It was Wednesday 06 August 2014, and today was the start of a long weekend for Ian Matthews, the head of equities at BG Wealth. After a beautiful morning ride in the mountainous region of Elgin in the Western Cape, once he had loaded his bike onto the back of his car, Ian checked his phone around 09:45am to see if his wife had tried to call him. To his surprise, he had four missed calls from Deryck Medley, his boss and the chief investment officer at BG Wealth.

“Ian, it’s Deryck, we have a serious problem! ABIL (African Bank Investments Limited) has just announced that their CEO, Leon Kirkinis, has resigned and that they need to raise R8.5 billion of capital. Call me back immediately as we are having an emergency investment committee this afternoon at 16:00 where you will need to present a review of the ABIL investment case to help us decide what we need to do.”

As Ian put the phone down he knew what the implications could be for BG Wealth if ABIL went under as BG Wealth owned 12.87% of the shares, and had exposure across most of their unit trust funds. Ian reluctantly informed his training partner that their long weekend of riding was no longer possible as he needed to head back to Cape Town. As Ian was driving past the farmstall where he was supposed to be having a nice relaxing breakfast his phone rang, it was Lehan Levy, he wanted to know what they were going to do. Lehan was an experienced analyst who reported to Ian and held a Master’s degree in Economics and had just completed his MBA. Lehan had been the person responsible for researching ABIL and producing the research reports. Ian told Lehan to put together a pack of all their investment reports they had produced.

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1 This case study depicts actual events regarding the events that led up to the collapse ABIL. However, BG Wealth is a fictional organisation which was loosely inspired by the positions taken by some South African institutional investors during the period described in the case study.

This teaching case belongs to the University of Cape Town’s Graduate School of Business (GSB). To request permission to use the case, contact the GSB.
on ABIL, the minutes from all investment committees where they had covered the business, and any other information about the company and the unsecured lending industry.

As Ian drove over Sir Lowry’s Pass he began to feel uneasy and his mind starting racing. Ian, who had been in the asset management industry since 1991, thought he had seen it all. So how then could they have missed this? Did they make an error? Was it something that was obvious to other asset managers? Ian knew today was going to be a long stressful day, a complete contrast to what he had expected when he woke up this morning.

**ABIL and its charismatic CEO**

As Ian walked straight into his office at 11h05, he felt immediately the pressure as he knew how much rested on his shoulders. He closed the door. On his desk was the pack of the information he has requested from Lehan. Ian decided to put the reports into chronological order to allow him to start from beginning. Four reports had been written, dated; 07 May 2013, 24 May 2013, 11 October 2013 and 02 June 2014. Ian picked up their first report which had been produced for the 07 May 2013 investment committee. Because it was the first report it contained information on the unsecured lending industry, the history of ABIL and some background on African Bank’s fearless leader and CEO, Leon Kirkinis. Before he started to read the report, Ian remembered, that before Leon Kirkinis had arrived on the scene in the early nineties, Ian was very sceptical about the financial viability of the unsecured lending industry as he worried that the risks that the banks took on were too large and at some point, it had to all come crashing down.

**The unsecured lending industry in South Africa: a bumpy road**

The micro-finance industry started about thirty years ago, in Bangladesh, with the purpose of providing the rural poor with loans. Funding was provided by governments and NGOs and lending was done more on a group basis rather than to individuals. The industry grew rapidly in the 1980’s, group lending was replaced with individual lending and micro-finance institutions expanded into the urban areas. During the 1990’s the industry became more commercialised and banks started to enter the market.

The South African micro-lending industry only really started in mid 1990s and prior to that, lending to individuals was dominated by the traditional secure lending market. The South African market today can be better described as unsecured lending. Unsecured lending, which can either be providing credit or granting a loan, is defined as funds that are loaned without the backing of an asset or any other form of security.
The late 1990’s marked the first ‘unsecured lending crisis’ in South Africa when in a response to a rapidly weakening currency in 1998, the government aggressively increased interest rates to attract foreign investments. As interest rates spiked at 25.5% in September of 1998, increasing defaults in the banking sector triggered a banking crisis for the smaller banks. This led to several of them collapsing or being sold to larger institutions.

