

# **THE CO-OPERATIVE BANK OF KENYA LIMITED**

**A Public Limited Liability Company incorporated and registered in Kenya with  
Company Number C23/2008**

## **CIRCULAR TO SHAREHOLDERS**

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### **IN RELATION TO:**

**The subscription for a New class of ordinary shares equivalent to 90% of  
the entire issued share capital of Jamii Bora Bank Limited by  
The Co-operative Bank of Kenya Limited**

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## IMPORTANT INFORMATION

This circular ("Circular") is being issued by The Co-operative Bank of Kenya Limited ("Company") and has been prepared in compliance with the requirements of The Capital Markets Act (Cap. 485A), The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002, The Capital Markets (Licensing Requirements) (General) Regulations, 2002 and the Nairobi Securities Exchange Listing Rules, 2014.

The Capital Markets Authority ("CMA") has approved the issuance of this Circular. As a matter of policy, neither the CMA nor the Nairobi Securities Exchange ("NSE") assume any responsibility for the correctness of any statements or opinions made or reports contained in this Circular.

A notice of the Annual General Meeting ("AGM") of the Company to be held on 22<sup>nd</sup> October, 2020 is set out at the end of this Circular as Schedule 1. A form of proxy for use by shareholders is also enclosed.

If you have disposed of all your shares in the Company please forward this document and the enclosed form of proxy to the stockbroker, banker or other agent through whom you have disposed your shares.

If you are currently a shareholder of the Company and are unable to attend the AGM, please complete and return the enclosed form of proxy in accordance with the instructions set out in the form (email a completed proxy form to info@image.co.ke or deliver to Image Registrars Limited, 5th Floor Absa Towers (formerly Barclays Plaza), Loita Street, P.O. Box 9287 - 00100 GPO, Nairobi, so as to be received not later than 20th October, 2020 at 11.00 a.m.).

If you require any assistance in respect of this Circular, you are recommended to seek independent professional advice from your stockbroker, investment adviser, accountant, bank manager, lawyer or other professional adviser.

**Date of issue: 13<sup>th</sup> October, 2020**

The Co-operative Bank of Kenya Limited is licensed and regulated by the Central Bank of Kenya.

### Advisors

Financial advisor	Legal Advisor	Transaction Advisor
PwC Kenya	 DLA Piper Africa, IKM Advocates	NCBA Capital

## PART 1 - LETTER FROM THE CHAIRMAN OF THE CO-OPERATIVE BANK OF KENYA LIMITED

To all Shareholders of The Co-operative Bank of Kenya Limited

Dear Shareholder,

**The subscription for a New class of ordinary shares equivalent to 90% of the entire issued share capital of Jamii Bora Bank Limited (“JBBL”) by The Co-operative Bank of Kenya Limited (“Company”)**

On behalf of the board of directors (“Board”) of the Company I write to you regarding the subscription for a new class of ordinary shares (Class A) equivalent to 90% of the entire issued share capital of JBBL by the Company (“Transaction”) which was completed on 21<sup>st</sup> August, 2020.

The Company envisions itself to be the leading bank in Kenya and the region riding on the unique co-operative model and providing innovative financial solutions for a distinctive customer experience. The Company’s Board has been working towards achieving this vision by investing in our existing business whilst exploring opportunities for new growth.

While the Company has had an impressive growth organically, the Board has carefully considered acquisition opportunities in the market that are in line with the Company’s strategy and this has led us to the Transaction, further details of which are outlined in this Circular.

The acquisition of 90% of the entire issued share capital of JBBL provides the Company with the opportunity to rapidly expand its offering to micro, small and medium enterprises and increase its revenue streams while leveraging on cost synergies. The Transaction will also create a stronger and more robust institution that will continue to play a key role in enhancing financial inclusion in Kenya and the region.

It is for these reasons that the Board, following careful consideration, approved and implemented the Transaction which resulted in JBBL becoming a subsidiary of the Company.

While a transaction of this nature would typically require shareholder approval before implementation, due to the ongoing COVID-19 pandemic and the related public health laws, regulations and directives issued by the Government of Kenya to curb the spread of COVID-19, which precluded, among others, public gatherings and restrictions on the movement of persons, it was not practical for the Company to convene a meeting of shareholders to consider and if thought fit, approve the Transaction earlier this year. However, pursuant to the guidance issued by the CMA to the effect that boards of listed companies may approve certain matters which are generally required to be approved by shareholders at a general meeting pending their ratification at the next general meeting, the Company’s Board approved the Transaction at a Full Board meeting held on 28<sup>th</sup> May, 2020 for ratification by shareholders at the next AGM.

