



KCB Group PLC
(Incorporated in Kenya under the Companies Act, 2015)
(Registration Number C 9/88)

CIRCULAR TO SHAREHOLDERS

PROPOSED ACQUISITION BY KCB GROUP PLC OF:

1. UP TO 100% OF THE ISSUED SHARE CAPITAL OF BANQUE POPULAIRE DU RWANDA PLC; AND
 2. 100% OF THE ISSUED SHARE CAPITAL OF AFRICAN BANKING CORPORATION TANZANIA LIMITED
-

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

This circular ("**Circular**") is being issued by KCB Group Plc ("**KCB**") and has been prepared in compliance with the requirements of The Capital Markets Act (Chapter 485A of the laws of Kenya), The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 and The Capital Markets (Licensing Requirements) (General) Regulations, 2002.

A copy of this document is available free of charge on the website of KCB at www.kcbgroup.com.

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**"), the Dar-Es-Salaam Securities Exchange ("**DSE**") or the Tanzania Capital Markets and Securities Authority ("**CMSA**") assume any responsibility for the correctness of any statements or opinions made or reports contained in this Circular.

Date of issue: 13 May 2021

ADVISOR

Legal Advisor



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1 DEFINITIONS

In this Circular, unless otherwise stated and as the context allows, the words in the first column have the meaning stated opposite them in the second column. Words in the singular include the plural and vice versa, words signifying one gender include the other gender, and references to a person include references to juristic persons and associations of persons:

“ABCH”	ABC Holdings Limited, company incorporated in Botswana with company registration number C01999/4865 whose registered office is at ABC House, Plot No. 62433 Fairgrounds Office Park, Gaborone, Private Bag 00303 1st Floor, Gaborone, Botswana.
“AGM” or “Annual General Meeting”	The annual general meeting of the shareholders of KCB to be held on 27 May 2021 via electronic communication.
“AMM”	Atlas Mara Mauritius Limited, a company incorporated in Mauritius with company number 118376 C1/GBL whose registered address is at 33, Edith Cavell Street, Port -Louis, Republic of Mauritius.
“Arise B.V.”	Arise B.V., a private limited company incorporated under the laws of The Netherlands and registered with the commercial register under the number 64756394.
“ATMA”	Atlas Mara Limited, a company incorporated in the British Virgin Islands with company number 1800950 whose registered address is at Ritter House, 6th Floor, Wickhams Cay II, P.O. Box 4041, Road Town Tortola VG1110, British Virgin Islands.
“BancABC”	African Banking Corporation Tanzania Limited, a company incorporated in Tanzania under number 26116 whose registered address is at 5th and 6th Floors, Uhuru Heights, Bibi Titi Mohamed Road, P.O. Box 31 - 12101, Dar es Salaam.
“Board” or “Directors”	The board of directors of KCB, acting collectively, comprising the persons listed on page 20 of this Circular.
“BOT”	Bank of Tanzania established under the Bank of Tanzania Act, 2006.
“BPR”	Banque Populaire Du Rwanda Plc, a public limited company incorporated in Rwanda with registration number 100162830 whose registered address is at KN 67 Street, 2, P.O. Box 1348 Kigali, Rwanda.
“CBK”	The Central Bank of Kenya a statutory corporation established under the Central Bank of Kenya Act, Chapter 491 of the Laws of Kenya.
“CCC”	The COMESA Competition Commission established under the COMESA Competition Regulations, 2004.
“Circular”	This shareholders’ circular dated 13 May 2021.
“CMA”	The Capital Markets Authority of Kenya established under the Capital Markets Act, Chapter 485A of the laws of Kenya.
“CMSA”	The Capital Markets and Securities Authority established under the Tanzania Capital Markets Act.

“Director”	A director of KCB.
“DSE”	Dar es Salaam Stock Exchange.
“FCC”	The Fair Competition Commission established under the Fair Competition Act of Tanzania.
“Group”	KCB and its subsidiaries identified on page 21 of this Circular.
“KCB”	KCB Group Plc, a public limited liability company (incorporated in Kenya under registration number C 9/88), which is listed on the NSE and cross-listed on DSE, NSE, RSE and USE.
“KCB Rwanda”	KCB Bank Rwanda Limited, a wholly owned subsidiary of KCB in Rwanda, with registration number 101731691 and whose registered address is at Avenue de la Paix, KN 4 AV 18, Wing A, 2nd Floor, Nyarugenge P.O. Box 5620, Kigali, Rwanda.
“KCB Tanzania”	KCB Bank Tanzania Limited, a wholly owned subsidiary of KCB in Tanzania, with incorporation number 31740 and whose registered address is Harambee Plaza, 1st Floor, Ali Hassan Mwinyi Road/Kaunda Drive, P.O. Box 804, Dar es Salaam, Tanzania.
“KShs”	Kenya Shillings, the lawful currency of the Republic of Kenya.
“NBK”	National Bank of Kenya Limited, a wholly owned subsidiary of KCB.
“NBR”	The National Bank of Rwanda established under Law N° 55/2007 of 30/11/2007 Governing the Central Bank of Rwanda.
“NSE”	Nairobi Securities Exchange.
“RSE”	Rwanda Stock Exchange.
“RWF”	Rwandan Francs, the lawful currency of the Republic of Rwanda.
“TDFL”	Tanzania Development Finance Company Limited.
“Transactions”	The proposed acquisition by KCB of BPR and BancABC, as described in this Circular.
“TZS”	Tanzania Shillings, the lawful currency of the Republic of Tanzania.
“USD”	United States Dollars, the lawful currency of the United States of America.
“USE”	Uganda Securities Exchange.

