABIL for the next investment committee. Medley wanted to know if they could make money off this trade.

3. Second Investment Committee: 24 May 2013

Levy began by stating that no matter what valuation methodology he applied to ABIL, the current price looked cheap. He felt that Ellerines would drag ABIL down as it continued to lose money, which meant ABIL was funding the shortfall.

Matthews, however, was more optimistic. His view was that Kirkinis had navigated tough times like this before, and he felt BG Wealth should invest in his company. However, Medley was worried that the business risks were not showing signs of improving. He decided to put the share on the watch list but not make a final call just yet.

4. Third Investment Committee: 11 October 2013

The next time Levy presented the ABIL investment case he was much more positive about the value he saw in its current price. Since the last committee, ABIL had delivered two more trading updates that had negatively impacted the share price and therefore increased BG Wealth's ™margin of safety∫.

In August 2013, ABIL announced that it needed to raise R4 billions of capital through a rights issue to strengthen its balance sheet. It was also actively looking to sell off Ellerines. In October 2013, the company announced that it had considerably increased its provision for bad debt as it had tightened its impairment methodology. All of this had caused the market's confidence in ABIL to fall even further. The share closed at R17.78 on 10 October, 6.4% lower than the previous day's close (less than half of its peak of R40.46 reached in January 2011).

This led to a robust debate with most of the team arguing that at this price ABIL looked like a heavily mispriced asset. The valuation was just too attractive not to invest now. A few, however, still felt that the risks were too high. Medley stood up and said:

"This is a great opportunity to make some money for our clients. It is also very positive that ABIL managed to raise more capital than originally intended. This company is the market leader in the unsecured lending space and I feel it will come out of this stronger."

That sealed the decision to add ABIL to the buy list. Matthews was very excited that Medley had finally agreed to invest in ABIL. He was confident that with Kirkinis at the helm, ABIL would come out stronger.

5. Concern sets in: 2 June 2014

The investment into ABIL had not been a positive one for BG Wealth. By 28 May 2014, the share was trading at R9.10, almost half of the price at which BG Wealth first bought it. However, being confident in its valuation and certain that the business would not go under, BG Wealth continued to increase its position. It now owned just over 12% of the company, which made it one of ABIL's largest shareholders.

When Levy presented at the next committee, Matthews could see he was not as confident as he had been the last time. His concerns were:

- Although ABIL had started to increase its provisioning for non-performing loans, he felt that management had not acted responsibly. They had not been proactive in increasing the provisions and tightening their credit-granting criteria.
- The proceeds from the rights issue were depleted by further credit write-downs and credit losses. This had not had the desired effect of strengthening the company's balance sheet.

Conclusion

Wednesday 6 August 2014 – 2:00pm

As Matthews was reviewing the minutes from the 2 June 2014 meeting, he remembered that this was the first investment committee attended by their newest analyst, Amy Mallet. She was employed to analyse companies on the basis of how they affected the environment and society, and their standards of corporate governance (ESG).

Matthews had convinced Medley to hire someone to focus on this aspect of the businesses in which they invested. Even though the asset manager was a signatory to the Principles of Responsible Investing (PRI) which encouraged investors to incorporate ESG factors into their methodology to enhance returns and manage risk, ESG factors were low on the priority list. Medley only wanted to focus on factors that had a direct impact on profits.

Matthews was concerned about the fact that all their research reports there had been very little mention of the board or the governance of ABIL so he located an email from Mallet which stated:

"A board of a bank faces corporate governance challenges non-financial institutions do not face. These challenges are mainly due to the complexity of banking activities. Because of this there are two very important aspects of a bank's board that need to be carefully considered:

- *The size of the board – generally banks' boards are bigger than the boards of non-financial institutions.*
- *The experience of the board members in financial services, particularly the non-executive directors.*
  The power of the CEO over the board needs to be carefully looked at, as he is the founder, industry expert, longest standing board member, and has a substantial shareholding."

Matthews read the research report (Exhibit 4) and a number of questions started to crop up about ABIL's board.

