



**NIC Group PLC**

(Incorporated in Kenya on 29th September 1959)

Registration Number 11/71

# CIRCULAR TO SHAREHOLDERS

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Proposed Merger between Commercial Bank of Africa Limited and NIC Group PLC

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## IMPORTANT INFORMATION

This Circular is being issued by NIC Group PLC 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, the Nairobi Securities Exchange Listing Rules, 2002 and the Nairobi Securities Exchange Listing Manual, 2002.

The Capital Markets Authority has approved the issuance of this Circular. As a matter of policy, neither the Capital Markets Authority nor the Nairobi Securities Exchange 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") for NIC Group PLC to be held at 10:30 a.m. on 17th April 2019 at Kenyatta International Convention Centre, Nairobi, Kenya is set out at the end of this Circular. A form of Proxy for use by shareholders is also enclosed.

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

If you are currently a shareholder of NIC and are unable to attend the AGM, please complete and return the attached form of proxy in accordance with the instructions printed thereon and send it to the Registrar, C&R Group, 6th Floor, Bruce House, Standard Street, Nairobi.

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**PART 1 – TRANSACTION ADVISERS**

<b>JOINT LEAD TRANSACTION ADVISORS</b>		<p><b>NIC Capital Limited</b>                  NIC House, Masaba Rd. Upperhill                  P.O.Box 44599-00100,                  Nairobi, Kenya  <b>Attention: Maurice Opiyo</b></p>
		<p><b>CBA Capital Limited</b>                  CBA Centre Annex, Hospital Rd. Upperhill                  P.O.Box 30437-00100,                  Nairobi, Kenya  <b>Attention: Kathure Nyamu</b></p>
<b>INDEPENDENT FINANCIAL ADVISOR</b>		<p><b>Faida Investment Bank Limited</b>                  Windsor House                  University Way/Muindi Mbingu Street                  P.O. Box 45236-00100,                  Nairobi, Kenya  <b>Attention: Bob Karina</b></p>
<b>TRANSACTION CONSULTANTS</b>		<p><b>Viva Africa Consulting</b>                  Kiganjo House, Rose Avenue, off Dennis Pritt Rd                  P. O. Box 50719 – 00200,                  Nairobi, Kenya  <b>Attention: Kairo Thuo</b></p>
<b>LEGAL ADVISER TO NIC GROUP</b>		<p><b>Iseme Kamau &amp; Maema Advocates</b>                  IKM Place                  5th Floor, Tower A, 5th Ngong Avenue                  P. O. Box 11866 – 00400,                  Nairobi, Kenya  <b>Attention: James Kamau</b></p>
<b>LEGAL ADVISER TO CBA GROUP</b>		<p><b>Coulson Harney LLP</b>                  5th Floor, West Wing                  ICEA LION Centre, Riverside Park                  Chiromo Road                  Nairobi, Kenya  <b>Attention: Richard Harney</b></p>
<b>AUDITORS</b>		<p><b>PricewaterhouseCoopers</b>                  PwC Tower, Wayaki Way/ Chiromo Road, Westlands                  P.O Box 43963 – 00100                  Nairobi, Kenya  <b>Attention: Richard Njoroge</b></p>
<b>REGISTRARS</b>		<p><b>Custody &amp; Registrars Services Limited</b>                  6th Floor, Bruce House,                  Standard Street                  P.O Box 8484 – 00100                  Nairobi  <b>Attention: Kerry-Anne Makatiani</b></p>

### 3. DEFINITIONS

The following definitions apply throughout this Circular, unless the context requires otherwise:

Subject	Definition
<b>AGM</b>	The Annual General Meeting of NIC to be held on 17th April 2019;
<b>AGM Notice</b>	The Notice of the AGM set out in Part 11 of this Circular;
<b>Articles of Association</b>	The Articles of Association of NIC;
<b>Banking Act</b>	The Banking Act (Cap. 488) of the Laws of Kenya;
<b>BATA</b>	The Business and Asset Transfer Agreement entered into or to be entered into between NIC Bank Kenya (as transferor) and CBA (as transferee) providing for the transfer of the whole of the banking business of NIC Bank Kenya and all associated assets and liabilities to CBA;
<b>Board or Directors</b>	The persons named on page 14 as Directors of CBA and persons named on page 30 as Directors of NIC, as appropriate;
<b>Business Amalgamations, Consolidations and Restructurings</b>	The following transactions which are to occur following completion of the Share Exchange: <ul style="list-style-type: none"> <li>(a) the Kenyan Banking Business Amalgamation;</li> <li>(b) the amalgamation of the commercial banking businesses of NC Uganda and CBA Uganda;</li> <li>(c) the amalgamation of the commercial banking businesses of NIC Tanzania and CBA Tanzania;</li> <li>(d) the amalgamation of the businesses of CBA Capital Limited, NIC Capital Limited and NIC Securities Limited;</li> <li>(e) the amalgamation of the businesses of CBA Insurance Agency Limited and NIC Insurance Agents Limited; and</li> <li>(f) the transfer by CBA of its entire shareholding in CBA Rwanda to NIC such that CBA Rwanda will be owned directly by NIC;</li> </ul>
<b>CAK</b>	The Competition Authority of Kenya established under Section 7 of the Competition Act;
<b>Capital Markets Act</b>	The Capital Markets Act (Cap 485A) of the Laws of Kenya.
<b>CBA</b>	Commercial Bank of Africa Limited, a limited liability company incorporated in Kenya with Registration Number C. 7055 and licensed under the Banking Act, and whose registered office is at CBA Centre, Mara and Ragati Road, Upper Hill, Nairobi in the Republic of Kenya and of P.O. Box Number 30437-00100, Nairobi;
<b>CBA Capital</b>	CBA Capital Limited, an investment bank licensed by the CMA in Kenya and which is wholly beneficially owned by CBA;
<b>CBA Group</b>	CBA and the CBA Subsidiaries;
<b>CBA Insurance</b>	CBA Insurance Agency Limited, an insurance agent licensed by the Insurance Regulatory Authority in Kenya and which is wholly beneficially owned by CBA;
<b>CBA Rwanda</b>	Commercial Bank of Africa (Rwanda) Limited, a commercial bank licensed by the National Bank of Rwanda in Rwanda, and which is a wholly owned subsidiary of CBA;
<b>CBA Shareholders</b>	The current shareholders of CBA;
<b>CBA Subsidiaries</b>	CBA Insurance, CBA Capital, Syndicate Nominees Limited, CBA Uganda, CBA Tanzania, CBA Rwanda, First American Bank of Kenya Limited (dormant), First American Finance Company Limited (dormant) and First Investment Limited (dormant);

Subject	Definition
<b>CBA Tanzania</b>	Commercial Bank of Africa (Tanzania) Limited, a commercial bank licensed by the Bank of Tanzania in Tanzania, and which is a wholly owned (directly and indirectly through CBA Capital) subsidiary of CBA;
<b>CBA Uganda</b>	Commercial Bank of Africa (Uganda) Limited, a commercial bank licensed by the Bank of Uganda in Uganda, and which is a wholly owned (directly and indirectly through CBA Capital) subsidiary of CBA;
<b>CBK</b>	The Central Bank of Kenya, established under the Central Bank of Kenya Act (Cap 491) of the Laws of Kenya;
<b>CMA</b>	The Capital Markets Authority, established under the Capital Markets Act;
<b>Company or NIC</b>	NIC Group PLC, a public listed company limited by shares and incorporated in Kenya on 29th September 1959;
<b>Competition Act</b>	Competition Act, Act No. 12 of 2010 of the Laws of Kenya;
<b>Completion</b>	The date on which the Merger is consummated and the New Shares are issued to the CBA Shareholders in accordance with the terms of the Merger Agreement and the Offer Letters;
<b>ESOP</b>	Employee share option plan;
<b>Existing Shares</b>	The 703,940,164 issued ordinary shares with a par value of KES 5 each in the capital of NIC and which are fully paid up;
<b>Kenyan Banking Business Amalgamation</b>	The transaction to occur following completion of the Share Exchange pursuant to which the banking business of NIC Bank Kenya will be amalgamated with and into the banking business of CBA by the transfer of the whole of the banking business of NIC Bank Kenya and all associated assets and liabilities to CBA in accordance with the terms of the BATA and pursuant to section 9 of the Banking Act;
<b>KES</b>	Kenya Shillings, the lawful currency of the Republic of Kenya;
<b>Licensing Regulations</b>	The Capital Markets (Licensing Requirements) (General) Regulations, 2002;
<b>Listing</b>	Admission of the New Shares to the Official List of the NSE;
<b>Merger</b>	The proposed merger between NIC and CBA to be implemented by way of the Share Exchange;
<b>Merger Agreement</b>	The agreement dated 01 March 2019 entered into between NIC, NIC Bank Kenya and CBA setting out the key terms of the Merger;
<b>New Shares</b>	The 793,804,865 new ordinary shares with a par value of KES 5 each in the capital of NIC to be issued fully paid to the CBA Shareholders as consideration for the transfer by the CBA Shareholders of all of their shares in CBA (through NIC Bank Kenya), and which will upon their issue constitute 53% of the issued shares in NIC.
<b>NIC</b>	NIC Group PLC, a public listed company, limited by shares, which was incorporated in Kenya on 29th September 1959;
<b>NIC Bank Kenya</b>	NIC Bank Kenya PLC, a commercial bank licensed by the CBK in Kenya, and which is a wholly owned subsidiary of NIC;
<b>NIC Bank Tanzania</b>	NIC Bank Tanzania Limited, a commercial bank licensed by the Bank of Tanzania in Tanzania, and which is a subsidiary of NIC, with NIC holding a 69.84% stake;
<b>NC Bank Uganda</b>	NC Bank Uganda Limited, a commercial bank licensed by the Bank of Uganda in Uganda, and which is a wholly beneficially owned subsidiary of NIC;
<b>NIC Capital</b>	NIC Capital Limited, an investment bank licensed by the CMA in Kenya, and which is a wholly beneficially owned subsidiary of NIC;
<b>NIC Group</b>	NIC Group PLC and the NIC Subsidiaries;
<b>NIC Insurance Agents</b>	NIC Insurance Agents Limited, an insurance agent licensed by the Insurance Regulatory Authority in Kenya, and which is a wholly beneficially owned subsidiary of NIC;