2 LETTER FROM THE KCB GROUP CHAIRMAN

13 May 2021

To all Shareholders of KCB Group Plc.

Dear Shareholder,

On behalf of the Board of Directors of KCB, it gives me great pleasure to address you on what we consider to be the next major milestone in your organisation's history.

Despite the adverse effects of the COVID-19 pandemic experienced in 2020, KCB remains profitable having closed the year with a profit before tax of KShs. 25.7 billion, a decline due to the economic impact of the pandemic. The balance sheet grew by 10% to KShs. 987.8 billion in 2020 driven by an increase in customer loans and deposits, positioning the Group for recovery in 2021. Notwithstanding the pandemic, the Group has maintained strong fundamental financial metrics and we can look back and take great pride in the support of our stakeholders and importantly, the resilience of our balance sheet and diversity of our various revenue lines which helped us withstand the shock.

To enhance our regional participation, accelerate our growth and maintain sustainable long-term regional success, your Board has carefully considered acquisition opportunities in the region in line with our strategy and this has led us to the current proposal for the acquisition of up to 100% of the issued share capital of BPR and 100% of the issued share capital of BancABC.

The two acquisition companies operate in Rwanda and Tanzania respectively, markets KCB operates in. Therefore synergies from the transactions will be derived from the harmonisation of key business lines and operating models thus enhancing efficiency and profitability.

The acquisition of BPR and BancABC provides KCB with the opportunity to rapidly scale up its balance sheet and revenue streams while leveraging on cost synergies. It will distinguish our organization from the competition putting it and all its stakeholders on a path to greater prosperity. The proposed acquisition will also create a stronger and more robust institution that will continue to play a key role in enhancing financial inclusion across the region, further cementing KCB's position as a market leader.

It is for these reasons that your Board, following careful consideration, has entered into transactions to acquire BPR and BancABC. The acquisitions are subject to conditions typical to transactions of this nature including shareholder and regulatory approvals.

Recommendation

Your Board considers that the acquisitions are in the best enduring interest of KCB and all its stakeholders as well as the banking industry in the region.

Accordingly, we unanimously recommend to you, our dear shareholders, to vote in favour of the resolutions contained in the published AGM notice to give effect to the proposed acquisition of BPR and BancABC.

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

Yours faithfully,



Andrew W. Kairu
Group Chairman

1. DESCRIPTION OF THE TRANSACTION

KCB is seeking to expand its business in Rwanda and Tanzania by acquiring:

- (a) up to 100% of the issued share capital of BPR; and
- (b) 100% of the issued share capital of BancABC.

1. Transactions

KCB has entered into the following agreements relating to the Transactions:

(a) Acquisition of BPR

- (i) share purchase agreement dated 25 November 2020 with , *inter alia*, ATMA and AMM, for the purchase of 62.06% of the issued share capital of BPR;
- (ii) share purchase agreement dated 26 February 2021 with Arise B.V., for the purchase of 14.61% of the issued share capital of BPR; and
- (iii) issued an offer letter for the acquisition of all the issued share capital of BPR in accordance with an acquisition mechanism set out in the articles of association of BPR which allows for such acquisition.

(b) Acquisition of BancABC

- (i) share purchase agreement dated 25 November 2020 with , *inter alia*, ABCH and ATMA for the purchase of 96.6% of the issued share capital of BancABC; and
- (ii) intent to enter into a share purchase agreement with , *inter alia*, TDFL for the purchase of 3.4% of the issued share capital of BancABC.

As the shareholders are aware, as part of its strategic thrust of scaling to achieve regional relevance, KCB recently completed the acquisition of NBK in 2019 resulting in NBK becoming a wholly owned subsidiary of KCB currently operating as a separate bank. KCB now wishes to expand its footprint in both Rwanda and Tanzania. In this regard, the Board has identified and evaluated the above two acquisition opportunities and negotiated suitable terms that are in the best interests of KCB and its shareholders including with respect to valuation.

The acquisition agreements executed between KCB (on the one hand) and the respective sellers of the shares in each of BPR and BancABC (on the other hand), set out the terms and conditions of the respective Transactions, including agreed valuation terms, appropriate warranties, indemnities and undertakings made in favour of KCB by the sellers of the relevant shares. The salient terms of the acquisition agreements are set out hereafter.

2. Key terms applicable to the BPR acquisition

(i) Consideration:

- (a) KCB will pay a cash consideration which shall be determined based on a price to book value ratio using a multiple of 1.09 times of the net asset value of BPR at completion. The amount payable by KCB to AMM and Arise B.V. for the acquisition of the shares held by each seller shall be confirmed based on a completion financial report to be prepared and agreed between ATMA and KCB prior to completion (following satisfaction of the conditions necessary to complete the transaction).