The second crisis took place in 2000 when the government put an end to unsecured lenders having access to civil servant’s salaries through the Persal payroll system. The Persal system facilitated the deduction of loan repayments from their salaries before getting paid. The sudden closure of this system was devastating and led to the three major unsecured lenders at the time, Unifer, Sambou, and ABIL, scrabbling to set up debit orders as a collection method. This shock led to the collapse of both Unifer and Sambou, leaving ABIL as the only major provider in the market.

**ABIL and Kirkinis**

In 1998, Theta Securities bought the struggling African Bank, to get access to their banking license (*Exhibit 6*). Leon Kirkinis, a merchant banker, founded Theta Securities, a specialist finance house, in 1993 before becoming the founder and CEO of ABIL after the purchase in 1998. ABIL, the listed entity, had two subsidiaries, African Bank and Ellerine Holding Limited (EHL). EHL which ABIL purchased in 2008, was founded in 1968 and operated a chain of furniture stores in South Africa, Botswana, Lesotho, Namibia, and Zambia. These furniture stores included Ellerines, Beares, Furniture City, Dial-a-Bed, Wetherlys, and Geen & Richards (*Exhibit 2*).

Ian had met Kirkinis many times over the years. The first-time he met Kirkinis was in July 2007. It was at an asset management industry breakfast where Leon was giving a talk on the unsecured lending industry. Ian recalled how blown away he was by how passionate Leon was about the unsecured lending industry. He thought it was remarkable to see someone so driven about the industry they worked in. Ian remembered a conversation he had been a part of with Kirkinis where he said:

“**Unsecured loans enable countless ordinary South Africans to build their homes, educate their children and provide for themselves**”

It was very clear that Kirkinis believed that ABIL’s purpose was to create something far bigger than just shareholder returns. Ian recalled that the Kirkinis story was always a good story to tell - founder turned CEO, running a highly profitable business, while providing a crucial service...
to the poor of South Africa. Kirkinis was often described as a charismatic, a visionary and very much a people’s person. He was also loved by his staff, and a good journalist friend of Ian’s once told him that she had gone to interview Leon at his office and when they walked into the call centre his staff all stood up and started chanting his name. She referred to the belief in Kirkinis as almost being almost cult like.

Ian had followed the Kirkinis and ABIL story since the late nineties, and it was a story of success. Ian was a very big fan of Leon and was extremely impressed with what he had achieved in a market that many market commentators did not initially believe in. Ian had considered Leon as one of the sharpest minds he had ever met in the banking industry. Leon had steered ABIL through some very tough periods, and had managed to turn ABIL into the largest unsecured lender in South Africa. Between 2008 and 2013 the unsecured lending industry experienced a period of rapid growth and grew from R51 billion in 2008 to R119 billion in 2013, and by the second quarter of 2013, ABIL had captured just over 25% of the market share. Between 1999 and 2012 ABIL’s earnings per share (EPS) grew by 10% per annum and their return on equity (ROE) reached its peak in 2007 of 59%. However, by 2012 their ROE had dropped to 20%, still a very good ROE in South Africa, due to several factors, the biggest one being the purchase if Ellerines and the effect that had on ABIL’s earnings. However, despite Ian’s strong belief in ABIL and Kirkinis, until May 2013, BG Wealth had not shared the same view and had always found an alternative share in the financial sector to invest in. This had always frustrated Ian as ABIL had always attracted some of South Africa’s largest institutional investors, such as the Public Investment Corporation (PIC) and Coronation Fund Managers, however in the end it was always Deryck who voted against any investment in ABIL.

The right opportunity to buy ABIL for BG Wealth?

On 02 May 2013, ABIL released a very disappointing trading statement advising shareholders they expected headline EPS for the six months to 31 March 2013 to decline by 25%. This came as a massive shock to the market, as not even six months earlier ABIL had disclosed that they had made a profit of R2.8 billion up from R2.3 billion in 2011 and that headline earnings per share were up by 18%. This statement led to a sharp drop in their share price from R28,49 on 30 April 2013 to R23,90 on 03 May 2013 (Exhibit 5).