Subject	Definition
<b>NIC Leasing</b>	NIC Leasing LLP, a limited liability partnership registered in Kenya undertaking leasing business, and which is wholly beneficially owned by NIC;
<b>NIC Properties</b>	NIC Properties Limited, a private company limited by shares incorporated in Kenya, and which is wholly beneficially owned by NIC;
<b>NIC Securities</b>	NIC Securities Limited, a company undertaking business as a stock brokerage firm licensed by the CMA in Kenya, and which is wholly beneficially owned by NIC (through NIC Capital);
<b>NIC Subsidiaries</b>	NIC Bank Kenya, NIC Capital, NIC Insurance Agents, NIC Ventures, NIC Leasing, NIC Properties, NIC Securities, NIC Bank Tanzania, NC Bank Uganda, Mercantile Finance Company Limited (dormant) and National Industrial Credit Trustees Limited (dormant);
<b>NIC Ventures</b>	NIC Ventures Limited, a private company limited by shares incorporated in Kenya, and which is wholly beneficially owned by NIC;
<b>NSE</b>	The Nairobi Securities Exchange;
<b>Offer</b>	The offer from NIC to CBA Shareholders set out in the Offer Letters
<b>Offer Letters</b>	Offer letters dated 12th February 2019 issued by NIC to each of the CBA Shareholders with respect to the Share Exchange and pursuant to which NIC offers to acquire the shares held by the CBA Shareholders in CBA (through NIC Bank) in exchange (ultimately) for the issue to the CBA Shareholders of the new shares;
<b>Public Offers, Listing and Disclosures Regulations</b>	The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002;
<b>Share Exchange</b>	The transaction pursuant to which the CBA Shareholders will sell and transfer their shares in CBA to NIC Bank Kenya in exchange (ultimately) for the issue to the CBA Shareholders of the new shares; and
<b>Shareholders</b>	The current NIC shareholders
<b>SME</b>	Small and medium-sized enterprises

## PART 2 – LETTER FROM THE CHAIRMAN OF NIC GROUP PLC

To all Shareholders of NIC Group PLC

Dear Shareholder,

### PROPOSED MERGER BETWEEN CBA AND NIC

Greetings!

It is almost 60 years since National Industrial Credit (East Africa) Limited was incorporated on 29th September 1959. At that time, the company was amongst the first non-bank financial institutions to provide hire purchase and instalment credit finance facilities in Kenya.

Twelve years later National Industrial Credit (East Africa) Limited became a public listed company on what is now the Nairobi Securities Exchange, where it still trades today with approximately 26,000 shareholders. National Industrial Credit (East Africa) Limited changed its name to National Industrial Credit Limited on 17th December 1984. In 1995, National Industrial Credit Limited acquired a banking licence changing its name to National Industrial Credit Bank Limited and in 1997 it merged with The African Mercantile Banking Company Limited to become a fully-fledged commercial bank. In 2005, National Industrial Credit Bank Limited was renamed NIC Bank Limited and since then, the bank has actively expanded across the region and built out its product offering.

In 2017, NIC Bank Limited reorganized to take advantage of emerging opportunities in Kenya and the broader East African market. The reorganization saw (a) NIC Bank Limited change its name to NIC Group PLC (“NIC or NIC Group”) and become a non-operating holding company, (b) the set-up of a new subsidiary in Kenya, NIC Bank Kenya PLC, to conduct the Kenyan banking business, and (c) the Kenyan banking business, including all assets and liabilities, being transferred to NIC Bank Kenya PLC.

Over the years, through a planned and deliberate process of innovation, diversification and expansion, NIC Group has recorded robust growth and transformed itself into a significant player in the financial services industry. Today NIC is a commercial banking and financial services group with a presence in Kenya, Uganda and Tanzania and a complement of 52 branches across the region. NIC has seen rapid growth in its balance sheet and continues to seek and seize opportunities, and in addition to the banking businesses, has subsidiaries specialising in investment banking, stock broking, insurance and leasing.

Early in 2018, the Group rolled out a strategy dubbed “Trailblazing to Tier 1 through Transactional Banking”, whose core ambition is the attainment of Tier 1 status by 2022. The strategy seeks to grow transactional business, increase the scale of services offered by the Group and deliver superior customer experience through digital innovation. That was at the beginning of 2018, and as it turns out, the Tier 1 aspirations were closer than expected as by the end of the year, discussions had been entered into with Commercial Bank of Africa Limited regarding a potential merger of NIC Group with CBA Group.

Following these discussions, and as was announced on 31st January 2019, the Board of Directors of NIC and CBA approved the proposed merger and resolved to recommend to their respective shareholders a merger of the two Groups to be effected through a Share Exchange. The completion of the Share Exchange is conditional upon the usual closing conditions which include Shareholders’ approval as well as approvals from the various regulators. The Board expects this to be concluded in Q3 2019. The Share Exchange ratio has been determined by the Boards of Directors of NIC and CBA based on an



independent valuation of both entities. A fairness opinion on this valuation has been provided by Faida Investment Bank Limited and is included in Part 8 of this Circular.

Following completion of the Share Exchange, the Business Amalgamations, Consolidations and Restructuring (including the Kenyan Banking Businesses Amalgamation) will be implemented as detailed below.

## VALUE PROPOSITION FOR THE MERGER

When considering the merger, the Board of Directors of CBA and NIC took into account several factors. These include, but are not limited to:

- the merger will create a bank and financial services group with the financial strength, expertise, and regional reach to support Kenya's and the region's economic growth aspirations. In particular, the merged entity will be strongly positioned to play a key role in supporting Kenya's economic ambitions, specifically facilitating implementation of the Government's Big Four Agenda which focuses on food security, affordable housing, manufacturing and universal healthcare;
- the combined bank will be amongst the largest financial institutions in the East African region with a total asset base in excess of KES 444 billion and Shareholders' Equity of KES 65 billion. It will comprise of the second largest bank in Kenya by customer deposits and third largest by total assets and will be a true market leader in Corporate Banking, Asset Finance and Digital Banking. The combined bank will operate a network of more than 100 branches in five countries including Kenya, Uganda, Tanzania, Rwanda and Ivory Coast. Serving over 40 million customers, the combined entity will be the largest bank in Africa by customer numbers;
- the merged group will provide a full range of financial products and services to corporate, institutional, SME and consumer banking customers, and these customers will benefit from strong relationship management and a culture of customer service excellence. On the digital front the Group will remain a clear leader in innovation, through well established brands such as M-Shwari and Fuliza (in partnership with Safaricom in Kenya), M-Pawa (in partnership with Vodacom in Tanzania), MoKash (in partnership with MTN in Uganda and Rwanda) and MoMoKash (in partnership with MTN and Bridge Group in Côte d'Ivoire), and will play a key role in supporting the financial inclusion agenda in all these markets.; and
- the combined larger Group will provide new and greater opportunities for employee development, advancement and growth.

## **BASIS OF DETERMINATION OF CONSIDERATION AND NUMBER OF NEW SHARES TO BE ALLOTTED TO THE CBA SHAREHOLDERS**

### **Basis of determination of the consideration payable for the Exchange Offer**

The Board of Directors of CBA and NIC appointed an Independent Financial Adviser (Faida Investment Bank Limited) to provide a fairness opinion on the proposed share exchange ratio ("Exchange Offer") on which NIC made an offer to each individual CBA Shareholder to exchange their CBA shares for the new shares. NIC offered to purchase (through NIC Bank Kenya), free from all encumbrances, all shares in CBA, and in exchange for their CBA shares, CBA Shareholders will be issued and allotted 793,804,865 new shares in NIC, credited as fully paid. The new shares will rank pari passu with existing shares. NIC will continue as the holding company for the merged Group listed on the NSE. The Share Exchange ratio is based on a 47:53 relative valuation of NIC and CBA respectively. As such, to the extent that all CBA shareholders participate, CBA shareholders will in aggregate own 53% of the issued shares in NIC, whilst existing NIC shareholders will own 47% of the issued shares in NIC.