It is against this backdrop that the Board has prepared this Circular to enable shareholders of the Company to consider and ratify the Transaction. The Board considers that the Transaction is in the best long-term interest of the Company and all its stakeholders as well as the banking industry in Kenya and the region.

Accordingly, we unanimously recommend to you, our dear shareholders, to ratify implementation of the Transaction and vote in favour of the resolutions to be proposed at the AGM. The details of the resolutions are provided in the AGM notice enclosed at Schedule 1 to this Circular.

We confirm that the Directors of the Company who have direct or indirect beneficial equity interests in the ordinary shares of the Company as at the date of this Circular, as more particularly set out in Part 3 of this Circular, will vote in favour of the resolutions.

Yours faithfully,

**Mr. John K. Murugu - OGW**  
**CHAIRMAN**

## **PART 2 - THE TRANSACTION**

### **1. Information on the Company**

The Company was initially registered in 1965 under the Co-operative Societies Act to serve the unique co-operative sector as a vital component of growth and provision of financial services to the co-operative movement. It commenced operations in 1968. At the time of incorporation, the co-operative societies were not able to obtain banking and financing services from other banks hence the need for a bank that could fill that gap.

In 1994, the Company converted into a fully-fledged commercial bank offering the complete range of financial services beyond the initial co-operative sector to include personal, corporate and institutional customers. In 2008, the shareholders of the Company resolved to incorporate under the repealed Companies Act (Chapter 486 Laws of Kenya) with a view to complying with the requirements for listing on the NSE following which it went public and was listed on the NSE on 22 December 2008.

The co-operative movement has grown significantly over the last 50 years playing a significant and vital role in rural finance and uplifting the standards of living of members of the co-operative movement in Kenya. The co-operative movement in Kenya has a membership of over 15 million members, the majority of whom are to be found in the rural areas. Some key highlights of the co-operative movement in Kenya include:

- a) it comprises over 22,000 registered co-operative societies with a membership of over 15 million registered members, making it the largest in Africa;
- b) the co-operative societies cut across all sectors of the economy including coffee, dairy, housing, farming and marketing co-operatives;
- c) out of the 22,000 registered co-operative societies, over 8,000 comprise the Savings and Credit Co-operative Societies (SACCOs);
- d) SACCOs have mobilized over KES 250 billion in savings, which comprises more than 30% of the Kenyan domestic savings;
- e) the SACCO movement in Kenya has evolved into a formidable force for the social and economic transformation of the Kenyan people, and cuts across all sectors of the economy;
- f) out of the 8,000 SACCOs, there are over 560 Front Office Service Activity (FOSA) offering basic banking services across the country with incredible impact in ensuring basic financial services are available to Kenyans in the rural areas not serviced by ordinary commercial banks, thus deepening financial access; and
- g) the FOSAs have over 4 million account holders, which compares well with the number of account holders in the formal commercial banking sector.

The Company was ranked fourth out of 39 banks in Kenya in terms of market share as at 31 December 2019, with a market share of approximately 9.63%.

### **2. Information on JBBL**

JBBL is a public non-listed company incorporated under the repealed Companies Act (Chapter 486 Laws of Kenya). It is the resultant entity of a merger implemented in February 2010 between City Finance Bank Limited and Jamii Bora Kenya Limited. City Finance Bank Limited was initially incorporated as a private company under the name Gilt Finance Trust Limited on 10<sup>th</sup> September, 1984. It underwent a series of changes of name and on 2<sup>nd</sup> March, 2010, it changed its name from City Finance Bank Limited to Jamii Bora Bank Limited following the merger with Jamii Bora Kenya Limited. On its part, Jamii Bora Kenya Limited was incorporated in 2006 to run the

microfinance operations of the Jamii Bora Trust, a charitable trust which had been registered in November 1999.

Over time, JBBL has positioned itself as an enterprise bank which focuses on micro, small and medium enterprises, one of the key growth areas of the Kenyan economy. This has enabled it to provide flexible, affordable and innovative products and services to this segment, including flexible short-term trade and working capital solutions. It has a presence in various towns across Kenya with 17 branches and a customer base of over 444,976 customers and KES 4.7 billion in deposits. It has 11,241 loan accounts, and a KES 9.3 billion gross loan book. JBBL has inherent business potential.

However, in recent times, JBBL has experienced a weak equity position and other key business, strategic and operational weaknesses. As such, JBBL has for over 2 years been looking for a suitable strategic investor to ensure its financial stability.