BG Wealth was what was known in the asset management industry a ‘Value Investors’. Which meant they would only ever start to look to invest in a company that they felt is trading far
below what it is intrinsically worth. This style of investing had its challenges and was not for the faint-hearted as very often you were investing in a business that was struggling, and when the general market consensus was to sell the share you were buying it. It was therefore very important that a value investor made sure that they were very comfortable with their analysis and that although the business was struggling there was no significant risk that it will fail. Ian who had practiced several styles of investing had seen value asset managers crack under the pressure and sell out of those struggling shares at the bottom and had seen the consequences of that. To make sure they were confident in their analysis, BG Wealth, conducted bottom up fundamental analysis when analysing a business. What this means is that they aim to understand the business at a fundamental level. Ian had been instrumental in the development of BG Wealth’s investment process and believed it was one of the most detailed processes out there.

As value investors, this sharp drop in the share price got the attention of Deryck and Ian. They met with Lehan, who at the time was the equity analyst responsible for analysing/covering the financial sector, and specifically the banks. Deryck asked him to prepare an initial discussion paper to be presented at the investment committee on 07 May 2013. All Deryck wanted to know was the following:

- What are the risks in this business?
- Could the share price fall further?

07 May 2013: First Investment Committee

On the 7th of May 2013, Ian got to the office at 6:00 am as he had a busy day ahead and wanted to get through some work before the investment committee at 10:00am. On his way to his office Ian saw Lehan at his desk. Lehan had been there since 5:30 am to check his paper one last time, as he was nervous about the investment committee later that morning because he knew he was going to be presenting the paper to the full investment committee. The committee consisted of Ian and Deryck and the other 19 members of the investment team. These members consisted of the 7 portfolio managers, 8 senior and 4 junior analysts. He also knew that his findings would form the basis of the team’s decision of whether they chose to put the share on the buy list.

In his findings Lehan presented the following risks in the business:
Aggressive credit impairment policies: compared to their main competitor, Capitec, ABIL allowed a client to miss more repayments before the loan would be classified as a non-performing loan. Therefore, improving the perceived ‘health’ of the loan book.

Tough trading conditions ahead: The South African economy was bumbling along, struggling with growth and this had led to bad debts starting to rise. This was most likely to have a negative impact on the industry earnings which would filter through to ABIL.

Ellerines: In 2008 ABIL purchased Ellerines, a credit and cash furniture and appliances retailer for R9.1 billion, with R5.3 billion included on their balanced sheet as goodwill. The rationale behind the purchase was that ABIL felt they could expand their target market and grow their customer base into the informally employed, a large portion of Ellerines ‘customers. Lehan was also concerned that the board of ABIL did not have the required experience to run a retail business.

Reckless lending: in early 2013 the National Credit Regulator (NCA) fined ABIL R300 million for providing loans to customers without performing an affordability test. However, Lehan was not too concerned about this, as this was an isolated incident at one of their branches where a loan officer had manipulated the system to allow these loans to be granted.

During the presentation, Ian recalled noticing a look on Deryck’s face he had not seen before, a look of uncertainty or concern. Deryck was always very decisive and certain about his thinking. As Lehan finished he could see the concerned looks around room. Deryck spoke first:

“I am not that concerned with the economic conditions as I feel that ABIL will be one of the companies to survive any down turn as they are the largest market player in the unsecured space. Their provisioning, although aggressive... if their auditors are happy I think I am comfortable with that. I also don’t care about Lehan’s concerns around the lack of board experience to run Ellerines as that governance non-sense doesn’t affect the value of a business and never will! I agree with Lehan’s view on the fine, and in fact last year Capitec, FNB, Absa, and Nedbank were also fined for reckless lending so it is not something that is unique to ABIL. I do however, want to know if the purchase of Ellerines can have any negative impact on ABIL’s profits.”
Ian was not happy with Deryck’s comments and voiced his concern that they were not seeing Kirkinis as the visionary he was and they were not giving him enough credit to pull ABIL out of any tough times.

Deryck was not interested and decided to wait for the interim results announcement on 22nd and reassess the investment case after that, as he felt that the worst was not over and the share could fall even further. In the meantime, Deryck told Lehan to put together a formal research report on ABIL to be presented at their next Investment Committee on 24 May 2013. Deryck told Lehan that all he wanted to know was whether they could make money of this trade. Nothing else!