### **EFFECT OF THE MERGER ON EXISTING SHAREHOLDERS**

At present, NIC's issued and paid up share capital is KES 3,519,700,820 comprised of 703,940,164 ordinary shares of KES 5 each. The issue of the New Shares to the CBA Shareholders will result in a dilution of the shareholding of the current shareholders of NIC. For current shareholders of NIC however, the number of shares held in NIC will remain unchanged.

### **RESOLUTIONS PROPOSED TO BE PASSED WITH RESPECT TO THE MERGER**

With regard to the Merger, the Shareholders are required to approve certain corporate matters, including but not limited to:

- (a) approving the Merger, the entry by NIC and NIC Bank Kenya into the Merger Agreement and the issue by NIC to the CBA Shareholders of the Offer Letters making the Offer to acquire their shares in CBA;
- (b) approving the allotment and issue of the New Shares to the CBA Shareholders who accept to transfer their shares in CBA to NIC Bank Kenya for purposes of the Share Exchange; and
- (c) approving the Kenyan Banking Business Amalgamation and the Business Amalgamations, Consolidations and Restructuring following the Share Exchange.

The resolutions required to be passed are set out in greater detail in the AGM Notice contained in Part 11 of this Circular.

### **Employee Share Option Plan (ESOP)**

It is proposed to establish an ESOP for the benefit of the employees of the merged Group. CBA currently has an ESOP which holds 2.50% of CBA shares. It is proposed that this allotment of shares be rolled into a new Group ESOP for the merged entity subject to shareholder and regulatory approval.

More details with respect to the proposed ESOP are set out in Part 7 of this Circular.

## ADDITIONAL INFORMATION

Included in Parts 3 – 11 of this Circular is additional important information and disclosures regarding the Merger as follows:

Part 3 – Information about CBA

Part 4 – Information about NIC

Part 5 – Merger structure

Part 6 – Benefits of the Merger to various stakeholders

Part 7 – Proposed ESOP

Part 8 – Extract of the valuation conducted by the Independent Financial Adviser

Part 9 – Pro-forma Financial Information

Part 10 – Additional CMA disclosures and general information

Part 11 – AGM Notice

## RECOMMENDATION

The Board is confident that this merger, once completed, will enhance the merged business' ability to serve and provide bespoke solutions to its customers and the market, broaden customer access, improve operational efficiencies and enhance financing capacity.

It is for these reasons that the Directors of NIC unanimously recommend that the Shareholders vote in favour of the resolutions to be proposed at the AGM. The details of the resolutions are provided in the AGM Notice set out at Part 11 of this Circular. We confirm that the Directors of NIC who have direct or indirect beneficial equity interests in the ordinary shares of NIC as at the date of this Circular, as more particularly set out in Part 10 of this Circular, will vote in favour of the resolutions.

Should you require advice as to what action to take, it is recommended that you seek independent professional advice from your stockbroker, investment adviser, accountant, banker, lawyer or any other professional adviser.

Yours Sincerely



**James P. M. Ndegwa**

**CHAIRMAN**

## PART 3 - INFORMATION ON CBA GROUP

### Business Overview

Commercial Bank of Africa Limited ("CBA" or the "Bank") originally commenced business as a subsidiary of Societe Financiere pour les pays D'Outre Mer ("SFOM"), a Swiss-based consortium bank with interests in financial institutions throughout Africa. The Bank was incorporated in 1962 in Tanzania when the consortium of International banks including Bank of America ("BOA"), Banque National de Paris, Banque Bruxelles Lambert and Dresdner Bank acquired the shares of all the other SFOM partners. Following nationalization in Tanzania in 1967, CBA moved its headquarters to Kenya.

In 1981, CBA became a subsidiary of BOA, when BOA acquired the shares of the other shareholders of CBA other than 16% of the issued shares which were held by Kenyan investors. Between 1984 and 1991, BOA re-organized CBA, developing and installing Bank of America's global systems and disciplines before selling a majority of its shares to local Kenyan investors. Bank of America continued to provide management services to the Bank via a management agreement before eventually selling the remainder of its shares in 1992. Since then, CBA has been a wholly-owned Kenyan bank recognized for operational efficiency and quality service delivery.

In 2005, CBA acquired First American Bank of Kenya Limited and also acquired shareholding in the United Bank of Africa ("UBA"), a licensed bank located in Dar-es-Salaam, Tanzania. These amalgamations positioned the Bank as East Africa's largest privately owned bank with operations currently in Kenya, Tanzania, Uganda, Rwanda and Ivory Coast.

CBA's business model focuses on providing a full range of innovative financial products and services to corporate, institutional and high end personal banking customers. Through its market-leading mobile savings and loans (MSL) services such as: MoKash®, MoMoKash®, M-Pawa®, M-Shwari® and Loop®, the bank currently commands a customer base in excess of 40 million within East Africa, as at the end of 2018. The number of customers enrolled thus far is reflective of CBA's success in addressing the financial inclusion challenge that has been a major development agenda issue in the region.

As at 31 December 2018, CBA had about 1,322 employees serving its customers through its 52 branches (41 in Kenya, 6 in Tanzania, 2 in Uganda and 3 in Rwanda) with the head office located in Nairobi.

### Subsidiaries

**The subsidiaries of the CBA Group as at 31st December 2018 were as follows**

*Table 1: CBA Subsidiaries*

Subsidiary	Effective Interest (%)	Principal Activity	Country
Commercial Bank of Africa (Tanzania) Limited	100	Commercial Banking	Tanzania
Commercial Bank of Africa (Uganda) Limited	100	Commercial Banking	Uganda
Commercial Bank of Africa (Rwanda) PLC	100	Commercial Banking	Rwanda
CBA Capital Limited	100	Investment Banking	Kenya
Syndicate Nominees Limited	100	Investment	Kenya
CBA Insurance Agency Limited	100	Bancassurance	Kenya
First American Bank of Kenya Limited	100	Dormant	Kenya
First American Finance Company Limited	100	Dormant	Kenya
First Investment Limited	100	Dormant	Kenya

Source: CBA

## Board and Governance

Corporate governance is the process by which companies are directed and controlled. The CBA Group Board of Directors is responsible for the governance of the Bank and the Group while the shareholders are responsible for the appointment of the Directors and auditors.

All members of the Board have extensive business, banking and financial experience that is applied in the overall management of the Group. The CBK must approve the appointment of Directors and this requirement has been complied with.

Board meetings are held quarterly to review the Group's performance against business plans as well as to formulate and implement strategy. Various sub-committees, whose chairpersons report to the Board, supplement the functions of the Board. These are:

- **Executive Committee**

This committee has overall responsibility for implementation of the Group strategy. This includes annual strategy review and budgeting, reviewing the Assets and Liabilities committee (ALCO) strategies, periodic reviews of the Group's key performance measures as defined in the strategic and operational plans and also management of key risks and strategic opportunities.

- **Board Audit Committee ("BAC"):**

The responsibilities of this committee include the review of financial information and the monitoring of the effectiveness of management information and internal control systems. In addition, the BAC deliberates on the significant findings arising from internal and external audit reviews and from inspections by the Supervisory Department of the CBK.

- **Board Risk Management Committee:**

This committee is responsible for providing oversight and review of risks faced by the Bank including market risk, strategic risk, operational risk, credit risk, liquidity risk, country risk and reputational risk and compliance with regulatory and internal guidelines.

The committee also periodically reviews the Group's risk appetite and ensures that there are documented policies, procedures and processes for the identification, assessment, mitigation and monitoring of all risks within the Bank and the Group.

- **Board Credit Committee:**

This committee has overall responsibility for credit risk management in the Group including regular review of the Group credit risk management policy, ensuring proper implementation of the policy, credit facility approvals, oversight on delegated credit approval authority and periodic quality reviews of the Group credit portfolio.

- **Assets and Liabilities Management Committee:**

The committee is responsible for the monitoring and management of the Bank's balance sheet including liquidity risk, interest rate risk and exchange rate risk. The committee monitors compliance with statutory requirements governing liquidity, cash ratio and foreign exchange exposure and also internal policies governing funding of business operations, investment portfolio management and related activities.

- **Other Committees:**

Other management support structures revolve around committees set up to support the Group Managing Director in the day-to-day management of the Bank and the Group and include the Group Management Committee, Management Credit Committee, Operational Risk Committee and the Human Resources Committee all of which ultimately report to the Board through the Board Executive Committee. These committees meet at least monthly.

In 2018, the Board and Management of the Bank continued to comply fully with the provisions of the CBK Prudential Guidelines on Corporate Governance, and the Group's internal corporate governance policy framework.