### 3. Background

The Company expressed an interest to acquire 100% of the issued shares in JBBL and published a cautionary statement on 11<sup>th</sup> March, 2020 informing the public that the Board had approved the progression of discussions with JBBL which, if successful, would lead to the Company acquiring 100% of the shareholding in JBBL. The cautionary statement indicated that such transaction would be subject to (i) completion of due diligence by the Company on JBBL; (ii) approval by the respective Boards and shareholders of the Company and JBBL; and (iii) regulatory approvals.

Through a press release dated 11<sup>th</sup> March, 2020, the Central Bank of Kenya ("CBK") indicated its support for the proposed transaction in principle.

Following discussions between the respective management teams of the Company and JBBL and the completion of due diligence on JBBL, a share purchase transaction structure was deemed to be impractical and unworkable particularly in light of JBBL's weak equity position and the need to prioritize recapitalization of the business.

The CBK, in a letter dated 22<sup>nd</sup> May, 2020 provided its 'in principle' approval to the Company to conclude the Transaction as described below and offer the necessary mandatory approvals.

### 4. Key Terms

Pursuant to a Company Board meeting on 28<sup>th</sup> May, 2020, the Company made an offer to JBBL by way of a letter dated 2<sup>nd</sup> June, 2020 to subscribe for a new class of ordinary shares, with the structure of the offer ensuring that the existing shareholders remain on board and are provided with an opportunity to participate in the turnaround of the business and share in JBBL's future equity upside. The offer contained details of the key terms of the Transaction set out below.

The Board of JBBL accepted the offer from the Company on 3<sup>rd</sup> June, 2020, and the shareholders of JBBL approved the Transaction following an extraordinary general meeting of the shareholders of JBBL held electronically on 1<sup>st</sup> July, 2020.

The comprehensive terms and conditions of the Transaction are set out in a subscription agreement negotiated between the parties and dated 17<sup>th</sup> July, 2020 ("**Subscription Agreement**"). The key terms of the Subscription Agreement are set out below:

- a) The Company shall subscribe for 224,153,541 shares of a new class of ordinary shares (Class A) at a price of KES 4.46 each in JBBL ("**New Shares**") for an aggregate subscription price of KES 1 billion.

- b) The New Shares shall comprise a new class of ordinary shares which shall have a par value of KES 1 per share. In light of its proposed shareholding (which shall equate to 90% of all the issued shares in JBBL), the Company shall be entitled to 90% of the voting rights in JBBL, 90% of the distributable profits of JBBL, the right to appoint ALL the directors of JBBL to drive the needed transformation agenda, and in the event that JBBL is wound up and assets are distributed to shareholders - to 90% of such assets. Notwithstanding the difference in the par value of the shares and the separate classification, the New Shares shall rank pari passu and have equal rights to the existing shares of the shareholders as of the date of issuance of the New Shares.
- c) The subscription and issuance of the New Shares will result in the Company owning 90% of JBBL's ordinary shares and all existing shareholders owning in aggregate 10% of JBBL's ordinary shares.
- d) The issue of the New Shares to the Company will result in a dilution of all existing shareholders, who shall, post-completion of the Transaction, own in aggregate, 10% of the issued shares in JBBL with a different par value to that of the New Shares, although each individual shareholder's overall number of shares held in JBBL will remain unchanged.
- e) Post-completion of the Transaction, JBBL's issued share capital shall comprise:
  - i) 24,905,949 ordinary shares with a par value of KES 66 each, held by the existing shareholders (which shall be renamed 'Class B ordinary shares'); and
  - ii) 224,153,541 Class A ordinary shares with a par value of KES 1 each, held by the Company.
- f) The aggregate subscription price for the New Shares will be KES 1 billion (being KES 4.46 per New Share), which will be paid directly to JBBL on completion.
- g) Implementation of the Transaction is subject to, and conditional upon, various conditions, consents and approvals including the approval of the CBK, the Competition Authority of Kenya ("CAK"), the shareholders of JBBL and receipt of a no-objection from the CMA that notwithstanding the provisions of Paragraph G.06(a) of the Fifth Schedule of the Capital Markets (Securities)(Public Offers, Listings and Disclosures) Regulations, 2002, the Company may complete the Transaction (which shall result in JBBL becoming a subsidiary of the Company) in accordance with the approval of the Company's Board, on condition that the Transaction shall be subsequently disclosed in the Company's next annual report and ratified by the Company's shareholders at the Company's next AGM.
- h) Pending completion, the business of JBBL shall be carried on in the ordinary course and there shall be no material adverse change in the business, operations, assets or position of JBBL.
- i) JBBL shall provide certain covenants and warranties to the Company that are normal for a transaction of this nature.

