

JAMII BORA BANK LIMITED

Valuation Report

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Prepared By

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The valuation that we have performed does not constitute an audit nor does it constitute a due diligence review. This valuation report is based on documentation, information and explanations provided to us from enquiries of and discussions with personnel of Jamii Bora Bank Limited. We have obtained an overall understanding of Jamii Bora Bank Limited and the key strategic issues that are likely to impact on the value of Jamii Bora Bank Limited. Where necessary we have challenged management's assumptions and where appropriate we have obtained and relied on explanations from personnel of Jamii Bora Bank Limited.

The appraisal of any business is a matter of informed judgment. This valuation has been prepared on the basis of information and assumptions set forth in this report. The financial information used for the business assessment contains forward looking statements with respect to Jamii Bora Bank Limited's financial condition and results of operations. Such information is subject to risks and uncertainties that could cause actual results to differ materially from those forecasted. Projections are estimates and their realisation and crystallisation is dependent on the occurrence or non-occurrence of certain future events. We do not however express or imply opinion or any other form of assurance on the reasonableness of the underlying assumptions and as to the possibility of the projections being achieved and neither can we take any responsibility for the consequences of projected results not being achieved.

The task of a business valuer is to determine the fair value of that business on the basis of what a hypothetical prudent purchaser, who is a willing but not anxious buyer, would be prepared to pay to a seller, who is willing but not anxious to sell, in circumstances where both buyer and seller are fully informed of all operational and financial arrangements in relation to the business. Business valuation is not a precise science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. There is therefore no indisputable single business value.

1. VALUATION

1.1. Introduction

On 10th March 2020, The Co-operative Bank of Kenya Limited ("Co-op") announced that its Board of Directors had approved the progression of discussions with Jamii Bora Bank Limited ("JBB") which would lead to the acquisition of up to 100% shareholding in Jamii Bora Bank Limited in accordance with the Capital Markets (Securities) (Public offers, Listing and Disclosures) Regulations, 2002 as amended.

Over the past several years, Jamii Bora has reported losses that have in effect eroded its capital base, prompting its search for a strategic investor to rescue the business. To this end, NCBA was appointed by Co-operative Bank of Kenya to carry out a valuation exercise that would aid in the purchase price determination.

1.2. Valuation Methodology

Considering that Jamii Bora Bank is a loss making entity, we have carried out our valuation exercise using the market multiple approach and primarily price to book both on the reported and adjusted Net Asset Value basis.

1.3. Valuation Results

1.3.1. Asset multiple Valuation Basis Prior to Adjustments

KES '000	2016	2017	'2018M	'2019M	'FEB 2020M
ASSETS					
Cash and balances with Central Bank of Kenya	657,462	149,468	93,553	110,771	124,818
Government securities	1,025,928	818,712	701,248	551,390	551,390
Deposits and balances due from banking institutions	999,021	224,886	163,923	168,092	168,039
Loans and advances to customers (net)	9,356,472	8,310,978	6,330,045	5,911,390	6,102,773
Other assets	1,156,417	449,050	556,049	781,936	791,325
Corporate tax recoverable	114	109	109	-	-
Property and equipment	502,508	656,209	528,510	369,677	346,419
Intangible assets - computer software	192,607	130,282	154,446	-	-
Equity investments	226,655	263,953	45,905	45,905	45,905
Intangible Assets-Customer relationships	680,344	595,301	396,867	264,578	242,530
Investment Property	742,000	768,800	579,258	623,619	623,619
Deferred tax Asset	240,813	509,689	503,224	197,507	197,507
TOTAL ASSETS	15,780,341	12,877,437	10,053,137	9,024,865	9,194,324
LIABILITIES					
Customer Deposits	8,070,224	5,343,143	4,042,303	4,794,723	4,637,628
Due to banking institutions	1,139,439	1,745,048	1,861,643	2,002,307	2,301,979
Borrowed funds	633,250	633,250	511,348	1,165,514	1,142,025
Derivative liabilities	1,547,268	1,217,489	1,368,224	-	-
Deferred income tax liability	797,714	457,349	470,380	-	-
Current Income Tax	5	4,436	8,452	-	-
Other liabilities	19	314	3,681	757,997	830,430
TOTAL LIABILITIES	12,187,919	9,401,029	8,266,031	8,720,541	8,912,061
EQUITY					
Share Capital	1,405,253	1,643,793	1,643,793	1,643,793	1,643,793

KES '000	2016	2017	¹ 2018M	¹ 2019M	¹ FEB 2020M
Share Premium	2,205,904	2,311,603	2,311,603	2,311,603	2,311,603
Revenue reserve	(222,300)	(553,395)	(2,166,938)	(3,658,544)	(3,680,604)
Statutory loan loss reserve	66,935	66,935	-	-	-
Investment Revaluation reserve	(5,312)	7,472	(1,352)	7,471	7,471
Property reserve surplus	141,942	-	-	-	-
TOTAL EQUITY	3,592,422	3,476,408	1,787,106	304,324	282,263
TOTAL LIABILITIES AND EQUITY	15,780,341	12,877,437	10,053,137	9,024,865	9,194,324

Description	Amount (KES M)
Net assets – February 2020	282,263
Net asset multiple	1.0x
Marketability discount rate (15%)	(0.15)
Adjusted net asset multiple	0.85x
Equity Value	239,923

Source: NCBA Capital analysis

Prior to adjustments on the book value, Jamii Bora Bank equity value is KES 239.9mn.