## Board of Directors' Profile

The Bank's Board consists of 2 Executive Directors, 7 Non-executive Directors and the Secretary to the Board. Profiles of the Directors are detailed below:

Table 2: CBA Board of Directors

Director	Profile
<b>Mr. Desterio A. Oyatsi</b> Chairman (Non-Executive)	Mr. Oyatsi is an Advocate of the High Court of Kenya and Managing Partner of Shapley, Barret & Company Advocates. He is currently a non-executive director of KenolKobil Limited and Chairman of Metropolitan Life Insurance Kenya Ltd and Base Titanium Ltd. He was a non-executive director of the Capital Markets Authority between 1999 and 2002 and of Telkom Kenya Ltd between 1999 and 2003.
<b>Mr. Muhoho Kenyatta</b> Deputy Chairman (Non-Executive)	Mr. Kenyatta is a leading entrepreneur, businessman and director of several companies within the Eastern Africa region including Brookside Dairy Ltd, Heritage Holdings Ltd, Kenya Dairy Board and Timsales Holding Ltd. He is a graduate of Williams College, Massachusetts, in the USA holding an Economics and Political Science degree.
<b>Mr. Isaac Awuondo</b> Group Managing Director (Executive)	Mr. Awuondo has over 32 years' experience in the finance and banking sectors spanning Europe and Eastern Africa and has previously worked with BDO Binder Hamlyn, Nation Media Group and Standard Chartered Bank in various senior executive roles. He is the Chairman of Kenya Airports Authority (KAA), the Council of Riara University, a Member of the Advisory Board of the Kenya Private Sector Alliance (KEPSA) and a Director of Bata Shoe Company Kenya Ltd. He is also Chairman of the Kenya Conservatoire of Music, WWF Kenya, The Rhino Trust and a Trustee of Zawadi Africa Education Fund. He holds a Bachelor of Commerce (Accounting and Finance) degree from the University of Nairobi. He is a member of the Institute of Chartered Accountants in England and Wales (ACA) and member of the Institute of Certified Public Accountants of Kenya (CPA K).
<b>Mr. Jeremy Ngunze</b> Chief Executive, CBA Kenya (Executive)	Mr. Ngunze has wide experience in banking having worked with the Standard Chartered Bank for 18 years where he held various top management positions in Africa and Asia regions, prior to joining CBA. Mr. Ngunze is a board member of PACT Kenya. He holds an MBA in Financial Management (University of Wales and Manchester Business School) and Bachelor of Commerce Degree from the University of Nairobi.
<b>Hon. Abdirahin H. Abdi</b> (Non-Executive Director)	Hon. Abdi served as the Speaker of the East African Legislative Assembly (2007 to 2012), having been a member of the Assembly from 2001. He was instrumental in significantly influencing legislative, oversight and representation activities of the assembly charged with fostering regional integration. Hon. Abdi holds a BSc Degree in Business Administration (Finance), has been accorded presidential awards and international appointments in legislative roles for his distinguished service to the nation and region. He is a seasoned businessman with multi-sectoral experience gained from the private and public sectors and holds directorships in various companies. Hon Abdi is currently Chairman of the Insurance Regulatory Authority.

Director	Profile
<b>Mr. Mukesh K. R. Shah</b> (Non-Executive Director)	<p>Mr. Shah is a Fellow of the Association of Chartered and Certified Accountants (FCCA), member of the Institute of Certified Public Accountants of Kenya (CPA K) and the Institute of Certified Public Secretaries of Kenya (ICPS K). Mr. Shah is a former partner of Price Waterhouse and served in various senior executive capacities within the region and in the UK. He has in-depth professional experience and knowledge of family business management, strategic planning and mergers and acquisitions gained over a period of 39 years. Mr Shah is currently a non-executive director of the Kenya Revenue Authority.</p>
<b>Mr. Nelson J.M Mainnah</b> (Non-Executive Director)	<p>Mr. Mainnah holds a Bachelor of Commerce (Accounting) degree from the University of Nairobi. He is a member of Kenya Institute of Management and is an alumnus of INSEAD, France where he obtained qualifications on Risk Management in Banking. He retired from CBA as Group Head of Enterprise Risk in April 2012 after working at the bank for thirty-eight (38) years. Mr. Mainnah has considerable expertise in business management, credit and enterprise risk, and treasury operations. Mr Mainnah holds various board positions in the education sector and offers financial leadership in various charitable organisations. He is currently involved in strategic leadership and risk management through consultancy services.</p>
<b>Mr. Nicholas A. Nesbitt</b> (Non-Executive Director)	<p>Mr. Nesbitt is the Country General Manager, IBM East Africa. Until recently, he was the founder and Chief Executive Officer of KenCall, a leading international BPO/Call Centre outsourcing company in East Africa. He also held senior executive positions in the United States at Qwest Communications, Rhythms, US WEST and Square D. He began his career as a management consultant at the Boston Consulting Group. Mr. Nesbitt has served as a member of the Board of several corporate and public sector boards including AMREF Flying Doctors, Kenya School of Monetary Studies, Multimedia University and Gateway Insurance and is an active member of the World Economic Forum and other business-related organizations. He received his MBA from Stanford University and both his Masters and Bachelors engineering degrees from Dartmouth College. He is a member of the Young Presidents Organizations (YPO) in Nairobi.</p>
<b>Mr. Stuart J. Armitage</b> (Non-Executive Director)	<p>Mr. Armitage is a Chartered Accountant with considerable experience in agricultural finance and property development. He is a director of several companies operating in Kenya including Brookside Dairy Ltd, Heritage Holdings Ltd and Green Park Investments Ltd.</p>
<b>Ms. Rosemin Bhanji</b> Secretary to the Board	<p>Ms. Bhanji is the Group Head of Legal and also serves as the Company Secretary to CBA and its group companies. She has vast experience in the legal profession emanating from her stint with the Judiciary as a District Magistrate and having worked in the Legal Unit at Diamond Trust Bank of Kenya amongst others. Ms. Bhanji holds a Bachelor of Laws (LLB) Degree from the University of Nairobi, is an Advocate of the High Court of Kenya, a Certified Public Secretary and an Associate of the Chartered Institute of Arbitrators. She is a Court Annexed Mediator. She has completed a course on international financial law from the University of Oxford. She conducts mediation trainings for Civil Society and is a community trainer accredited by CEDR. Ms. Bhanji has been appointed by His Highness the Aga Khan as member for legal matters on the Aga Khan Council for Kenya. Ms. Bhanji actively volunteers in community projects, more particularly in the arena of alternate dispute resolution.</p>

## Senior Management Team

CBA is led by a team of competent professionals comprising highly experienced and knowledgeable senior management personnel. The Bank's cross-functional senior management team brings different perspectives to the decision making process enabling richer, well-thought out and deliberated decisions. Key members of CBA's senior management are as follows:

*Table 3: CBA Senior Management Team Profile*

Director	Profile
<p><b>Mr. Isaac Awuondo</b> Group Managing Director</p>	<p>Mr. Awuondo has over 32 years' experience in the finance and banking sectors spanning Europe and Eastern Africa and has previously worked with BDO Binder Hamlyn, Nation Media Group and Standard Chartered Bank in various senior executive roles. He is the Chairman of Kenya Airports Authority (KAA), the Council of Riara University, a Member of the Advisory Board of the Kenya Private Sector Alliance (KEPSA) and a Director of Bata Shoe Company Kenya Ltd. He is also Chairman of the Kenya Conservatoire of Music, WWF Kenya, The Rhino Trust and a Trustee of Zawadi Africa Education Fund. He holds a Bachelor of Commerce (Accounting and Finance) degree from the University of Nairobi. He is a member of the Institute of Chartered Accountants in England and Wales (ACA) and member of the Institute of Certified Public Accountants of Kenya (CPA K).</p>
<p><b>Mr. Jeremy Ngunze</b> Chief Executive Officer, CBA Kenya</p>	<p>Mr. Ngunze has wide experience in banking having worked with the Standard Chartered Bank for 18 years where he held various top management positions in Africa and Asia regions, prior to joining CBA. He holds an MBA in Financial Management (University of Wales and Manchester Business School) and Bachelor of Commerce Degree from the University of Nairobi.</p>
<p><b>Mr. Anthony Ndegwa</b> Chief Executive Officer, CBA Uganda</p>	<p>Mr. Ndegwa was appointed the Chief Executive Officer of Commercial Bank of Africa Uganda Limited in May 2018. He worked for about 30 years in various profit and non-profit institutions, mainly in accounting and banking functions. In the banking sector, Mr Ndegwa has worked for First American Bank, Credit Agricole Indosuez, Citibank (in Kenya and Uganda), Standard Chartered Bank and Bank of Africa, holding senior positions, including Head of Corporate and Investment Banking at Citibank, Director of Corporate Banking at Citibank Uganda Limited, East Africa Transactional Banking Sales &amp; Head of Global Corporates at Standard Chartered Bank and most recently Head of Enterprise Centres at Bank of Africa. He is a Certified Public Accountant of Kenya (CPA K), a holder of an MBA from Herriot-Watt University (Edinburgh Business School) and a Bachelor of Science Degree in Business Administration from the United States International University.</p>
<p><b>Mr. Gift Shoko</b> Chief Executive Officer, CBA Tanzania</p>	<p>Mr. Shoko is a career banker with over 20 years' experience in the banking industry, both merchant banking and commercial banking. He has worked at Trust Bank Corporation as the Chief Operating Officer where he provided clear direction on implementation and prioritization of the Bank's strategic plans with mechanisms for key performance measurements in place to monitor progress. Mr Shoko has also worked at Trust Holdings Limited (THL) as the Executive Director cum Group CEO where he was mandated to reorganize and consolidate the Group operations and possible re-list on the stock exchange. He also worked for Merchant Bank of Central Africa (a subsidiary of Nedbank Group SA) and Commercial Bank of Zimbabwe. He holds a Bachelor's Degree in Business Studies &amp; Computer Science, a Master's in Business Administration (MBA) as well as several professional qualifications. He is a member of the Institute of Bankers Zimbabwe and South Africa as well as the Zimbabwe Institute of Diplomacy.</p>