There was a knock at the door. It was Levy. He wanted to find out if there was anything more Matthews needed before their emergency meeting at 4:00pm. Matthews answered:

"I have gone through all the reports, as well as Amy's research. What is your gut feeling about ABIL's management, and in particular Leon Kirkinis?"

Levy did not have to think about the answer as this was something that had been on his mind since June. He had met Kirkinis only once and from that meeting it was clear that he was passionate about his work, confident in his ability, and only ever saw ABIL's success. He did not easily accept any bad news about the business he had created. Levy added that his only other dealings with Kirkinis had been at the company's results presentations where he came across as more of an entertainer than the CEO of a bank. Levy also found it strange that he had met with other members of the management team a few times, but could never get any direct answers from them about the state of the business. They always had to check with Kirkinis first.

6. At a crossroads

Wednesday 6 August 2014 – 3:55pm

Matthews had just finished summarising his findings from the day's research when he looked at his watch. It was 3:55pm. He picked up the reports and joined Medley at the lift, where Levy and Mallet were waiting. As the lift doors opened and they all stepped inside, Matthews could feel the tension. All of them knew they had a tough decision to make. As a team they had to determine what they missed, and, most importantly, what they should do now.

Reflections or probing questions for reader

The case's primary teaching objective is centred around the importance of corporate governance. The case provides detailed insights into the area of corporate governance through the analysis of a corporate failure. Through this teaching case the students will follow the real-life events that led to the collapse of ABIL. It is intended that readers will be forced to deal with a complex situation and will be required to develop specific solutions to the issues raised.

The readers will be lead to reflect on:

- The structure and composition of the board.
- The crucial role a well-balanced board of directors plays in the corporate governance of an organisation.
- The importance of the relevant experience of the board members.
- The risk an over-powering CEO has on the ability of the board to be effective.

- The role of institutional shareholders in corporate governance.
- The importance of incorporating ESG factors in the due diligence of potential investment opportunities.

Probing questions:

a) **In your opinion was the ABIL board a strong board? Gives reasons for your argument.**
The question should highlight the following issues for the reader:
   - The overall lack of financial services experience of board members.
   - The size of the board, smaller than the boards of other banks in South Africa.
   - The composition of the board and the high percentage of executive directors vs non-executive directors.
   - The longest standing directors on the board are the executive directors.
   - The control Leon Kirkinis had over the board and management.

b) **In your view was the ABIL board a well-balanced board?**
The focus of this question is to highlight how some of the issues raised in question a) can lead to an unbalanced board. The issues to discuss are:
   - Kirkinis was a very strong and charismatic character who had started the business, and the fact that the other directors on the board had very little financial services experience made it difficult for them to challenge any of his decisions.
   - He would therefore be more able to influence or control the board.

Exhibit 1: Glossary

- **ESG:** Environment, Social, and Governance
- **ESG analyst:** A financial analyst focusing specifically on how a company impacts the environment and society in which they operate, as well as how well established their corporate governance structures are.
- **Financial analyst:** Someone who researches the fundamentals of a company to understand the business to advise whether an investor should buy, sell, or hold the share. The analyst will look at industry factors as well as the macro- and microeconomic environment.
- **Impairment:** The accounting principle for the permanent reduction in an asset. The asset will need to go through the impairment test to determine what amount of that asset should be impaired.
- **Principles of Responsible Investing (PRI):** The world's leading proponent of responsible investment. It works to understand the investment implications of environment, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate, and ultimately of the environment and society.
- **Provisioning:** The process where a business sets aside funds for unexpected losses. In a bank's case, the bank would need to assess the risk of their loan book and determine what percentage of the book is at risk for defaulting. Once decided, the bank would need to provision for the loss in income from high-risk loans.
- **Rights Issue**: When a company offers existing shareholders the right to buy additional shares in proportion to their existing shareholding. If the shareholders choose not to take up their rights, they can sell those rights. A company will issue rights when they are looking to raise additional capital.
- **Write-downs:** Writing down an asset is the process of reducing the book value (the value of the asset represented on the balance sheet) because it is overvalued compared to the market value of that asset.