3 THE TRANSACTION

- (b) For illustrative purposes, based on the confirmed adjusted net asset value of BPR as at 30 June 2020 (“**June 2020 NAV**”), the consideration payable to AMM and Arise B.V. based on the price to book multiple of 1.09 times book value is estimated to be USD 37,978,757.09 based on the prevailing USD - RWF exchange rate of 989.0450 as at 26 February 2021 (being the date on which the latest share purchase agreement was signed). The final value shall be confirmed by KCB and ATMA based on the net asset value of BPR for the month prior to completion and shall be payable in USD at the prevailing spot exchange rate displayed by Bloomberg.
- (c) The consideration payable to the minority shareholders would be determined on the same basis set out above pro rata to their respective shareholding in BPR. Accordingly, based on the June 2020 NAV, the aggregate completion consideration that would be payable by KCB for acquisition of 100% of BPR (including the amount payable to AMM and Arise B.V. referred to above) would be USD 49,535,355.53, based on the prevailing USD to RWF exchange rate of 989.0450 as at 26 February 2021 (being the date on which the latest share purchase agreement was signed). The final value shall be confirmed by KCB and ATMA based on the net asset value of BPR for the month prior to completion and shall be payable in USD at the prevailing spot exchange rate displayed by Bloomberg.
- (d) KCB shall pay the above consideration at completion of the Transaction.
- (e) In all respects, KCB will acquire the shares free from all liens, charges, encumbrances and other interests and together with all rights attaching thereto as at the completion date.

(ii) Conditions:

Completion of the BPR Transaction is conditional upon the fulfilment (or, where applicable, waiver) of certain conditions that are customary for a transaction of this nature. These include amongst other things:

- (a) approval from the shareholders of KCB;
- (b) receipt of applicable regulatory approvals including from the following regulators:
 - i. National Bank of Rwanda;
 - ii. Central Bank of Kenya;
 - iii. Capital Markets Authority of Kenya;
 - iv. the COMESA Competition Commission;
 - v. notification to the Ministry of Finance in Rwanda; and
 - vi. notification to the Ministry of Trade and Industry (MTI) in Rwanda.
- (c) other conditions include (without limitation):
 - i. prior notification, consent or waiver, as applicable, of relevant counterparties and other third parties with contractual rights in relation to the change of control which will occur as a result of completion of the transaction;
 - ii. no material breach having occurred and AMM and ATMA delivering to KCB a certificate confirming that no material breach has occurred; and
 - iii. no material adverse change having occurred and AMM and ATMA providing confirmation to KCB that no material adverse change has occurred.

(iii) Warranties, indemnities, and other Covenants:

ATMA and AMM provided to KCB appropriate warranties, indemnities and undertakings regarding, among others, their legal capacity and authority to enter into the Transaction and to sell their shares to KCB as well as the status of the business including with respect to (i) confirmation that BPR holds all appropriate banking - licences and other necessary authorisations in Rwanda (ii) compliance with applicable law and sound banking practices and (iii) compliance with tax legislation.

3. Key terms applicable to the BancABC acquisition

(i) Consideration:

- (a) KCB will pay to the seller a cash consideration to be determined based on a price to book value ratio using a multiple of 0.42 times of the net asset value of BancABC at completion. The amount payable by KCB to ABCH shall be confirmed based on a completion financial report to be prepared and agreed between ATMA and KCB prior to completion (following satisfaction of the conditions necessary to complete the transaction).
- (b) For illustrative purposes, based on the confirmed net asset value of BancABC as at 30 June 2020 ("**June 2020 NAV**"), the consideration payable to AMM based on the price to book multiple of 0.42 times book value is estimated to be USD 7,098,828.33, based on USD to TZS exchange rate of TZS 2,318.91 as at 25 November 2020 (being the date on which the share purchase agreement was signed). The final value shall be confirmed by KCB and ATMA based on the net asset value of BPR for the month prior to completion and shall be payable in USD at the prevailing spot exchange rate displayed by Bloomberg.
- (c) The consideration payable to Tanzania Development Finance Company Limited would be determined on the same basis set out above pro rata to its shareholding in BancABC. Accordingly, based on the June 2020 NAV, the aggregate completion consideration that would be payable by KCB for acquisition of 100% of BancABC (including the amount payable to AMM referred to above) would be USD 7,348,683.57 based on USD to TZS exchange rate of TZS 2,318.91 as at 25 November 2020.
- (d) Further, the following ancillary consideration may be payable with respect to the acquisition of BancABC:
 - i. if prior to completion, ABCH (or any of its affiliates) inject additional capital in BancABC in order to meet prudential requirements ("**New Capital**"), KCB shall, at completion, pay the entire amount of the New Capital back to ABCH based on a multiple of 1:1 on the understanding that the New Capital will be subtracted from the net asset value of BancABC for calculation of the consideration;
 - ii. Deferred Consideration Related to Reverse Merger: If at any time following completion, KCB undertakes a merger of KCB Tanzania and BancABC (being the transfer of the business, assets and liabilities of one entity to the other), such that BancABC is the surviving entity post-merger, and, provided that the taxation authorities in Tanzania approve in writing the utilization of all or a portion of the deferred tax asset of BancABC, KCB and ABCH would share equally (50:50 basis) the amount approved by the tax authority. KCB would pay ABCH its 50 percent share of the net present value of the approved amount less the amount of TZS 5,787,500,000; and
 - iii. Tax Recoverable Asset: BancABC has applied to the Tax Authorities for a refund of an amount of TZS 3,072,000,000. This amount is deducted from the determination of the net asset value of BancABC at Completion and, if successfully recovered from the Taxation Authorities in Tanzania, KCB shall pay ABCH the USD equivalent of the amount recovered based on the USD – TZS exchange rate on the date of the payment.
- (e) Payment by KCB of the ancillary consideration referred to in paragraph (d) has no negative impact to the balance sheet or value of KCB or of BancABC as such amounts would not be included in the determination of the net asset value of BancABC for completion purposes.
- (f) In all respects, KCB will acquire the shares in BancABC free from all liens, charges, encumbrances and other interests and together with all rights attaching thereto as at the completion date.