**24 May 2013: Second Investment Committee**

As Ian entered the main boardroom on the 24th everyone was already seated, eager to get started. Lehan began by stating that no matter what valuation methodology he applied to ABIL, the valuation came out as very cheap. This really got the attention of Deryck. However, Lehan felt that Ellerines would continue to drag ABIL down as it continued to lose money, which meant ABIL was funding their shortfall. He was concerned that the R4 billion of goodwill on African Bank’s balance sheet would be impaired which would mean further losses and fall in the share price.

Ian disagreed, his strong view was that Kirkinis had navigated tough times like this before and felt very confident that BG Wealth should back ABIL and Kirkinis and invest now. However, Deryck was not interested and he needed the numbers to make sense before he invested. He was worried that the business risks were not showing signs of improving and that this could still get worse. He decided to put the share on a watch list for now but not make a final call just yet. This meant that Lehan would need to make sure he kept up to date with any changes in the investment case and update his report.

**11 October 2013: Third Investment Committee**

The next time Lehan presented the ABIL investment case, at the 11 October 2013 investment committee, he was much more positive and confident about the value he saw in the ABIL at its current price. Since the last committee ABIL had made two more trading updates. In the early August 2013 update, ABIL announced that they needed to raise 4 billion rand of capital through a rights issue to strengthen their balance sheet, and that they were also actively looking to sell off Ellerines. In the second update, October 2013, they announced that they had considerably
increased their provision for bad debt as they had tightened up on their impairment methodology. There had also been a significant increase in their bad debt write-offs of R3 billion, the goodwill from the Ellerines purchase has been impaired and they had raised R5.5 billion in the rights issue. 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 and half of its peak in 2012. To a value investor these were exactly the conditions they were looking for.

There was a strong debate in the room as most of the team felt very strongly that at this price this must be a mispriced asset, the valuation was just too attractive not to invest now. The discussion was getting louder and louder and the team were starting to talk over one another. Deryck stood up:

“Right, this is a great opportunity to make some money, at this price the share is just too cheap not to buy it, and that is all that matters!

Ian has assured me that he is confident that management has learnt their lessons and he also said he believes Leon when he says there has been enough time for the bad loans to come through and the health of their loan book is improving. I believe that the rights issue will allow them to get their heads above water again and improve their capital ratios. It is also very positive that they chose to raise more capital that originally intended. They are the market leader in the unsecured lending market and I feel they will come out of this stronger as they have proved before that they can withstand tough times.”

The voting was unanimous, and decision to add ABIL to the buy-list was made as everyone felt that at this price the investment was too attractive to turn down.

Ian remembered feeling very excited about Deryck finally agreeing to invest in ABIL and seeing the light, as Ian was confident that with Kirkinis at the helm, ABIL would come out stronger. After all, Kirkinis had proved himself before, so what was different this time? Plus, at this price the share was a bargain!

02 June 2014: Concern starting to set in

The ABIL investment story had not been a positive one for BG Wealth since their first investment in October 2013, and by 28 May 2014 the share was trading at R9.10, down from R17.78, the price BG Wealth first bought at. However, being confident in their valuation and certain that the business would not go under, BG Wealth had continued to increase their
position, and now owned just over 12%, and by that time were one of ABIL’s largest shareholders. Lehan was asked to present an update at the 02 June 2014 committee. As Lehan stood up to present, Ian could see he was nervous and not as confident as he was in their previous committee. In his update Lehan highlighted the following concerns:

- Although ABIL had started to increase their provisioning for non-performing loans, he felt that management had not acted responsibly by neither reacting fast enough nor proactively increasing the provisions and tightening their credit-granting criteria and provisioning policies.
- The proceeds from the rights issue were depleted by the further credit write-downs and credit loss. Therefore, the rights issue had not had the desired effect of strengthening their balance sheet.
- The list of willing buyers of Ellerines ABIL management had mentioned in 2013 had not materialised and they were struggling to sell the struggling business. The decision was made to keep their position in ABIL but to stop buying the share as the risks had increased past a comfortable level. They were also in a tough position because as they were a large shareholder if they started to sell down their position they could trigger panic in the market which could set off a run on ABIL.

Something missing in their analysis?