Exhibit 2: African Bank Investments Limited Group structure

Source: http://www.fin24.com/Multimedia/Timelines/TIMELINE-Story-of-an-African-Bank-20140825

Exhibit 3: Board of directors as at 2013

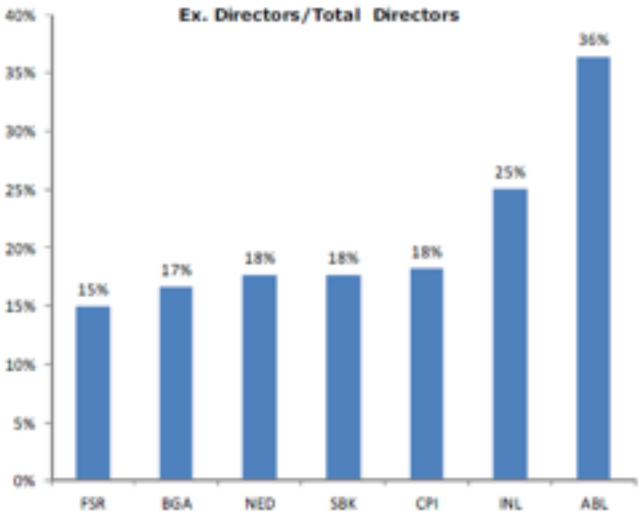
Name	Position	Date joined ABIL Board	Directorships
Mutle Constantine Mogase	Independent non-executive chairman	2007	Non-executive chairman of African Bank Investments Limited and African Bank Limited.
Leon Kirkinis	Chief executive officer of ABIL	1997	Executive director of African Bank Investments Limited, African Bank Limited and executive chairman of Ellerine Holdings Limited.
Toni Fourie	Executive director	2003	Executive director of African Bank Investments Limited and African Bank Limited. Chief executive officer of Ellerine Holdings Limited and executive director of other subsidiary companies.
Tami Sokutu	Executive director	2003	Executive director of African Bank Investments Limited, African Bank Limited and Ellerine Holdings Limited. Tami is the executive director responsible for the ABIL group risk function covering both the African Bank and Ellerine Holdings Limited businesses.
Nithia Nalliah	Executive director	2009	
	Executive director of African Bank Investments Limited, African Bank Limited, Standard General Insurance Company Limited, ABIL companies.		
Nicholas Adams	Independent non-executive director	2008	Non-executive director of African Bank Investments Limited, African Bank Limited.
Morris Mthombeni	Independent non-executive director	2013	Non-executive director of African Bank Investments Limited, African Bank Limited.

Robert John Symmonds	Independent non-executive director	2009	Non-executive director of African Bank Investments Limited, African Bank Limited, the ABIL Group insurance companies.
Advocate Mojankunyane Florence Gumbi	Independent non-executive director	2011	Non-executive director of African Bank Investments Limited, African Bank Limited, Standard General Insurance Company Limited.
Nomalizo Beryl Langa-Royds	Independent non-executive director	2011	Non-executive director of African Bank Investments Limited, African Bank Limited.
Jacobus Dorotheus Maria Gerardus Koolen	Independent non-executive director	2011	Non-executive director of African Bank Investments Limited, African Bank Limited, Ellerine Holdings Limited.

Source: African Bank Investment Limited 2013 Integrated Report

Exhibit 4: ESG Research on the ABIL Board

	Barclays Group Africa	FirstRand Group	Nedbank Group	Standard Bank Group	Investec	Capitec Bank	African Bank
Number of Directors	12	20	17	17	16	11	11
Ex.Directors/Total Directors	16.7%	15.0%	18%	17.6%	25.0%	18.2%	36%
NED/Total Directors	83.3%	85.0%	82%	82.4%	75.0%	81.8%	64%
Ind./Total Directors	50.0%	45.0%	41%	58.8%	n/a	54.5%	55%
Non Exc. Directors with Financial Sector Experience Ratio	**58%**	**50%**	**35%**	**41%**	**63%**	**45%**	**27%**
NED with financial sector experience	4	5	4	2	10	3	0
Independent directors with financial sector experience	3	5	2	5	n/a	2	3
Total Non-Executives with financial services experience	**7**	**10**	**6**	**7**	**10**	**5**	**3**