Director	Profile
<p><b>Mr. Geoffrey Githinji</b> Group Chief Operating Officer</p>	<p>Mr. Githinji is the Group Chief Operating Officer of CBA with overall responsibility for the Group's operations and support functions in Kenya. He is an experienced general management professional with a 30-year career spanning the public service, telecommunications and financial services sectors. Mr. Githinji has previously worked in the Kenya Ministry of Transport and Communications' Directorate of Civil Aviation; Societe Internationale de Telecommunications Aeronautiques (SITA); and Standard Chartered Bank in positions of increasing responsibility in Kenya, East Africa and Africa regional levels before taking on the current role at CBA. He holds a Bachelor of Science (Hons) Degree in Electronic and Electrical Engineering; and a Diploma in Industrial Studies from Loughborough University of Technology, UK. Mr Githinji has attended various executive and leadership programmes at distinguished colleges and is an alumnus of INSEAD, France; Templeton College, Oxford University; and Darden Business School, University of Virginia, USA.</p>
<p><b>Mr. James Mugo</b> Group Chief Finance Officer</p>	<p>Mr. Mugo is the Group Chief Finance Officer for the CBA Group with responsibility over the group's financial performance and strategic development and management. He holds an MBA in Strategic Management from United States International University (USIU), Nairobi Campus, as well as a Bachelor of Commerce (Banking &amp; Finance) from Kenyatta University. He is a member of Institute of Certified Public Accountants of Kenya. Mr. Mugo has over 16 years' experience in Finance, Strategy and Commercial Finance, having worked with East African Breweries Limited for 5 years, where he held various top management positions, and Safaricom Limited. He is an Alumnus of Strathmore Business School &amp; IESE (Instituto de Estudios Superiores de la Empresa) Business School, having taken their one year Executive Management Course, the Advanced Management Program (AMP) and Darden Business School, University of Virginia, USA. Mr. Mugo also holds directorships in Monjo Holdings Ltd, Metrius (K) Ltd, Chalbi Court Management Ltd, Safarimate Ltd, Amerucans Ltd and Beyond Business Basics Ltd.</p>
<p><b>Mr. Robert Muigai</b> Group Head of Audit</p>	<p>Mr. Muigai is the Group Head of Audit for the CBA Group with overall responsibility for the independent internal audit services for the bank. He has significant experience in audit and finance in the financial services industry having worked with PricewaterhouseCoopers for 11 years and Standard Chartered Bank for 3 years, where he held senior management positions in Africa and Europe prior to joining CBA in 2008. Mr. Muigai was the Chief Internal Auditor for CBA until 2012 when he assumed responsibility for the Group. His role carries the overall responsibility for the Internal Audit services for CBA Group which currently includes subsidiaries in Tanzania and Uganda. Mr. Muigai holds a Bachelor of Commerce degree from the University of Nairobi, is a Certified Public Accountant and a Certified Information Systems Auditor.</p>

Director	Profile
<p><b>Mr. Chris Pasha</b> Group Head, Marketing &amp; Communications</p>	<p>Mr. Pasha is the Group Head of Marketing and Communications, CBA with overall responsibility for the Corporate Communications and Brand Management functions within the Group. He is a seasoned marketing professional with over 18 years' experience acquired through various marketing management roles he has held with reputable multinationals and Kenyan-owned companies that he has worked for. In particular, Mr. Pasha possesses a rare combination of marketing skills acquired and honed through working in both the Food, Manufacturing and Consumer Goods (FMCG) sector and the Banking and Financial Services sector. Mr. Pasha holds a Masters in International Business Administration in Strategic Management from the United States International University (USIU) in Nairobi and a Bachelor of Commerce Degree (Marketing option) from Kenyatta University.</p>
<p><b>Ms. Julie Kilewe</b> Group Head, Enterprise Risk Management &amp; Compliance</p>	<p>Ms. Kilewe is the Group Head of Enterprise Risk Management &amp; Compliance at CBA and has overall responsibility for the Group's Enterprise Risk Management and Compliance function. The Enterprise Risk Management &amp; Compliance function is responsible for ensuring that effective processes are instituted to ensure risk identification of both current and emerging risks in addition to an assessment of the Bank's risk management posture and the appropriateness of risk responses in place to effectively manage the risks identified.</p> <p>Prior to joining CBA, Ms Kilewe worked with Deloitte East Africa as a Manager within the Enterprise Risk Division and Coca Cola SABCO (East &amp; North Africa Division) as an Internal Auditor. She holds a Master's in Business Administration (Finance &amp; Banking) from Moi University, Bachelor of Education Degree (Accounting and Economics) from the University of Nairobi, is a Certified Public Accountant (CPA Kenya (ICPAK)).</p>
<p><b>Ms. Pauline Ndote</b> Group Head, Credit Risk Management</p>	<p>Ms. Ndote is the Group Head of Credit Risk Management at CBA and has the overall responsibility for the Group's Credit Risk Management process which includes lending, credit administration, portfolio management and remedial management. Prior to joining CBA, Ms. Ndote worked with Housing Finance Company of Kenya as the Chief Risk Officer and CFCStanbic Bank as Head of Credit. She holds a Bachelor of Commerce Degree with double majors in Accounting and Business Administration &amp; Management from the Daystar University and is an Associate of the Kenya Institute of Bankers.</p>
<p><b>Ms. Rosemin Bhanji</b> Group Head, Legal Services</p>	<p>Ms. Bhanji is the Group Head of Legal and also serves as the Company Secretary to CBA and its group companies. She has vast experience in the legal profession emanating from her stint with the Judiciary as a District Magistrate and having worked in the Legal Unit at Diamond Trust Bank of Kenya amongst others. Ms. Bhanji holds a Bachelor of Laws (LLB) Degree from the University of Nairobi, is an Advocate of the High Court of Kenya, a Certified Public Secretary and an Associate of the Chartered Institute of Arbitrators. She is a Court Annexed Mediator. She has completed a course on international financial law from the University of Oxford. She conducts mediation trainings for Civil Society and is a community trainer accredited by CEDR. Ms. Bhanji has been appointed by His Highness the Aga Khan as member for legal matters on the Aga Khan Council for Kenya. Ms. Bhanji actively volunteers in community projects, more particularly in the arena of alternate dispute resolution.</p>

Director	Profile
<p><b>Ms. Irene Kamau</b> Group Head, Human Resources</p>	<p>Ms. Kamau is the Group Head of Human Resources at CBA. She is responsible for the overall development and implementation of Human Resources Management strategies that ensure effective human capital management for the Group. Ms. Kamau is mainly charged with the responsibility of designing and managing the organization development process, which addresses issues such as succession planning, workforce development, employee retention, organization design and change management. Prior to joining CBA, Ms. Kamau worked in various Human Resource Management capacities at Barclays Bank where she served for six (6) years in senior roles covering the East &amp; West Africa region; and prior to that at Caltex Oil Limited and Diamond Trust Bank of Kenya in HR management roles. Ms Kamau holds a Bachelor of Education degree from Kenyatta University, an Advanced Management Program qualification from SBS/IESE business schools, a Higher National Diploma in Human Resource Management from IHRM and a diploma in Executive Coaching from AoEC.</p>
<p><b>Mr. Michael Wachira</b> Group Head, Treasury</p>	<p>Mr. Wachira is the Group Head of Treasury at CBA handling the Markets, Asset and Liability Management, as well as the Financial Institutions Businesses. Prior to joining CBA Mr. Wachira worked at Equity Bank, Kenya as Director, Treasury and in various Trading and Sales roles at Fortis Bank Group, Belgium and Cargill Financial Markets in London and Turkey. He holds a BSc (Hons) Economics Degree from the University of Buckingham and an MSc Investment Management Degree from City University's Cass Business School, UK.</p>

## Historical Financial Information

CBA prepares its financial statements to 31st December each year in accordance with International Financial Reporting Standards. The following tables summarise the Bank's audited financial statements for the financial periods ended 31st December 2015 to 2018.