As Ian was reviewing the minutes from the 02 June 2014 meeting, he remembered that this was the first investment committee their newest analyst, Amy Mallet had attended. Amy was employed to solely analyse a company on basis on how they affected the environment and society they operated in and their corporate governance. She was what was known as an ESG analyst which stood for environmental, social and governance analyst, Ian learned at the time. Amy started her career as an economist and moved into asset management ten years ago, she had vast experience in corporate governance and had completed her PHD in the field. Ian had first met her when she interviewed him for her doctorate on the effect corporate governance has on the valuation an asset manager placed on a business. It was that discussion that prompted Ian to convince Deryck they needed to hire someone to specifically focus on this aspect of a business. It took hours of convincing as Deryck never saw any benefit of incorporating ESG into their process, and even though BG Wealth was a signatory of the Principles of Responsible Investing (PRI), set up in 2006 to encourage investors to use responsible investing and incorporate ESG to enhance returns and better manage risk, ESG factors were something they had paid very little attention to before. In fact, Deryck had often been heard saying “if it doesn’t
affect the bottom line it doesn’t affect our view of a business”. Meaning that, he only wanted to focus on factors that would affect the profits of a business. He has a strong belief that ESG analysis was a fad which would disappear, leaving the proven traditional analysis.

Ian remembered there being an agenda point for Amy to discuss her views on the ESG factors of ABIL, but like many of their meetings, they had run out of time and she had not gotten a chance to present her findings. He then realised that in all their research reports there had been very little mention of the board, or the governance of ABIL. He quickly picked up his phone and called Amy:

“Amy, it is Ian here. Please will you send me any research you have done the ESG factors of ABIL, as I do not see much in the research reports Lehan sent me. Thanks”.

**Visionary or controller?**

Ian got up from his desk and walked to the window, it was already 14:30 pm and it was raining now, as he was drifting deep into thought the chime from his laptop notifying him he had received an email brought him back. It was Amy:

“Hi Ian

Attached is the research I put together. In terms of the governance aspects of ABIL I compared the board of ABIL to some of the other banks in South Africa. There were several issues I wanted to raise in the meeting.

Firstly, 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, and because if this there are two very important aspects of a bank’s board that need to be carefully considered:

1. The size of the board – generally bank’s boards are bigger than the boards of non-financial institutions.
2. The financial services experience of the board members, particularly the non-executive directors.

Another issue I wanted to raise was the extremely high effective interest rates ABIL clients ended up paying. I have done a quick calculation and these could be as high as 60%. This is an issue as the bank has over 3 million lower income customers. In my view the ethics of this business model needs to be seriously looked at, and the question of whether the positive impact of providing loans is negated by the cost of these loans need to be dealt with.
Lastly, the power of their CEO over the board needs to be carefully looked at, as he is the founder, the longest standing board member, has a substantial shareholding in his personal name, and is seen by many as being an expert in the industry.

Let me know if you need anything else.”

Ian opened the attachment and reviewed Amy’s research (Exhibit 4). As he was reading, questions started to arise about the board. He quickly scanned their research reports again to see if Lehan had mentioned anything about the governance. He found a short paragraph in the initial research report he presented to the investment committee on 24 May 2013. It stated: ‘ABIL comply in full with all aspects of King III as well as additional good corporate governance principles stipulated in the JSE’s Socially Responsible Investment (SRI) Index. Leon Kirkinis has been said to be a strong character, with a certain amount of influence over the board. However, this is not uncommon in businesses where the founder is still responsible for running the business.’

His concentration was disturbed again by a knock on his door, it was Lehan. He wanted to find out if there was anything more Ian needed before their emergency meeting at 16:00? Ian thought about what he had just read and the piece of work Amy had sent him and answered:

“Yes Lehan, there is something. I have now gone through all our reports and minutes that you sent me, as well as some research Amy did on the corporate governance of ABIL. I noticed that you had only briefly commented once the board and management of ABIL. I know this has never really been a big part of our process, but considering the situation we are in, I want to get as much information, from as many sources as possible to help us make the most informed decision later.

Therefore, could you tell me what your gut feeling was, something that you would not have felt comfortable putting into an official research report, about the management of ABIL, and in particular Leon Kirkinis.”