3 THE TRANSACTION

(ii) Conditions:

Completion of the BancABC Transaction is conditional upon the fulfilment (or, where applicable, waiver) of certain conditions that are customary for a transaction of this nature. These include amongst other things:

- (a) approval by the shareholders of KCB;
- (b) receipt of applicable regulatory approvals including from the following regulators:
 - i. Central Bank of Kenya;
 - ii. Capital Markets Authority of Kenya;
 - iii. Bank of Tanzania;
 - iv. Bank of Botswana and Reserve Bank of Zimbabwe and notification to Botswana Investment Trade Centre;
 - v. the COMESA Competition Commission;
 - vi. the Fair Competition Commission of Tanzania;
 - vii. the Capital Markets and Securities Authority, Tanzania (if applicable);
- (c) other conditions include (without limitation):
 - i. prior notification, consent or waiver, as applicable, of relevant counterparties and other third parties with contractual rights in relation to the change of control which will occur as a result of completion of the transaction;
 - ii. no material breach having occurred and AMM and ATMA delivering to KCB a certificate confirming that no material breach has occurred; and
 - iii. no material adverse change having occurred and AMM and ATMA providing confirmation to KCB that no material adverse change has occurred.

(iii) Warranties, indemnities, and other Covenants:

ATMA and ABCH provided to KCB appropriate warranties, indemnities and undertakings regarding, among others, their legal capacity and authority to enter into the Transaction and to sell their shares to KCB as well as the status of the business including with respect to (i) confirmation that BancABC holds all appropriate banking licences and other necessary authorisations in Tanzania (ii) compliance with applicable law and sound banking practices and (iii) compliance with tax legislation.

4. Extracts from Independent Financial Adviser Report

KCB Group PLC appointed Southbridge Holding Ltd as Independent Financial Advisers to undertake an assessment of the offer price for the Transaction. Below represents an extract from the report from Southbridge. The full report is available for inspection by shareholders.

We, SouthBridge Holding Ltd ("SBH"), are delighted to submit our final valuation of Banque Populaire du Rwanda ("BPR") and African Banking Corporation Tanzania Limited ("BancABC Tanzania") in connection with their proposed acquisition by KCB Group Plc ("the Transaction"). As per the Share Purchase Agreement dated 25 November 2020, KCB intends to pay a cash consideration for the BPR Shares determined based on the net asset value of BPR at completion of the transaction and using a price to book multiple of 1.09x and a cash consideration for the BancABC Tanzania Shares determined based on the net asset value of BancABC Tanzania at completion of the transaction and using a price to book multiple of 0.42x (together, "the Transaction Multiples"). As described in the full report, the Transaction Multiples have been determined based on:

- (a) *Standalone multiple for each target entity derived from a Dividend Discount Model valuation (taking into consideration post Covid-19 impact) and based on certain specific assumptions as detailed below;*
- (b) *Synergy adjustments arising from the expected combination of KCB subsidiaries in the two markets with the target entities being acquired including projected growth to the loan book of KCB, reduction of cost of funds and expected savings from operational expenses; and*

(c) *Other specific adjustments such as reduction of the fair value of the head office building of BPR in Rwanda and deferred tax assets in BancABC.*

Arising from the above, the value of each of BPR and BancABC based on the June 2020 NAV is as follows:

	BPR	BancABC
June 2020 NAV (LCYm) (Audit opinion)	46,577.52	42,640.48
NAV Adjustments (LCYm)	(1,925.00)	(3,870.00)
Adjusted NAV (LCYm)	44,652.52	38,770.48
Valuation		
Standalone Multiple (Post Covid Impact)	0.92x	0.22x
Standalone Valuation (LCY)	41,214.78	8,696.48
Synergies (LCYm)	9,385.41	6,029.46
DTA (LCYm)		2,315.00
Rwanda HQ Building (LCYm)	(1,607.49)	
Gross Valuation	48,992.70	17,040.94
FY19 P/BV Multiple	1.09x	0.42x

KEY ASSUMPTIONS FOR THE VALUATION MULTIPLE:

BPR Standalone multiple and synergy adjustment:

Standalone multiple of 0.92x derived from a Dividend Discount Model valuation and based on the following assumptions:

- CAGR of total assets: 10.8%
- CAGR of Net Banking Income: 11.8%
- CIR improvement down to 67%
- 50% hit on total net income in 2020 for Covid19 impact but back to pre-Covid projections from 2021
- Growing payout ratio from 50% to 60%
- Discount rate/ Cost of Equity: 17.5%
- Terminal Value based on Gordon Growth model with sustainable rate of 5%

Synergy adjustments valued through a Discounted Cash Flow methodology with discount rate of 17.5% and exit multiple of 6.00x, which brings total synergy value to 9,385.41 m LCY.