African Bank

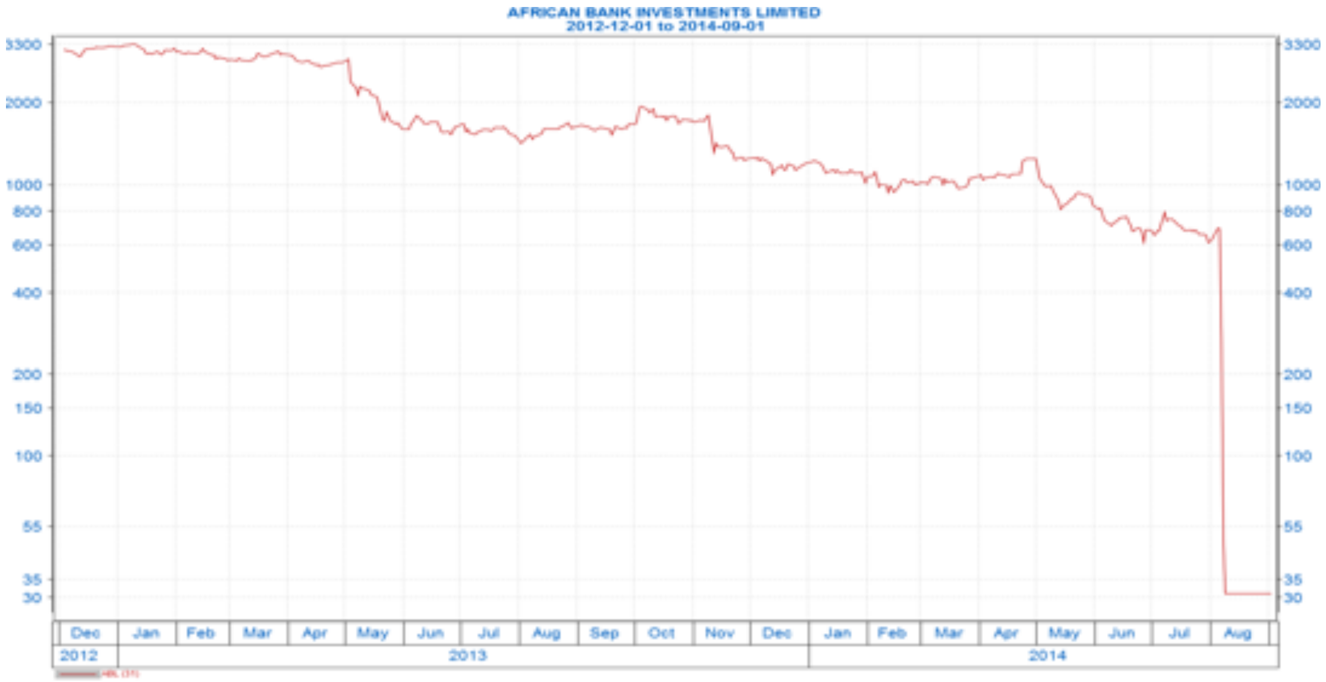
Name	Title	Age	Prior Experience	Prior Expertise
MC Mogae	Chairman	49		
L Kirkinis	Chief Executive	54		
A Fourie	Executive Director	53		
T Sokutu	Executive Director	50		
N Nalliah	Executive Director	54		
N Adams	Ind. Non Executive Director	54	Deloitte	consulting; Private Equity; IT; various
M Mthombeni	Ind. Non Executive Director	39	Momentum Investments	investments; varius
R Symmonds	Ind. Non Executive Director	54	Lombard Insurance; Mercantile Lisbon Bank	risk management; strategy; human resources, various