### Summarized Consolidated Statement of Comprehensive Income

Table 4: CBA Group Statement of Comprehensive Income

KES '000	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Interest income	23,024,489	26,601,271	25,044,141	25,509,856
Interest expense	(11,611,342)	(11,191,950)	(9,763,240)	(9,740,305)
<b>Net Interest income</b>	<b>11,413,147</b>	<b>15,409,321</b>	<b>15,280,901</b>	<b>15,769,551</b>
Loan impairment charges	(2,015,424)	(4,087,483)	(3,046,690)	(3,709,228)
<b>Net Interest income after impairment charges</b>	<b>9,397,723</b>	<b>11,321,838</b>	<b>12,234,211</b>	<b>12,060,323</b>
Fee and commission income	1,564,931	1,785,954	2,034,720	2,529,995
Foreign exchange income	953,210	2,221,028	2,347,023	2,439,582
Net gain on disposal of financial instruments	36,773	14,843	26,820	65,400
Other income	352,784	524,470	528,658	396,043
<b>Non-funded income</b>	<b>2,907,698</b>	<b>4,546,295</b>	<b>4,937,221</b>	<b>5,431,020</b>
Operating income	12,305,421	15,868,133	17,171,432	17,491,343
Operating expenses	(7,568,324)	(8,472,064)	(10,275,686)	(11,041,134)
<b>Profit before share of associate's profit and exceptional income</b>	<b>4,737,097</b>	<b>7,396,069</b>	<b>6,895,746</b>	<b>6,450,209</b>
Share of associate's profit	115,515	249,560	196,931	283,979
<b>Profit before income tax</b>	<b>4,852,612</b>	<b>7,645,629</b>	<b>7,092,677</b>	<b>6,734,188</b>
Income tax expense	(1,260,288)	(929,823)	(1,550,596)	(1,730,869)
<b>Profit for the year</b>	<b>3,592,324</b>	<b>6,715,806</b>	<b>5,542,081</b>	<b>5,003,319</b>

Source: CBA Annual Report and Financial Statements FY 2015, 2016, 2017 and 2018.

## Summarized Historical Statement of Financial Position

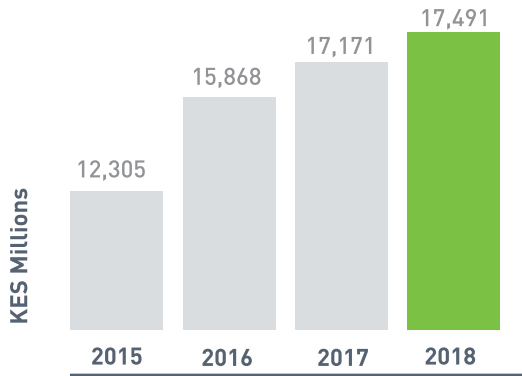
Table 5: CBA Group Statement of Financial Position

KES '000	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
<b>ASSETS</b>				
Cash and Balances with CBK	17,463,858	30,819,187	23,264,122	18,488,300
Derivative assets	-	33,211	53,918	116,900
Due from banking Institutions	19,054,067	17,720,892	26,134,026	18,481,312
Government Securities	47,994,104	51,595,016	63,853,413	65,064,995
Customer Loans & advances	112,925,594	111,650,821	113,642,338	121,503,411
Other Assets	2,613,340	2,398,701	3,457,130	3,991,148
Investment in Associate	3,040,326	3,427,215	3,540,896	3,724,975
Current Income Tax	135,906	435,191	4,920	70,075
Investment securities	5,603,687	3,175,911	2,688,215	3,996,498
Property and equipment	2,434,464	2,366,888	2,913,684	2,303,483
Intangible assets	1,967,494	2,959,519	3,280,536	3,332,803
Goodwill	566,539	362,610	362,610	362,610
Deferred income tax	1,825,803	2,389,389	2,583,217	3,670,382
<b>TOTAL ASSETS</b>	<b>215,625,182</b>	<b>229,334,551</b>	<b>245,779,025</b>	<b>245,106,892</b>
<b>LIABILITIES</b>				
Customer Deposits	164,468,970	177,076,407	193,767,156	196,527,724
Due to banking institutions	19,860,982	15,286,595	9,724,957	5,446,410
Borrowed funds	7,026,971	7,891,234	8,019,537	7,962,958
Derivative liabilities	-	-	15,519	22,308
Deferred income tax liability	-	-	124	21,271
Current Income Tax	4,565	5,737	81,002	-
Other liabilities	2,581,796	2,807,901	4,041,016	4,518,410
<b>TOTAL LIABILITIES</b>	<b>193,943,284</b>	<b>203,067,874</b>	<b>215,649,311</b>	<b>214,499,081</b>
<b>EQUITY</b>				
Share Capital	5,755,468	5,755,468	5,755,468	5,755,468
Share Premium	5,036,649	5,036,649	5,036,649	5,036,648
Revaluation reserve	(1,355,158)	(811,855)	(107,689)	81,459
Revenue reserve	9,482,911	12,919,830	16,699,519	18,317,229
Foreign currency translation reserve	-	(553,467)	(824,137)	(1,077,764)
Statutory loan loss reserve	1,574,398	1,807,512	2,148,227	829,290
Other reserves	-	-	-	(996,305)
Proposed dividend	1,187,630	2,112,540	1,421,677	1,665,480
<b>TOTAL EQUITY</b>	<b>21,681,898</b>	<b>26,266,677</b>	<b>30,129,714</b>	<b>30,607,811</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>215,625,182</b>	<b>229,334,551</b>	<b>245,779,025</b>	<b>245,106,892</b>

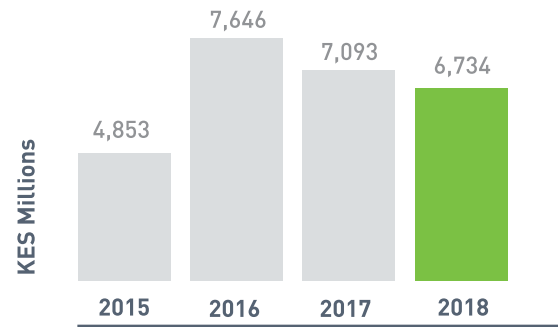
Source: CBA Annual Report and Financial Statements FY 2015, 2016, 2017 and 2018.

Figure 1: CBA Key Performance metrics

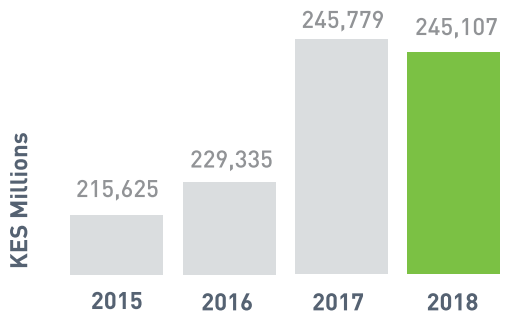
### Operating Income



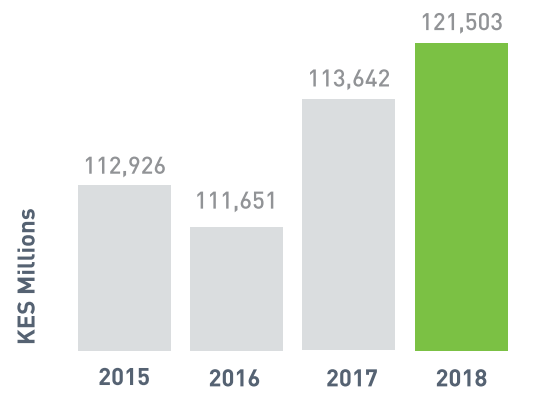
### PBT



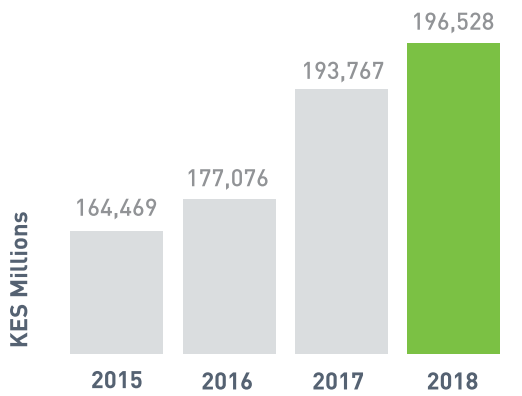
### Total Assets



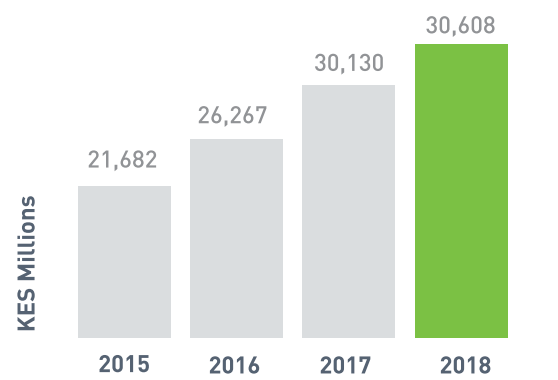
### Loan Book



### Customer Deposits



### Shareholders funds



Source: CBA Annual Report and Financial Statements FY 2015, 2016, 2017 and 2018.