BancABC Standalone multiple and synergy adjustment:

Standalone multiple of 0.22x derived from a Dividend Discount Model valuation and based on the following assumptions:

- CAGR of total assets: 4.4%
- CAGR of Net Banking Income: 13.5% through an improved used of funds
- CIR improvement down to 93%
- 50% additional loss in 2020 for Covid19 impact and slight discount on 2022 net income (first year of positive income)
- Growing payout ratio from 50% to 60%
- Discount rate/ Cost of Equity: 18.2%
- Terminal Value based on Gordon Growth model with sustainable rate of 5%

Synergy adjustments valued through a Discounted Cash Flow methodology with discount rate of 18.2% and exit multiple of 5.77x, which brings total synergy value to 6,029.46 m LCY

Conclusion

Based on the results of our valuation procedures performed, we conclude that the Transaction Multiples are comparable with price to book multiples for trading and comparable transactions in the region which range between 0.3x and 1.7x.

3 THE TRANSACTION

2. BENEFITS OF THE ACQUISITION

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

The Board anticipates, among others, the following key benefits from the Transaction:

(a) Regional expansion

Rwanda and Tanzania are attractive markets which KCB Group deem strategic and where KCB wants to be a top tier market player. The existing KCB business has made progress growing market share organically. However, the combination with BPR and BancABC, creates an excellent opportunity to realise this ambition. Upon completion, the combined market share by total assets of KCB is estimated to be 15% in Rwanda and 3% in Tanzania. The acquisitions therefore is expected to provide KCB a good springboard and good momentum to increase its market share in the two markets in the medium and long term.

(b) Shareholder and Stakeholder value

BPR - The transaction will leverage current strengths of both KCB and BPR and generate significant value for existing and new customers, shareholders and key stakeholders. Some of the key benefits includes:

- i. Strong capital and liquidity position.
- ii. Access to innovative products and services.
- iii. Increase in syndication capabilities for large infrastructure investment in Rwanda.

BancABC - The transaction will generate significant value for existing and new customers, shareholders and key stakeholders. Some of the key benefits will be as follows:

- i. Strong capital and liquidity position.
- ii. Access to innovative products and services.

(c) Synergies

The combined entities in both markets will achieve synergies through the combined balance sheet which enables higher interest income through loan growth, lower cost of funds, increase in non-interest income and operational efficiencies reducing the cost base.

(d) Financial Inclusivity

KCB anticipates that, in addition to creating long term value for its shareholders, the investment would help to enhance financial inclusivity and diversification in the region as well as increase competition through efficient service offering and the availability of various banking products and opportunities to its customers. This is expected to have several positive multiplier effects to the regional economy both in the short and long-term including increasing stability to the financial sector.

(e) Enhanced value to customers

Through KCB's expertise and experience, the acquisition presents a good opportunity for KCB to provide to the new customers to be acquired as a result of the Transactions, quality banking products that is expected to grow and enhance KCB's brand in the two markets and beyond.

(f) Sustainability and effective competition

The Transactions are expected to position KCB strongly with the resultant effect being enhancing its ability to compete with other financial entities strongly and effectively in the two markets and eventually in the rest of the markets within the region. This would have long term benefits for all stakeholders including shareholders, customers and employees.

3. EFFECT OF THE INVESTMENT ON EXISTING SHAREHOLDERS

The Transactions would not result in any change in the shareholding of KCB. Accordingly, shareholders of KCB will continue to hold the same number and type of shares they owned prior to completion of the Transactions subject to any sale or purchase instructions made by them on the securities exchange in the ordinary manner. The rights of shareholders will be as provided in the articles of association of KCB. BPR and BancABC would, upon completion, become subsidiaries of KCB with their financial statements consolidated with that of the Group. In the long term, the Board anticipates incremental earnings on the shares held by shareholders in KCB once the investments in the two countries is completed and KCB manages to efficiently streamline and integrate its operations in the two countries.

4 THE ORGANIZATIONS

4. ABOUT THE ORGANIZATIONS

4.1. KCB GROUP PLC

KCB Group Plc is a registered non-operating holding company listed on the Nairobi Securities Exchange (NSE), Dar es Salaam Stock Exchange (DSE), Uganda Securities Exchange (USE), and Rwanda Stock Exchange (RSE). Headquartered in Nairobi, it operates in Kenya, Tanzania, South Sudan, Uganda, Rwanda, Burundi and Ethiopia (representative office). It also owns National Bank of Kenya (NBK), acquired in 2019, KCB Insurance Agency, KCB Capital, KCB Foundation and other associate companies.

KCB has the largest branch network in the region with 359 branches, 1,104 ATMs, 23,460 point of sale (PoS)/merchants and agents offering banking services on a 24/7 basis. This is complemented by mobile banking and internet banking services with a 24-hour contact center for 25.2 million customers. KCB also has a wide network of correspondent relationships of over 200 banks across the world, thereby assuring customers of a seamless facilitation of their international trade requirements.