Source: Legae Securities (Pty) Ltd

ABIL Directors Shareholding as at September 2013		
Holder	No. of shares	% holding*
Executive directors	25 507 441.00	3.13%
Non-exec directors	4 481 743.00	0.55%
Total held by directors	29 989 184.00	3.68%
Leon Kirkinis (CEO)	16 731 875.00	2.05%
* % holding of the total ordinary shares in issue		
Total shares in issue 815 811 539.00		

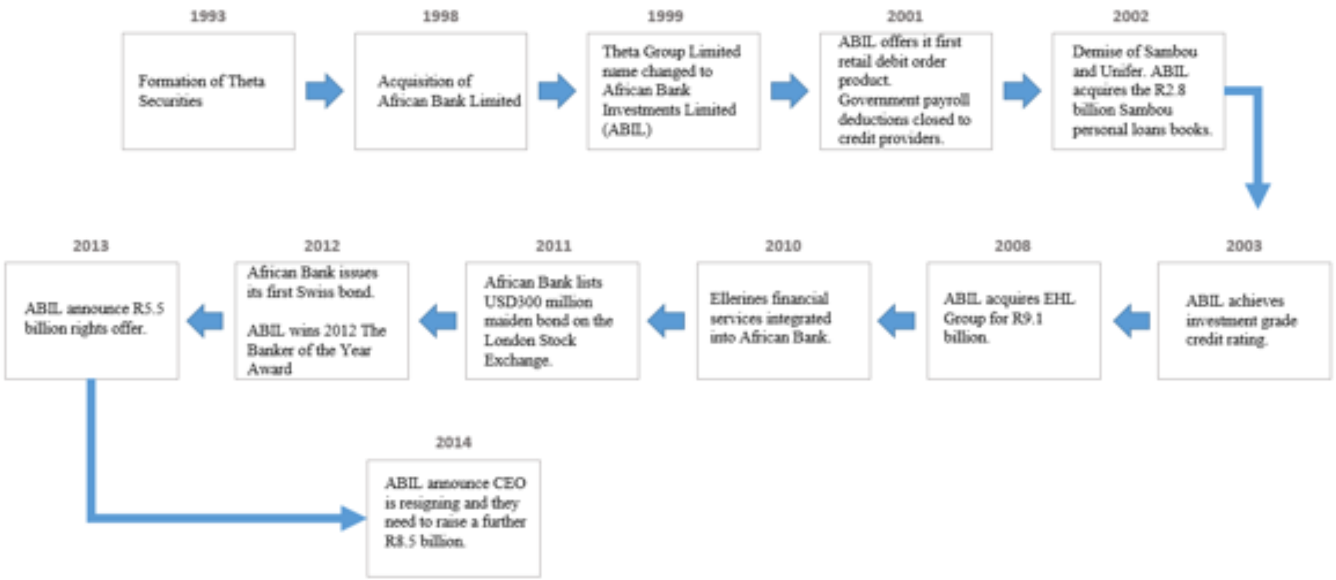
Source: African Bank Investment Limited 2013 Integrated Report

Exhibit 5: ABIL share price



Source: INET BFA

Exhibit 6: Tracing the history of African Bank Investment Limited



Source: African Bank Investments Limited 2013 Integrated Report and August 2014 ABIL trading announcement

State Secretariat for Economic Affairs

Exhibit 7: Media article

How Kirkinis failed with African Bank

A look at one of the "sharpest minds in banking".

Renee Bonorchis and Chris Spillane, Bloomberg / 27 August 2014 12:22

Leon Kirkinis, described as one of the sharpest minds in banking, changed South Africa by expanding credit to the poor. He also underestimated the risks, wrecked his company, rattled financial markets and left many of his 3.2 million clients drowning in debt.

Kirkinis, 54, co-founded African Bank Investments (Abil) in 1999 and built it into the country's largest maker of loans not backed by collateral. He resigned on August 6, the same day the company said it would post a record loss and need R8.5 billion to survive. The South African Reserve Bank (Sarb) stepped in four days later to salvage what it could.

"He was one of banking's brightest brains," David Bullard, who worked with Kirkinis at UAL Merchant Bank in the 1980s, said. "Before creating African Bank, he did his research and for a long time it worked."