## 5. Approvals

As set out above, completion of the Subscription Agreement was subject to customary conditions, including receipt of relevant regulatory approvals from each of the CBK and the CAK and receipt of a no-objection from the CMA.

The CMA issued its letter of no-objection to the Transaction on 6<sup>th</sup> July, 2020 subject to, among others, ratification of the Transaction by the shareholders of the Company at the next AGM.

The CAK and the CBK approved the Transaction on 3<sup>rd</sup> August, 2020 and 7<sup>th</sup> August, 2020 respectively.

## 6. Completion of the Transaction

The Transaction was completed on 21<sup>st</sup> August, 2020 upon fulfilment of the conditions set out in the Subscription Agreement.

Following completion of the Transaction, JBBL is now a subsidiary of the Company. JBBL's share capital currently consists of:

- a) 224,153,541 Class A ordinary shares with a par value of KES 1 each, held by the Company amounting to 90% of the issued share capital of JBBL; and
- b) 24,905,949 Class B ordinary shares with a par value of KES 66 each, held by the existing shareholders of JBBL before completion of the Transaction amounting to 10% of the issued share capital of JBBL.

Notwithstanding the difference in the par value, Class A ordinary shares issued to the Company rank *pari passu* and have equal rights to the Class B ordinary shares held by all the other existing shareholders of JBBL.

Upon completion of the Transaction, the existing directors of JBBL resigned in accordance with the terms of the Subscription Agreement and the following persons nominated by the Company have been appointed as directors of JBBL:

- a) Mrs. Margaret Waithira Karangatha - Chairperson
- b) Mr. Macloud Malonza - Director
- c) Mr. Julius Sitienei - Director
- d) Dr. Gideon Muriuki - Group Managing Director & CEO
- e) Mr. Anthony Muiyuro Mburu - Managing Director and CEO

Following completion of the Transaction, the funds invested by the Company are being utilised to provide JBBL with liquidity to enable it to continue with operations and turnaround the performance of its business.

The Company believes that with the support of the CBK and in view of the Company's strong reputation and experienced management team, the Transaction will improve the performance of JBBL and enable it to turnaround its financial position thereby providing value to the Company while safeguarding the interests of JBBL's depositors, creditors and shareholders, Kenya's banking sector and the wider public.

## 7. Change of name

As part of the Transaction, the name of JBBL has been changed to 'Kingdom Bank' and the new name was approved by the CBK on 7<sup>th</sup> August, 2020.

## 8. Requirement for Ratification

As indicated above, JBBL became a subsidiary of the Company following completion of the Transaction. Accordingly, pursuant to Paragraph G.06(a) of the Fifth Schedule of the Capital Markets (Securities) (Public Offers, Listing And Disclosures) Regulations, 2002, the Company was required to obtain the approval of its shareholders and make a disclosure in respect of the Transaction in its annual report.

However, due to the strict public health laws, regulations and directives issued by the Government of Kenya to curb the spread of COVID-19, which precluded, among others, public gatherings and restrictions on the movement of persons, it was impractical for the Company to convene a general meeting of shareholders to consider and if thought fit, approve the Transaction earlier this year.

That notwithstanding, pursuant to the guidance issued by the CMA on 18<sup>th</sup> March, 2020 and 16<sup>th</sup> April, 2020 (circular number CMA/MRT/004/2020) to the effect that boards of listed companies can approve certain matters which are generally required to be approved by shareholders at general meetings pending their ratification at the next general meeting, in accordance with a no-objection letter from the CMA dated 6<sup>th</sup> July, 2020, the Board approved the Transaction at a Full Board meeting held on 28<sup>th</sup> May, 2020 for ratification by shareholders at the next the Company AGM.

Further, the CMA's letter of no-objection in respect of the Transaction was subject to, among others, ratification of the Transaction by the shareholders of the Company at the Company's next AGM. It is for this reason that the Transaction now requires ratification by the Company's shareholders.

## 9. Recommendation

The Board considers that the Transaction will contribute positively to the Company's growth and diversification objectives. The Board believes that the Transaction is in the best long-term interests of the Company and all its stakeholders, including shareholders, depositors, and creditors as well as the banking industry in Kenya and the region.

Accordingly, the Board unanimously recommends that the shareholders vote in favour of the resolutions ratifying the implementation of the Transaction outlined in the Notice of AGM set out in Schedule 1 to this Circular (and as quoted below) and which will be formally proposed at the AGM to be held on 22<sup>nd</sup> October, 2020.