KCB provides a broad range of financial products and services in retail banking, corporate banking, investment banking and insurance whilst also offering mortgages and Shariah-compliant products. KCB has over the years continually invested in deepening its sustainability agenda that is anchored on building a responsible business for the future with special focus on environmental, social, financial and economic pillars.

Share Capital

The authorised share capital of KCB is KShs. 4,500,000,000.00 divided into 4,500,000,000 ordinary shares of KShs. 1.00 each. The issued share capital is KShs. 3,213,462,815.00 divided into 3,213,462,815 ordinary shares of KShs. 1.00 each.

Shareholders

A public listed company, KCB is widely held with the top shareholder holding only 19.76% of the shares. The top ten largest shareholders of the Company as at 28 February 2021 were as follows:

Name	Number of Shares	Percentage Shareholding
Permanent Secretary to the Treasury of Kenya	635,001,947	19.76
National Social Security Fund	257,457,709	8.01
Stanbic Nominees Ltd A/C Nr3530153-1	111,707,800	3.48
Standard Chartered Nominees A/C 9688	45,778,323	1.42
Investments & Mortgages Nominees Ltd A/C 002983	44,000,000	1.37
Solanki, Chirag Menesh; Solanki, Kalavati Menesh	38,967,100	1.21
Standard Chartered Nominees A/C 9687	31,680,986	0.99
Standard Chartered Kenya Nominees Ltd A/C Ke002596	29,568,800	0.92
Babla, Sandip Kana Sinh; Babla, Alka Sandip	29,294,100	0.91
Standard Chartered Kenya Nominees Ltd A/C Ke004667	27,451,611	0.85
Others	1,962,554,439	61.07
GRAND TOTAL	3,213,462,815	100.00

2020 Performance

In 2020, total income grew 14% to KShs. 96.0 billion driven by 65% increase in interest from government securities and 20% growth in foreign exchange trading income. This growth was despite the subdued performance of non-funded income as a result of the waiver on mobile transaction fees. The Group's stringent cost management particularly during 2020 resulted in the decrease in the cost to income ratio to 45.4%. The operating environment caused a significant increase in credit risks leading to an increase in loan provisions to KShs. 27.5 billion. The cumulative performance of 2020 therefore resulted in the Group after tax profit declining by 22% year on year to KShs. 19.6 billion.

The Group maintained strong performance on the balance sheet, with double digit growth on the key balance sheet parameters of customer deposits, loans & advances, government securities and total assets. A summary of the three-year position is presented below:

KCB Group PLC			
<i>Summarized P&L</i>			
KShs. Million	2018	2019	2020
Total Income	71,803	84,301	95,996
Total expenses	(35,000)	(38,515)	(42,768)
Loan loss provision	(2,944)	(8,889)	(27,509)
PBT	33,859	36,897	25,719
PAT	23,995	25,165	19,604

<i>Summarized Balance sheet</i>			
KShs. Million	2018	2019	2020
Loans and Advances	455,880	539,747	595,255
Investment securities	120,070	164,866	210,784
Other assets	138,363	193,959	181,771
Total Assets	714,313	898,572	987,810
Customer deposits	537,460	686,583	767,224
Other liabilities	63,192	82,248	78,163
Equity	113,661	129,741	142,423
Total Equity & Liabilities	714,313	898,572	987,810

4.2. ABOUT BPR

BPR is a public limited company incorporated in Rwanda with registration number 100162830 whose registered address is at KN 67 Street, 2, P.O. Box 1348, Kigali, Rwanda. BPR is licensed by the NBR to provide banking services in the Republic of Rwanda.

It commenced operations in 1975 in a village called Nkamba by a group of Rwandans who wanted access to finance to better their livelihoods. In 1986, the growth of savings and credit schemes led to the formation of an umbrella institution under the name "Union des Banques Populaires Du Rwanda (UBPR). UBPR transformed to become a fully-fledged commercial bank in 2008 but still retained its co-operative roots. Known as the neighbourhood bank, BPR has become the bank with the largest network in Rwanda offering financial services to the furthest corners of the country.

Current Shareholding

The current shareholding structure of BPR is as shown on the table below:

Shareholder	Ownership share (%)
AMM	62.06
Arise B.V.	14.61
Local shareholders	23.33
Total	100.00

It is controlled by AMM which is a wholly owned subsidiary of ATMA, a financial institution listed on the London Stock Exchange (LSE) with banking operations in several markets in Sub-Saharan Africa.

As outlined in Part 3 above, KCB intends to acquire up to 100% of the issued share capital of BPR.

Board and Governance

The BPR shareholders appoint a board that plays an oversight role and ensures proper governance of the bank. All members of the Board must be approved by the regulator (NBR) and have extensive business, banking and financial experience.

Core Products

(a) Its products include:

- (i) retail banking:
 - a. loan products - home loans (Mortgage, construction, and home equity loans), vehicle loans and personal loans; and
 - b. savings and current accounts of various attributes and features.
- (ii) corporate banking:
 - a. loan products - overdrafts, business loans, commercial mortgage, bank guarantee, investment loan, equipment loan and asset financing; and
 - b. savings – current account and term deposits.

Its estimated market share in Rwanda on a good faith analysis is considered to be 11.1%. The combined market share of KCB Rwanda and BPR by total assets is estimated to be 17.5%.