He pursued a path to riches that led through some of South Africa's poorest provinces, and won the confidence of investors along the way. Styling himself a visionary for lending to South Africans ignored or deemed too risky by conventional banks, Kirkinis fuelled profits making loans at annual interest rates as high as 60%. Like US subprime lenders half, a world away, he overestimated his customers' ability to repay their loans when the economy soured.

Kirkinis left Johannesburg with his wife for a game farm far from the city shortly after stepping down, a person with knowledge of the matter said. He didn't respond to phone calls from Bloomberg News.

'Stupidest mistake'

Abil's "inherent flaw" was that it didn't provision enough for bad debts, said Kokkie Kooyman, head of Cape Town-based Sanlam Global Investments. That left the lender vulnerable when its target market suffered "severe deterioration" from protracted mining strikes that began in 2012, he said.

Beyond that, the "stupidest mistake" was buying the country's second-largest furniture retailer, Ellerine Holdings, in 2008, according to Kooyman, who said he argued about it with management at the time.

The consequences of the failure reverberated through the nation's financial industry and beyond. Moody's Investors Service lowered its credit ratings on South Africa's four largest banks, cutting billions of rand from their market value. The bank's demise may also bring closer a ratings downgrade of South Africa itself, Standard Bank said in a note on Aug. 20.

Unconventional banker

Kirkinis projected an everyman image, eschewing the typical banker's attire of suits and ties in favor of jeans, sport shirts and sneakers. He drove a yellow Jeep Wrangler to work, often with the roof off and music blaring, and preferred to be in nature and away from people.

He projected confidence and ease in conversation with the press. Employees at the bank's 1 000-seat call center in Johannesburg yelled his name and erupted into song when he visited with two Bloomberg journalists in January 2013.

"He told a compelling story with conviction and that obviously would have swayed people into trusting his judgment," said Royce Long, a fund manager at Obsidian Capital, which sold all its shares in the lender after it published a profit warning in January of last year.

As the company prospered, so did Kirkinis. In 2012, he was ranked the 37th wealthiest person in South Africa in the annual Sunday Times Rich List, with his holding in the lender valued at an estimated R660 million. That same year, African Bank paid an annual dividend of R1.95 a share.

By last November, when the company held a rights offer, the stake's value had shrunk to R274.1 million. Following the rescue, shareholders will probably be wiped out. He hasn't sold Abil shares in about seven years, based on stock exchange statements.

Source: http://www.moneyweb.co.za/uncategorized/how-kirkinis-failed-with-african-bank/

Exhibit 8: Media article

Ethics convince Futuregrowth to avoid microlenders' bonds

BUSINESS NEWS / 4 October 2013, 08:00am

Renee Bonorchis

The development funds of Old Mutual's South African fixed-income investment unit have halted purchases of bonds from unsecured lenders in the country because the high-interest credit they offer is hurting consumers. Futuregrowth Asset Management would "wind down" its holdings of bonds in Capitec Bank, African Bank Investment and other unsecured lenders over three to four years as the securities matured, said chief investment officer Andrew Canter, who helps oversee R128 billion.

This was not a "panic exit", he said, adding that the Old Mutual unit might hold R1bn of the bonds. "From having the view that microlending was always a social good, now we're shifting and saying maybe not, maybe there's damage being done," Canter said on Wednesday.

"Nobody says it's their intention to cripple people, but de facto, that's what's happening." Carl Fischer, the executive director of marketing and corporate affairs at Capitec, said in response to questions that new entrants to South Africa's unsecured lending market had reduced the price of credit.

South African consumer borrowing not backed by assets surged fourfold to more than R120bn in the three years to 2012, according to Macquarie Group, as lenders such as Bayport Financial Services competed for low-income clients. With annual interest rates of as much as 60 percent, those low-income customers are struggling to repay loans as increasing fuel and power prices pushed consumer inflation up to a four-year high of 6.4 percent in August.

"Even good players are being forced to do the wrong thing, offering clients more credit, to defend their clients from the bad players, so it's a bad dynamic," Canter said. "We're not saying the likes of Capitec or Bayport aren't creditworthy, we're just saying we don't want to be lending money to unsecured lenders out of our development funds."