## PART 4 – INFORMATION ON NIC GROUP

### Business Overview

NIC (formerly National Industrial Credit Bank Limited) was incorporated in Kenya on 29th September 1959 as a joint venture between Mercantile Credit Limited and Standard Bank. NIC was among the first non-bank financial institutions to provide hire purchase and instalment credit finance facilities in Kenya.

NIC went public by listing on what is now the Nairobi Securities Exchange (NSE) in 1971. Barclays Bank of Kenya Limited (BBK) acquired 51% of NIC's total shares through the acquisition of Mercantile Credit Limited in the 1970s and thereafter, Standard Bank's shareholding in the 1980s. Between 1993 and 1996, BBK divested all of its shares in NIC by selling 38% to the public through the NSE and 12% to First Chartered Securities Limited.

In November 1997, NIC merged with The African Mercantile Banking Company Limited (AMBank) through a share swap and became a fully-fledged commercial bank.

In 2003 the bank revolutionised retail banking in Kenya with 'MOVE' which offered customers longer banking hours, state of the art ATMs and 'MOVE' zones at which they could transact their banking business in comfort.

Although the company's name was originally National Industrial Credit Limited, and later National Industrial Credit Bank Limited, all through its history it was known by its initials NIC, and in 2005 the Bank's name was officially changed to NIC Bank Limited.

In 2005, the Bank broadened its services to customers by establishing an investment bank, NIC Capital Limited. Thereafter, it acquired a stock broking business (Solid Investment Securities Limited, later renamed NIC Securities Limited), and also secured a license to sell bancassurance products through NIC Insurance Agents Limited. This effectively positioned the Bank as a 'one stop shop' financial services solution provider in the market.

In 2009, NIC acquired a majority stake in Tanzania's Savings & Finance Commercial Bank (S&F) and in 2010 re-branded it to NIC Bank Tanzania Limited. NIC Bank Tanzania Limited has branches in Dar es Salaam, Arusha, Mwanza, and Zanzibar. In 2012, the Group established NC Bank Uganda Limited as a wholly owned green-field subsidiary, which began operations on 1st June 2012.

In 2014, the Bank announced a strategic shift towards a new way of banking – branded NOW banking in answer to the emerging "NOW" generation that expect everything at their fingertips now. Through the MOVE to NOW initiative the Bank focused on developing innovative products and services that could be delivered in a fast and efficient manner such as the NICNOW Mobile application, online account opening, online cheque deposit and full online banking. NOW banking became the lens through which all the Bank's products and services were evaluated.

In 2017 NIC Bank Kenya PLC was incorporated following the reorganization of NIC Bank Limited. NIC Bank Limited was thereafter renamed NIC Group PLC and became a non-operating holding company to support the Group's medium and long term strategy through a structure that facilitates optimal use of capital, better strategic management, more effective risk management, and improved governance of the subsidiaries. The Group provides retail, corporate banking, brokerage, bancassurance and investment banking services. The growth and development of its subsidiary companies remains a key strategic objective and one that is aimed at broadening both the range and diversity of financial services offered to customers within the NIC Group.

## Subsidiaries

The operating subsidiaries of the NIC Group as at December 2018 were as follows:

Table 6: NIC Subsidiaries

Subsidiary	Effective Interest (%)	Principal Activity	Country
NIC Bank Kenya PLC	100	Commercial Banking	Kenya
NC Bank Uganda Limited	100	Commercial Banking	Uganda
NIC Bank Tanzania Limited	69.84	Commercial Banking	Tanzania
NIC Securities Limited	100	Securities brokerage	Kenya
NIC Capital Limited	100	Investment Banking	Kenya
NIC Ventures Limited	100	Peer lending	Kenya
NIC Insurance Agents Limited	100	Bancassurance	Kenya
NIC Leasing LLP	100	Equipment and vehicle leasing	Kenya
NIC Properties Limited	100	Property Holding Company	Kenya
Mercantile Finance Company Limited	100	Dormant	Kenya
National Industrial Credit Trustees Limited	100	Dormant	Kenya

## Board and Governance

NIC Group PLC Board recognizes the importance of corporate governance and is committed to ensuring that the business is run in a professional, transparent, just and equitable manner so as to protect and enhance shareholder value and satisfy the interests of all its stakeholders. The Board consists of nine directors, seven of whom are Non-executive Directors (including the Chairman). Among the Directors are three independent Non-executive Directors. The Board is well composed in terms of the range and diversity of skills, background and experience of Directors, and has an appropriate balance of Executive, Non-executive, and Independent Non-executive Directors.

The Board's principal duty is to promote the long-term success of NIC Group by creating and delivering sustainable shareholder value. The Board Charter defines the governance parameters within which the Board exists and operates, sets out specific responsibilities to be discharged by the Board and through various committees.

### NIC Group Board Committees

NIC Group PLC has four Committees comprised of Non-Executive Directors (except of the Executive & Strategy Committee which includes the Group Managing Director and Executive Director Finance & Strategy): These are:

- Audit & Risk Committee;
- Executive & Strategy Committee;
- Governance and Nominations Committee; and
- Information and Communication Technology (ICT) Committee.



## Audit & Risk Committee

The Audit & Risk Committee plays a vital role in ensuring the integrity of the financial statements and internal controls of the Group on behalf of the Board. It also sets the strategic risk parameters through policies, guidelines, tolerance limits and approving the risk management strategy, significant policies and programs. The Committee meets at least quarterly in order to evaluate the effectiveness of the Group's financial, internal control and risk management systems.

### Key purpose and responsibilities

#### Financial Reporting:

The Audit Committee is involved in the appointment and performance assessment of the Head of Internal Audit, who reports directly to this Committee. The Committee:

- review of the accounting policies, financial reporting and regulatory compliance practices of the Group;
- evaluation of the effectiveness of the internal control systems of the Group in accordance with its approved audit plan; and
- the appointment, supervision and performance appraisal of the independent external and internal auditors.

#### External Audit:

The Committee:

- receives reports on the findings of the external auditors and Management's corrective actions in response to the findings;
- meets quarterly, and the external auditors are invited to attend whenever necessary but at least twice in a year where they meet without Senior Management's presence;
- annually, reviews and approves the overall scope and plans for the external audit activities, including the fees which have to be ratified by the shareholders; and
- reviews the external auditor's performance

To maintain independence, objectivity and professionalism of the external auditor, the Committee invites prequalified audit firms to bid for professional audit and tax services every six to nine years while the audit partner is rotated not more than five years after having taken up the assignment. The audit firms make presentations to the Committee and are evaluated on a set criteria and the Committee recommends to the Board the appointment of a suitable audit firm. The Board then recommends to the shareholders the appointment of the proposed auditor subject to the approval of appointment by the CBK.

#### Internal Audit:

The Audit Committee is involved in the appointment and performance assessment of the Head of Internal Audit, who reports directly to this Committee. The Committee:

- reviews the overall scope, annual plans and budget for the Internal Audit function's activities;
- oversees the alignment of Internal Audit activities vis-à-vis the risk management programs; and
- reviews all Internal Audit reports and has regular direct access to the Head of Internal Audit.

The above processes have been developed to ensure the competence and independence of the internal and external auditors hence ensuring timely, accurate and transparent reporting and disclosures on financial and internal control performance.

In order to ensure that the Group is adhering to all laws, regulations and standards applicable to it and for the purposes of providing assurance to its stakeholders and complying with the CMA Code of Corporate Governance Practices for Issuers of Securities to the Public, the Committee through the Group Company Secretary facilitates a comprehensive independent legal and compliance audit at least once every two years by a legal professional in good standing with the Law Society of Kenya. An internal legal and compliance audit is carried out in each year preceding the independent audit to achieve the same purpose and ensure that any departures from the required levels of compliance are identified and corrected in a timely manner.

## **Risk Management:**

The Committee:

- Sets the strategic risk parameters and tolerance limits through appropriate risk policies/ guidelines;
- Approves the risk management strategy and programs;
- Monitors compliance with the risk policies, limits and programs; and
- Reviews the adequacy of the risk management framework in relation to the risks faced by the Group

The Committee is assisted in these functions by various Management risk committees which undertake both regular and ad-hoc reviews of the Group's risk management environment, the results of which are reported at appropriate levels for review and action.

## **Executive and Strategy Committee**

The Committee assists the Board in discharging its responsibilities relative to strategy and general operations oversight. The Committee meets regularly to review and recommend for Board approval major capital projects, periodic strategic plans, and key policy guidelines as developed by management.