Historical Financial Information

Banque Populaire du Rwanda (BPR)			
<i>Summarised P&L</i>			
KShs. Million	2018	2019	2020
Total Income	3,793	3,683	3,933
Total expenses	(2,932)	(2,832)	(2,911)
Loan loss provision	(221)	(383)	(403)
PBT	640	468	619
PAT	448	468	448

<i>Summarised Balance sheet</i>			
KShs. Million	2018	2019	2020
Loans and Advances	20,168	18,336	21,580
Investment securities	5,272	10,824	15,588
Other assets	7,040	9,434	10,076
Total Assets	32,480	38,593	47,244
Customer deposits	20,390	24,145	27,597
Other liabilities	7,330	9,446	14,028
Equity	4,761	5,002	5,618
Total Equity & Liabilities	32,480	38,593	47,244

Projected growth of the combined business in Rwanda

Following this acquisition and the subsequent integration, we forecast the following financial performance outcome for the merged entities:

Summarised financials	BPR			KCB Bank Rwanda			Merged entity		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Total Income	4,589	5,134	5,679	2,776	3,114	3,543	7,365	8,690	9,709
PBT	890	1,038	1,172	1,110	1,269	1,458	2,000	3,053	3,471
Loans and Advances	23,772	26,754	29,460	21,037	23,687	26,536	44,809	53,134	59,016
Customer deposits	30,508	33,559	37,542	22,882	26,163	29,063	53,390	62,468	69,685
Total assets	48,836	53,698	58,707	32,226	35,669	40,186	81,062	90,521	100,065

4.3. ABOUT BANCABC

BancABC is a company incorporated in Tanzania and is licensed by the BOT to provide banking services in the Republic of Tanzania.

It commenced operations in 1996 as an asset finance institution and was granted full commercial banking status in 2002. Its first retail branch opened in 2012 and it established a consumer finance business (BancEasy) in 2013. It currently has 7 branches and 103 loan centers. It has made strong strides in the consumer finance business and steady progress in wholesale banking.

Current Shareholding

ABCH, a wholly owned subsidiary of ATMA, is the legal and beneficial owner of 96.6% of the issued share capital of BancABC. The remaining 3.4% of the issued share capital of BancABC is held by TDFL, a joint venture between ABCH which holds 60% of TDFL and the Government of Tanzania which holds 40% of TDFL.

ABCH is the parent company of several banks operating in Sub-Saharan Africa under the "BancABC" brand that offer a diverse range of financial services.

Board and Governance

The BancABC shareholders appoint a board that plays an oversight role and ensures proper governance of the bank. All members of the Board must be approved by the regulator (BOT) and have extensive business, banking and financial experience.

Core Products

BancABC currently provides a range of banking services to over 40,000 customers and has 157 employees. Its products include:

- i. personal banking: loans (personal, group scheme), accounts (savings, current);
- ii. business banking: business loan, business account, SME business account, fixed term investment account; and,
- iii. wholesale banking: overdraft, promissory notes, premium finance, guarantees, term loans, loan syndications, invoice discounting, order financing, leasing, structured arrangements, treasury solutions.

Its market share in Tanzania by assets is estimated to be 1.0%.

Historical Financial Information

BancABC Tanzania			
<i>Summarised P&L</i>			
KShs. Million	2018	2019	2020
Total Income	1,350	1,240	1,320
Total expenses	(1,463)	(1,442)	(1,449)
Loan loss provision	(210)	(179)	(60)
PBT	(324)	(382)	(189)
PAT	(331)	(388)	(196)

<i>Summarised Balance sheet</i>			
KShs. Million	2018	2019	2020
Loans and Advances	6,395	5,659	6,317
Investment securities	1,827	1,464	2,036
Other assets	6,201	6,572	7,415
Total Assets	14,423	13,695	15,768
Customer deposits	6,872	6,655	8,294
Other liabilities	5,274	5,107	5,616
Equity	2,277	1,932	1,858
Total Equity & Liabilities	14,423	13,695	15,768

Projected growth of the combined business in Tanzania

Following this acquisition and the subsequent integration, we forecast the following financial performance outcome for the merged entities:

Summarised financials	BancABC			KCB Bank Tanzania			Merged entity		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Total Income	1,503	1,612	1,777	3,138	4,137	4,534	4,642	5,936	6,511
PBT	14	51	121	1,024	1,775	1,953	1,039	2,080	2,616
Loans and Advances	6,430	6,923	7,467	21,153	23,684	26,428	27,582	31,484	34,860
Customer deposits	8,842	9,046	8,926	23,313	25,413	28,783	37,248	40,193	43,630
Total Assets	15,862	17,013	18,017	35,340	44,196	48,539	51,202	61,368	66,679

5 STATUTORY AND GENERAL INFORMATION

1. RESPONSIBILITY STATEMENT

- 1.1 The Directors, whose names appear in section 2 of Part 5 of this Circular, accept responsibility for the information contained herein. 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.
- 1.2 The Directors are the persons responsible for the application made to the CMA for the approval of the issue of this Circular.