Figures from the National Credit Regulator show that unsecured lending granted in the three months to June dropped 14 percent from a year earlier, Capitec's Fischer said in response to whether South African consumers were being increasingly crippled by debt. "The unhealthy part is if new providers have a high-risk appetite," Fischer said. "The credit regulator is addressing the affordability definitions and this will improve overall conditions in the market," he added.

African Bank declined to comment, while Mark Herskovits, the head of debt capital markets for Transaction Capital, which oversees the issuance of Bayport's bonds, did not immediately respond to a message on his office phone or e-mailed questions.

The yield on Capitec's five-year rand bond due in May 2016 surged to a two-week high on Wednesday at 8.925 percent and has climbed almost 100 basis points this year. The premium investors demand to hold the bank's notes over similarly dated South African government bonds peaked at 301 basis points in August and was at 279 basis points on Wednesday.

Futuregrowth might shift funds from those development funds, which account for R14.2bn of assets, to investments in alternative energy, housing, farming and infrastructure, Canter said.

The asset manager was drafting a policy on unsecured lending, he said, adding that clients had questioned why Futuregrowth held bonds issued by such lenders.

"It's legitimate, it's legal, but in our developmental portfolios we just don't feel like it's a story we're comfortable with," he said.

"In our mainstream portfolios, we'll still fund them and we'll charge more for risk. We're saying clearly the consumer is going to crack or there's going to be a political backlash or something's going to go wrong." – Bloomberg

Source: http://www.iol.co.za/business/news/ethics-convince-futuregrowth-to-avoid-microlenders-bonds-1586849

Exhibit 9: Principles of Responsible Investing

PRINCIPLE 1

WE WILL INCORPORATE ESG ISSUES INTO INVESTMENT ANALYSIS AND DECISION-MAKING PROCESSES.

PRINCIPLE 2

WE WILL BE ACTIVE OWNERS AND INCORPORATE ESG ISSUES INTO OUR OWNERSHIP POLICIES AND PRACTICES.

PRINCIPLE 3

WE WILL SEEK APPROPRIATE DISCLOSURE ON ESG ISSUES BY THE ENTITIES IN WHICH WE INVEST.

PRINCIPLE 4

WE WILL PROMOTE ACCEPTANCE AND IMPLEMENTATION OF THE PRINCIPLES WITHIN THE INVESTMENT INDUSTRY.

PRINCIPLE 5

WE WILL WORK TOGETHER TO ENHANCE OUR EFFECTIVENESS IN IMPLEMENTING THE PRINCIPLES.

PRINCIPLE 6

WE WILL EACH REPORT ON OUR ACTIVITIES AND PROGRESS TOWARDS IMPLEMENTING THE PRINCIPLES.

Source: https://www.unpri.org/about/the-six-principles

Exhibit 10: Media article

Evidence of reckless lending by African Bank?

Abil lends to seemingly over-indebted consumer.

Hanna Barry / 21 October 2014 00:08

Documents in Moneyweb's possession suggest that African Bank issued two loans to the same customer despite her having a volatile income and being already indebted.

Independent debt counsellor and founder of the Debt Counselling Industry (DCI) portal, Deborah Solomon has supplied two credit agreements to Moneyweb concluded between African Bank and a woman who we will call Ms Smith. In the case of the first loan, Abil granted R8 000 to Ms Smith in August 2008 with the following terms:

Ms Smith's first loan	
Loan amount	R8 000
Weekly instalment	R121.54
Payment period	144 weeks
Interest rate	33.5% pa
Total cost of loan	R17 502

Ms Smith's net weekly pay varied dramatically, as she was a shift worker in a factory. Her bank statements reveal that between May 2008 and August 2008, her average weekly pay was R408.56 or around R1 634 a month. Abil listed her minimum monthly expenses as R772, slightly higher than what she had declared (R600) but still seemingly insufficient to cover existing loans and living expenses.