Lehan answered quickly as this was something that he had been thinking about since his update on 02 June 2014. He had only met Leon once, and from that meeting Leon seemed very likeable and knowledgeable. It was clear that he was passionate about his work, confident in his ability and only ever saw ‘ABIL’s glass as half full’. Someone who did not easily accept any bad news about the business he had created. His only other dealings with Leon were at the results presentations where he was more of an entertainer than the CEO of a bank. However, Lehan
had met a couple of times with other members of the management team and found it strange that he could never get an answer from them as they always had to check back with Leon. An example of this was when he questioned their provisioning and asked if they felt they were provisioning for bad debt sufficiently. He could not get a straight answer from anyone. The answer he got sounded scripted and was ‘if our auditors are happy so are we.’ It seemed as if they either did not know the answer to the question or were not willing to answer something they had not been given permission to answer.

At the Cross Road
Ian had just finished typing up his report, summarising his findings from the day’s research when Deryck knocked on his door, he was on his way to the meeting. Ian looked at his watch and could not believe it was already 15:57pm, time had flown today. He picked up the reports and walked with Deryck to the lift. The lift doors opened and both Amy and Lehan were in it, as Ian stepped into the lift he could feel the anxiety and tension as all of them knew they had a very tough decision to make. He knew that as a team they would need to determine; what they missed; what could/should they have picked up earlier; and finally, what should they do.
Exhibits

Exhibit 1 – Glossary

ESG: Environmental, Social, and Governance

ESG analyst: An ESG analyst is a financial analyst, however they will focus specifically on how the company rates in terms of the Environment, Society and Governance. It is important for an ESG analyst to determine how a company impacts the environment and society they operate in, as well as how well established their corporate governance structures are.

Financial analyst: A financial analyst 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 macroeconomic and microeconomic environment.

Impairment: Impairment is 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): is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, 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: Provisioning is 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 though high risk loans.

Rights Issue: A rights issue is 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

![Group Structure Diagram]


### Exhibit 3 - Board of directors as at 2013

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<th>Name</th>
<th>Position</th>
<th>Date joined ABIL Board</th>
<th>Directorships</th>
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<td>Name</td>
<td>Designation</td>
<td>Year</td>
<td>Role Description</td>
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<tr>
<td>----------------------</td>
<td>--------------------------</td>
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<td>------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Tami Sokutu</td>
<td>Executive director</td>
<td>2003</td>
<td>Executive director of African Bank Investments Limited, African Bank Limited, 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</td>
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*Source: African Bank Investment Limited 2013 Integrated Report*
Exhibit 4 – ESG Research on the ABIL Board

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<td>17</td>
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<td>17.6%</td>
<td>25.0%</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Legae Securities (Pty) Ltd

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African Bank

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Age</th>
<th>Prior Experience</th>
<th>Prior Expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC Mogae</td>
<td>Chairman</td>
<td>49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>L Kirkins</td>
<td>Chief Executive</td>
<td>54</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A Fourie</td>
<td>Executive Director</td>
<td>53</td>
<td></td>
<td></td>
</tr>
<tr>
<td>T Sokutu</td>
<td>Executive Director</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N Nalibah</td>
<td>Executive Director</td>
<td>54</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N Adams</td>
<td>Ind. Non Executive Director</td>
<td>54</td>
<td>Deloitte</td>
<td>consulting; Private Equity; IT; various investments; various</td>
</tr>
<tr>
<td>M Mthombeni</td>
<td>Ind. Non Executive Director</td>
<td>39</td>
<td>Momentum Investments</td>
<td></td>
</tr>
<tr>
<td>R Symmonds</td>
<td>Ind. Non Executive Director</td>
<td>54</td>
<td>Lombard Insurance; Mercantile Lisbon Bank</td>
<td>risk management; strategy; human resources, various</td>
</tr>
</tbody>
</table>
### ABIL Directors Shareholding as at September 2013