1.3.2. Asset multiple Valuation Basis after Due Diligence Adjustments

Following the due diligence exercise, Jamii Bora Bank has demonstrated significant erosion on its capital as further highlighted below.

KES'000	Pre-DD Balances	Adjustments		Adjusted Balances	Brief commentary/DD Key findings
	28-Feb-2020	Dr	Cr	28-Feb-2020	
Cash and balances with Central Bank	181,789			181,789	Cash float with branches and balances with the CBK
Investment in government securities	606,191		531,635	74,556	Balance offset with the CBK liquidity support facility as is under lien from them
Placement with other banks	257,340		236,152	21,188	This includes doubtful dues from Amana capital, credit bank and interest receivables.
Loans and advances to customers	6,102,773		6,102,773	(0)	Further provisions to the loan book to the tune of KES 2.85 billion and a potential contingent liability of KES 1.6 billion.
Other assets	342,192		342,192	0	Full impairment of Other Assets which are unlikely to realize including good will
Tax recoverable	0			0	
Property and equipment	331,029		331,029	0	Property and equipment to be disposed at a nominal scrap value hence the upfront write-off
Intangible assets	0	0	0	0	
Equity Investments	45,905		45,905	(0)	Full impairment of 57 million shares in Uchumi, which is insolvent
Investments in subsidiary	0			0	
Balance due from related party	0			0	
Intangible assets-customer relationships	0			0	
Investment Property	623,619		55,229	568,390	
Deferred tax asset	197,507		197,507	0	De-recognition of Deferred Tax Asset due to lack of sufficient current / projected profits
Assets classified held for sale	0			0	
Total Assets	8,688,345	0	7,842,422	845,922	
Customers Deposits	4,638,118	55,542	0	4,582,576	Consists of customer deposits (Kes 4.7bn) and interest payable of KES 95m
Borrowings	1,631,232	10,251		1,620,981	Amounts due to lenders
Current CBK Liquidity Support	1,797,029	596,719		1,200,310	Extent of CBK liquidity support
Possible Additional CBK Support Funding	0			0	Potential CBK Support Funding
Other Liabilities	339,702		5,951,084	6,290,786	Potential additional liabilities (refer to the following table on liabilities)
Liabilities	8,406,081	662,512	5,951,084	13,694,653	
Share Capital	1,643,793			1,643,793	
Share Premium	2,311,603			2,311,603	
Retained Earnings	(3,680,604)	13,130,994		(16,811,598)	Includes Kes 240mn operational losses to be sustained in Q4 2019
Statutory Reserve	0			0	
Investment Revaluation Reserve	7,472			7,472	
Shareholders' Funds	282,264	13,130,994	0	(12,848,730)	Project Hope requires atleast KES 12.5bn to revamp the business into a going concern
Total Liabilities and Shareholder Funds	8,688,345	13,793,506	5,951,084	845,923	

Source: NCBA-IB Capital analysis

Additional Liabilities

Additional Liabilities	(KES 000)
Probable Legal liability	1,670,467
Over-charged interest above capping limit	980,823

Additional Liabilities	(KES 000)
Pension Liabilities	200,000
Interest computation error on 360 days instead of 365 days	89,251
Contingent liabilities (guarantees & Letters of credit)	845,000
Understated customer account balances vs GL accounts	772,679
Provision for refund of JBB towers Floors previously sold	282,975
Probable ICT related liabilities	188,381
Understated customer account balances sum of customer account transactions	175,038
Unpaid tax arrears	223,000
Probable AML violation penalty	82,000
Unbooked fixed deposits	65,604
Salary dues (former CEO)	26,000
Stamp duty on increased share capital	19,800
Unpaid insurance premium	20,906
Probable UFAA penalties liability	13,633
Sub-Total	5,655,557

Source: NCBA-IB analysis

1.4. Consideration

Based on the NAV adjustment highlight above, Jamii Bora Bank has significantly eroded its capital and consequently the consideration to be paid by Co-operative Bank to re-capitalize Jamii Bora Bank with the minimum capital requirement of KES 1bn in exchange for 90% shareholding in Jamii Bora Bank and securing Jamii Bora Bank's licence as well assuming its liabilities is a fair consideration.