According to Solomon, Ms Smith is a single mom who looks after her child and elderly mother; rents her accommodation and uses public transport (buses and sometimes taxis) to get to work and back. Based on Abil's assessment then, Ms Smith spent just R26 a day on food for three people, electricity, transport and rent.

Debt spiral

At the time she applied for the R8 000 Abil loan, she was paying off an existing loan with Abil in weekly instalments of R94.12. According to the National Credit Act (NCA) all existing expenses must be taken into account when granting a loan.

In addition to the weekly cost of the existing Abil loan, Ms Smith had a loan from another microlender that was costing her R145 a week, which then jumped to R180 a week. This reflects on her bank statement as NAEDO – a non-authenticated early debit order. A NAEDO is generally a loan from a financial or related institution that gets first preference when a customer's account is credited with a lump sum (usually a salary payment).

Let's assume she was no longer going to be paying the R94 instalments on the existing Abil loan when she took out the new one. Her income, expenses and loan payments would look something like this:

Ms Smith's income, expenses and loan payments	
Average monthly salary	R1 634
Minimum monthly living expenses	R772
Cost of existing NAEDO	R180 x 4 = R720
Cost of new Abil loan	R121.54 x 4 = R486.16
Monthly cost of loans	R720 + R486.16 = R1206.16
Money left to cover monthly living expenses	R428

"With four debit-order reversals over a 13-week salary cycle plus additional loans other than this current agreement, how could African Bank still deem the consumer credit worthy and not see how over-indebted this consumer truly was?" Solomon asks.

Months later, on October 24 2008, Ms Smith applied for yet another loan from African Bank for R4 500. Both loans resulted in emolument attachment orders (EAO) on her salary, which is when employers make deductions from an employee's salary and pay these directly to the employee's creditor.

It has been more than six years since they were granted and she is still paying off both loans. On the R8 000 loan, the settlement figure at July 30 2014 was more than R14 000 and on the R4 500 loan, the settlement figure was more than R5 000. "She [Ms Smith] is currently paying more than 70% of her salary towards EAOs from African Bank," Solomon notes.

Abil responds

African Bank refused to engage Moneyweb on the assessment behind this loan, saying that it needed a mandate from the consumer to discuss her personal information with media. The bank also said it had "extended numerous invitations to engage with the consumer" on her "affordability constraints", so it's not clear why Abil could not have sourced the mandate to engage with us from the consumer itself.

"We are comfortable that none of the loans in question were granted in a reckless manner. The information which was made available to the bank revealed stable and consistent income," Abil said. "The bank further complied with all the requirements of the National Credit Act ("NCA") and we are of the view that the interpretation of the "NCA" and the provided information per your correspondence is fundamentally incorrect and the facts were misconstrued," it said.

Source: http://www.moneyweb.co.za/uncategorized/evidence-of-reckless-lending-by-african-bank/

Exhibit 11: Additional media articles

1. http://www.cnbcafrica.com/news/southern-africa/2014/08/21/abil-insight-aggressive-lending/

2. http://www.bloomberg.com/news/articles/2014-08-27/how-brightest-brain-kirkinis-failed-with-his-african-bank

3. http://www.bloomberg.com/topics/companies/ABL:SJ

4. http://mg.co.za/article/2014-09-04-unsecured-lending-the-underwriting-was-on-the-wall

5. http://mg.co.za/article/2014-08-14-african-bank-rescue-evades-key-questions

6. http://mg.co.za/article/2014-09-04-african-bank-the-rot-stops-here

7. http://www.biznews.com/thought-leaders/2015/05/06/african-bank-how-we-managed-the-collapse/

8. http://www.cnbcafrica.com/news/special-report/2014/08/22/lehman-abil-comparison/

9. http://afkinsider.com/70304/failed-s-african-bank-gave-credit-to-the-poor/

10. https://www.bloomberg.com/news/articles/2016-05-04/african-bank-probe-said-to-have-found-directors-failed-in-duties

11. http://www.iol.co.za/personal-finance/my-money/banking/reckless-lending-call-to-fine-african-bank-r300m-14670