<table>
<thead>
<tr>
<th>Holder</th>
<th>No. of shares</th>
<th>% holding*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive directors</td>
<td>25 507 441.00</td>
<td>3.13%</td>
</tr>
<tr>
<td>Non-Exec Directors</td>
<td>4 481 743.00</td>
<td>0.55%</td>
</tr>
<tr>
<td>Total held by directors</td>
<td>29 989 184.00</td>
<td>3.68%</td>
</tr>
<tr>
<td>Leon Kirkinis (CEO)</td>
<td>16 731 875.00</td>
<td>2.05%</td>
</tr>
</tbody>
</table>

* % holding of the total ordinary shares in issue

Total shares in issue 815 811 539.00


### Exhibit 5 – ABIL share price

Source: INET BFA
Exhibit 6 – Tracing the History of African Bank Investment Limited

1993
Formation of Theta Securities

1998
Acquisition of African Bank Limited

1999
Theta Group Limited name changed to African Bank Investments Limited (ABIL)

2001
ABIL offers its first retail debit card product. Government payroll deductions closed to credit providers.

2002
Denise of Sambou and Umler ABIL acquires the R2.8 billion Sambou personal loans books.

2013
ABIL announce R5.5 billion rights offer.

2012
African Bank issues its first Swiss bond. ABIL was 2012 The Banker of the Year Award

2011

2010
Ellemes financial services integrated into African Bank.

2008
ABIL acquires EHL Group for R9.1 billion.

2003
ABIL achieves investment grade credit rating.

2014
ABIL announce CEO is resigning and they need to raise a further R8.5 billion.

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 50%. 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, Elmarie 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.

Exhibit 20 – Media

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 criopie 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


Exhibit 9 – Principles of Responsible investing

<table>
<thead>
<tr>
<th>PRINCIPLE 1</th>
<th>PRINCIPLE 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>WE WILL INCORPORATE ESG ISSUES INTO INVESTMENT ANALYSIS AND DECISION-MAKING PROCESSES.</td>
<td>WE WILL BE ACTIVE OWNERS AND INCORPORATE ESG ISSUES INTO OUR OWNERSHIP POLICIES AND PRACTICES.</td>
</tr>
<tr>
<td>PRINCIPLE 3</td>
<td>PRINCIPLE 4</td>
</tr>
<tr>
<td>WE WILL SEEK APPROPRIATE DISCLOSURE ON ESG ISSUES BY THE ENTITIES IN WHICH WE INVEST.</td>
<td>WE WILL PROMOTE ACCEPTANCE AND IMPLEMENTATION OF THE PRINCIPLES WITHIN THE INVESTMENT INDUSTRY.</td>
</tr>
<tr>
<td>PRINCIPLE 5</td>
<td>PRINCIPLE 6</td>
</tr>
<tr>
<td>WE WILL WORK TOGETHER TO ENHANCE OUR EFFECTIVENESS IN IMPLEMENTING THE PRINCIPLES.</td>
<td>WE WILL EACH REPORT ON OUR ACTIVITIES AND PROGRESS TOWARDS IMPLEMENTING THE PRINCIPLES.</td>
</tr>
</tbody>
</table>

Source: Principles for Responsible Investment (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:

<table>
<thead>
<tr>
<th>Ms Smith’s first loan</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan amount</td>
<td>R8 000</td>
</tr>
<tr>
<td>Weekly instalment</td>
<td>R121.54</td>
</tr>
<tr>
<td>Payment period</td>
<td>144 weeks</td>
</tr>
<tr>
<td>Interest rate</td>
<td>33.5% pa</td>
</tr>
<tr>
<td>Total cost of loan</td>
<td>R17 502</td>
</tr>
</tbody>
</table>

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 installments of R34.12. 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 R4 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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average monthly salary</td>
<td>R1 634</td>
</tr>
<tr>
<td>Minimum monthly living expenses</td>
<td>R772</td>
</tr>
<tr>
<td>Cost of existing NAECO</td>
<td>R130 x 4 = R720</td>
</tr>
<tr>
<td>Cost of new Abil loan</td>
<td>R121.54 x 4 = R486.16</td>
</tr>
<tr>
<td>Monthly cost of loans</td>
<td>R720 + R486.16 = R1208.16</td>
</tr>
<tr>
<td>Money left to cover monthly living expenses</td>
<td>R428</td>
</tr>
</tbody>
</table>

“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 employer’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.

Exhibit 11 – Additional Media Articles


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


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