If you are in any doubt as to what action to take, you are recommended to seek independent professional advice from your stockbroker, investment adviser, accountant, bank manager, lawyer or other professional adviser.

### Resolution [1]

*That the subscription by the Company for shares in Jamii Bora Bank Limited ("JBBL") in accordance with the terms of the Subscription Agreement entered into between the Company and JBBL on 17<sup>th</sup> July, 2020 ("Subscription Agreement") pursuant to which:*

- a. JBBL became a subsidiary of the Company;*
- b. The Company subscribed for 224,153,541 shares of a new class of ordinary shares (Class A) at a price of KES 4.46 each in JBBL ("New Shares") for an aggregate subscription price of KES 1 billion;*
- c. In light of its proposed shareholding (which shall equate to 90% of all the issued shares in JBBL), the Company shall be entitled to 90% of the voting rights in JBBL, 90% of the distributable profits of JBBL, the right to appoint ALL the*

- directors of JBBL to drive the needed transformation agenda, and in the event that JBBL is wound up and assets are distributed to shareholders - to 90% of such assets; and*
- d. the New Shares shall rank pari passu and have equal rights to the existing shares of the shareholders as of the date of issuance of the New Shares,*

*be and is hereby approved, confirmed and ratified in all respects as if such action(s) had been presented for approval, and approved by, the shareholders prior to such action being taken; and*

**Resolution [2]**

*That the entry into and the performance by the Company of its obligations under the Subscription Agreement and all ancillary agreements and documents required to give effect to the Subscription Agreement, be and is hereby approved, confirmed and ratified in all respects as if such action(s) had been presented for approval, and approved by, the shareholders prior to such action being taken.*

**Resolution [3]**

*That the directors and the company secretary of the Company be and are hereby authorised to prepare and execute such documents and effect such filings as are required to give effect to the above resolutions.*

## Part 3 - Additional Disclosures and General Information

### Responsibility Statement

The directors of the Company ("Directors") whose names are set out below accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Directors are the persons responsible for the application made to the CMA for the approval of the issue of this Circular.

### Directors

	Name of Director	Designation	Nationality
1.	John Murugu, OGW	Chairman	Kenyan
2.	Macloud Malonza, HSC	Vice Chairman	Kenyan
3.	Dr Gideon Muriuki, CBS, MBS	Group Managing Director & CEO	Kenyan
4.	Julius Sitienei	Director	Kenyan
5.	Benedict W. Simiyu	Director	Kenyan
6.	Patrick K. Githendu	Director	Kenyan
7.	Wilfred Ongoro, HSC	Director	Kenyan
8.	Richard L. Kimanthi	Director	Kenyan
9.	Wanyambura Mwambia	Director (Principal Secretary - National Treasury appointee)	Kenyan
10.	Weda Welton	Director	Kenyan
11.	Lawrence Karissa	Director	Kenyan
12.	Godfrey K. Mburia	Director	Kenyan
13.	Margaret Karangatha	Director	Kenyan

No Director had any direct or indirect beneficial interest in the shares of JBBL in the period between 17<sup>th</sup> July, 2020 and the date of this Circular.

At the date of this Circular there were no existing contracts between any of the Directors and JBBL other than employment contracts for those Directors who are employees of JBBL in the ordinary course of business.

No options to purchase any securities of JBBL have been granted to or exercised by any Director.

### Consents

NCBA Capital Limited (Transaction Adviser), PwC Kenya (Financial Adviser) and DLA Piper Africa - IKM Advocates (Legal Adviser) have given and not withdrawn their respective consents to the issue of this Circular with the inclusion of their names and the references thereto, in the form and context in which they appear respectively.

### Documents Available for Inspection

Copies of the following documents will be available for inspection by shareholders, free of charge, at the Company's Head office at Co-operative House, Haile Selassie Avenue, Nairobi, Kenya, between 9:00 a.m. and 4:00 p.m. Monday to Friday (except public holidays) from the date of this Circular until 12 Noon on 21<sup>st</sup> October, 2020.

- a) the Share Subscription Agreement between the Company and JBBL dated 17th July, 2020;

- b) the letter dated 6th July, 2020 from the CMA confirming it has no objection to implementation of the Transaction;
- c) the letter dated 3rd August, 2020 from the CAK approving the Transaction;
- d) the letter dated 7th August, 2020 from the CBK approving the Transaction; and
- e) the approval of the CMA relating to the issue of this Circular.

**Schedule 1 - AGM NOTICE**

**NOTICE OF THE ANNUAL GENERAL MEETING OF THE CO-OPERATIVE BANK OF KENYA  
LIMITED**

**[attached]**