2. DIRECTORS

Name*	Address	Position
Andrew W. Kairu	P.O. Box 48400-00100 Nairobi	Non-executive, Chairman
CS, National Treasury	P.O. Box 48400-00100 Nairobi	Non-executive
Tom Ipomai	P.O. Box 48400-00100 Nairobi	Non-executive
John Nyerere	P.O. Box 48400-00100 Nairobi	Non-executive
Georgina Malombe	P.O. Box 48400-00100 Nairobi	Non-executive
Lawrence Njiru	P.O. Box 30333-00100 Nairobi	Non-executive
Anne Eriksson	P.O. Box 48400-00100 Nairobi	Non-executive
Ahmed Mohamed	P.O. Box 48400-00100 Nairobi	Non-executive
Dr. Obuya Bagaka	P.O. Box 48400-00100 Nairobi	Non-executive
Joshua Oigara	P.O. Box 48400-00100 Nairobi	Executive, Group CEO
Lawrence Kimathi	P.O. Box 48400-00100 Nairobi	Executive, Group CFO

* Note: All Directors are Kenyan

3. DIRECTORS' INTERESTS

- 3.1 The following Directors had direct or indirect beneficial equity interests in the ordinary shares of KCB at 28 February 2021:

Name*	Number of Shares	Percentage Shareholding
Andrew W. Kairu	30,700	0.00%
CS, National Treasury	635,001,947	19.76%
Tom Ipomai	Nil	0.00%
John Nyerere	28,040	0.00%
Georgina Malombe	2,600	0.00%
Lawrence Njiru	Nil	0.00%
Anne Eriksson	Nil	0.00%
Ahmed Mohamed	Nil	0.00%
Dr. Obuya Bagaka	Nil	0.00%
Joshua Oigara	35,157	0.00%
Lawrence Kimathi	18,800	0.00%

As at the date of this Circular, there was no existing or proposed contract between any of the Directors and the Company, other than employment contracts for those Directors who are employed in the ordinary course of business.

- 3.3 No options to purchase any securities of the Company have been granted to or exercised by any Directors of the Company.
- 3.4 None of the Directors have or have had any beneficial interest in any property acquired by the Company during the two years preceding the date of this Circular.
- 3.5 Except as disclosed in this Circular, no officer, director or major shareholder of the Company (nor a related company) has any direct or indirect interest in the shares or business of BPR or BancABC.

4. SUBSIDIARIES AND ASSOCIATES

The following are the subsidiaries and associated companies of KCB:

Incorporated in Kenya:		
Name	Country of Incorporation	Beneficial Ownership (%)
KCB Bank Kenya Limited	Kenya	100
National Bank of Kenya Limited	Kenya	100
Kenya Commercial Finance Co. Limited	Kenya	100
KCB Capital Limited	Kenya	100
Savings & Loan Kenya Limited	Kenya	100
KCB Foundation	Kenya	100
Kenya Commercial Bank Nominees Ltd	Kenya	100
Kencom House Limited	Kenya	100
KCB Insurance Agency Limited	Kenya	100

Incorporated outside Kenya:		
Name	Country of Incorporation	Beneficial Ownership (%)
KCB Bank Tanzania Limited	Tanzania	100
KCB Bank South Sudan Limited	South Sudan	100
KCB Bank Rwanda Limited	Rwanda	100
KCB Bank Burundi Limited	Burundi	100
KCB Bank Uganda Limited	Uganda	100

Associate:		
Name	Country of Incorporation	Beneficial Ownership (%)
United Finance Limited	Kenya	45

5 STATUTORY AND GENERAL INFORMATION

5. GENERAL INFORMATION

- 5.1 The Board hereby declares that the annual financial statements of the Company for the year ended 31 December 2020 have been audited and received an unqualified opinion.
- 5.2 Registered Office: Kencom House
Moi Avenue
P. O. Box 48400 – 00100
Nairobi
- 5.3 Financial Year: Year end 31 December
- 5.4 Auditors PricewaterhouseCoopers LLP
PWC Tower,
Waiyaki Way/Chiromo Road, Westlands
P. O. Box 43963 – 00100,
Nairobi, Kenya
- 5.5 Shares Registrar Image Registrars Limited,
5th Floor, Absa Plaza,
Loita Street,
P. O. Box 9287 – 00100,
Nairobi, Kenya

6. CONSENTS

Southbridge Holdings Limited (independent valuer) and Iseme, Kamau & Maema, Advocates (Legal Adviser) have given and not withdrawn their consent to the issue of this Circular with the inclusion herein of their names and the references thereto, in the form and context in which they appear.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection by shareholders, free of charge, at the Company's offices at Kencom House, Moi Avenue, P.O. Box 48400, GPO 00100, Nairobi, Kenya between 9.00 a.m. and 5.00 p.m. Monday to Friday (except public holidays) from the date hereof until 27 May 2021:

- (a) The approval of CMA relating to the issue of this Circular.
- (b) Letter of no objection from the CMA for a virtual AGM pursuant to Circular No. CMA/MRT/005/2020.
- (c) Share purchase agreement dated 25 November 2020 with , *inter alia*, ATMA and AMM, for the purchase of 62.06% of the issued share capital of BPR.
- (d) Share purchase agreement dated 26 February 2021 with Arise B.V., for the purchase of 14.61% of the issued share capital of BPR.
- (e) Share purchase agreement dated 25 November 2020 with , *inter alia*, ABCH and ATMA for the purchase of 96.6% of the issued share capital of BancABC.
- (f) Letter from Southbridge Holdings Limited dated 6 May 2021.

www.kcbgroup.com