### ***Key purpose and responsibilities***

- strategy formulation and general operations review;
- approval of major capital projects, periodic strategic plans, and key policy guidelines vis-à-vis the strategic plan as developed by management;
- provision of entrepreneurial leadership within a framework of prudent and effective controls;
- monitoring of the Group's performance against strategic plans and objectives on an ongoing basis; and
- reviewing, and monitoring the Group's capital position, approving proposals for investments, capital projects and the allocation of capital and other resources within the Group..

## **Governance and Nominations Committee**

The Committee's objective is to establish a robust Board of Directors who can deliver on NIC's strategic plans; assessing its effectiveness by creating and implementing a Board Charter to be implemented by the Board of Directors towards ensuring the protection, maintenance and enhancement of a sustainable return for the Group's stakeholders.

### ***Key purpose and responsibilities***

**The Committee:**

- Tracks and monitors adherence by the Board and management on good corporate governance practices as enshrined in the Board Charter and applicable regulatory requirements;
- Maintains an overview of the Board's composition and ensures that the Directors collectively possess the required skills, expertise and experience to grow and sustain the business and uphold the principles and practices of good Corporate Governance as determined by the Board and its Charter;
- Oversees the Board's annual performance evaluation and is responsible for assessing the extent of any conflict of interest posed by a Director's other interests or duties;
- Ensures that the term of office of the Directors is organized in a manner that ensures a smooth transition in the event of changes to the Board's membership;
- Considers the requirements for the appointment of Board members and makes recommendations for appointment to the Board through the Board Chairman;
- Ensures that all appointments to the Board are approved, where required, by the Group's regulators and thereafter by the Shareholders during the Annual General Meeting;

- Establishes an induction program for new members and recommends continuous professional development programs for the Board including at least twelve hours of development annually on areas of governance;
- Facilitates, through the Group Company Secretary, an annual governance audit and legal and compliance audit to provide assurance on the governance practices and adherence to laws; and
- Reviews the status of Independent Non-Executive Directors annually in accordance with the requirements set out under the regulatory guidelines

In relation to the process for appointments to the Board, the Committee considers recommendations on proposed members from the Directors and the Shareholders. The Committee then assesses the suitability of candidates for appointment to the Board, whereby the person(s) should possess:

- High levels of integrity with impeccable professional, technical and moral credentials;
- Strong business acumen with demonstrated positive and knowledgeable contribution to discussions relative to banking business; and
- Strategic and tactical vision and thought.

In assessing potential new Directors, the Committee considers individuals from various disciplines, diverse backgrounds, gender representation and any potential areas of conflict that may undermine their position or service as Director.

### **Information and Communication Technology Committee**

The Committee oversees the cultivation and promotion of an ethical ICT governance and management culture and awareness and provides the required leadership to support and achieve the effective and efficient management of ICT resources to facilitate the achievement of the Group's strategic objectives.

#### ***Key purpose and responsibilities***

##### **The Committee:**

- Ensures that the Group has in place an appropriate ICT governance structure and risk management framework which suits the business needs and risk tolerance;
- Develops and periodically reviews the alignment of ICT strategy with the overall business strategies and significant policies of the Group;
- Approves the ICT risk management strategies and policies;
- Sets the ethical and integrity standards and establishes a culture that emphasizes and demonstrates the importance of ICT risk management;
- Establishes an ICT steering committee consisting of representatives from senior management, the ICT function and major business units to oversee the ICT activities and report to senior management and the Board on the effectiveness of strategic ICT planning, budgets and expenditure, ICT performance and its optimization;
- Ensures effective periodic internal and external audit procedures are carried out on the ICT risk management practices with reports submitted to the Board Audit Committee;
- Ensures the appropriation of required funding for ICT risk management functions; and
- Understands the major ICT risks inherent in the Group's business while setting acceptable tolerance levels for the risks and ensures the implementation of the measures necessary to identify, measure, monitor and control / mitigate ICT risks.

## NIC Bank Kenya PLC Board Committees

NIC Bank Kenya PLC has five (5) Board Committees. These are:

- Audit Committee;
- Credit Risk Committee;
- Human Resources and Compensation Committee; and
- Governance and Nominations Committee; and
- Risk Management Committee.

### Audit Committee

The Bank's Audit Committee bears and undertakes similar responsibilities and activities as those of NIC's Audit and Risk Committee with the exception of review of the risk management activities which are overseen by the Risk Management Committee.

### Credit Risk Committee

The Committee reviews and oversees the overall lending policies and approves credit applications that are above the approval limits delegated to Management. It ensures that there are effective procedures for prudent lending and debt management practices.

#### *Key purpose and responsibilities*

##### **The Committee:**

- Reviews and oversees the overall lending policies of the Group;
- Approves credit applications that are above the approval limits for management;
- Ensures that there are effective procedures to identify and manage irregular and problem facilities, minimize credit loss and maximize recoveries;
- Considers issues that may materially impact on the current and future quality of the loan portfolio and credit risk management and further ensures that adequate provisions for bad and doubtful debts have been made in compliance with the regulatory requirements and prudent credit management practices; and
- Regularly reviews and recommends to the Board discretionary credit limits for the Board Credit Risk Committee and Management Credit Risk Committee.

### Human Resources and Compensation Committee

The Committee reviews the human resources policies and procedures and ensures that they adequately support the Group's strategy. It ensures that the Group continues to provide remuneration packages that fairly reward staff for their contribution to the business and continues to attract, motivate and retain staff of the highest caliber.

#### *Key purpose and responsibilities*

##### **The Committee:**

Reviews the Human Resources policies and procedures and ensures that they adequately support the Group's strategy;

- Reviews the Human Resources policies and procedures and ensures that they adequately support the Group's strategy;
- Reviews the culture and measures of employee performance;
- Ensures that the Group provides remuneration packages that fairly reward staff for their contribution to the business and continues to attract, motivate and retain staff of the highest caliber;

- Ensures succession plans are in place for all senior executive management of the Group;
- Establishes and approves the compensation structures of management and employees of the Group

The Committee's activities are geared towards enhancing staff welfare, minimizing irresponsible and unnecessary risk taking and ensuring that management and employees are motivated to achieve superior performance whilst enhancing the strength and stability of the Group.

### **Governance and Nominations Committee**

The Bank's Governance and Nominations Committee bears and undertakes similar responsibilities and activities as those of NIC's Governance and Nominations Committee.

### **Risk Management Committee**

The Bank's Risk Management Committee bears and undertakes similar responsibilities and activities as those of NIC's Audit and Risk Committee with the exception of review of the audit activities which are overseen by the Audit Committee.

### **Other Committees**

The Group Managing Director has established other committees to support the above key Board Committees. The committees include respective heads of departments, with other senior managers being co-opted on a need basis. The committees are chaired by the Group Managing Director. These committees include: Executive Management Committee (EXCOM), Assets and Liabilities Committee (ALCO), Management Credit Risk Committee (MCRC), Credit Portfolio Review Committees, Information and Communication Technology (ICT) Steering Committee and Risk Management Committee.

In addition to the above considerations, the principles and standards implemented and adhered to by the Board and NIC Group PLC's governance structure, have been developed with close reference to: the Central Bank of Kenya Prudential Guidelines on Corporate Governance; the Capital Markets Authority (CMA) corporate governance regulations; the CMA Code of Corporate Governance practices for issuers of Securities to the Public; and other best practices including but not limited to the King Principles on Corporate Governance, which provide a practical guidance to Directors and Senior Management of companies in discharging their Corporate Governance responsibilities. The profiles of the current Group board members' are as follows:

Table 7: Directors Profile

Director	Profile
<p><b>Mr. James P. M. Ndegwa</b> Chairman (Non-Executive)</p>	<p>Mr. Ndegwa has extensive experience in governance and business management. He is the Chairman of First Chartered Securities Limited and is a Director of several other companies. He also serves as Chairman of the CMA. Mr. Ndegwa holds an MA (Hons) degree from the University of Oxford, UK, and is an Associate of the Chartered Insurance Institute, UK and the Insurance Institute of Kenya. He joined the Board on 19th November 2003 and was appointed Chairman in 2005.</p>
<p><b>Mr. John Gachora</b> Group Managing Director (Executive)</p>	<p>Mr. Gachora has several years of experience in executive management positions at various global companies in Corporate and Investment Banking, Structuring and Financial Engineering, Commercial Banking and Financial services. He is a Director of several other companies and previously served as a Managing Director at Bank of America Securities and as Managing Director, Corporate and Investment Banking at Barclays Africa prior to joining the NIC Group. Mr. Gachora holds a Bachelor of Science and a Masters in Engineering degrees in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology, USA and MBA degree from the Wharton School, University of Pennsylvania, USA. He joined the Board on 21st August 2013 and was appointed Group Managing Director in September 2013.</p>
<p><b>Mr. David Abwoga</b> (Group Executive Director)</p>	<p>Mr. Abwoga has over 25 years regional experience in Audit, Operations and Finance, having worked for several years in various executive management positions at Citibank N.A., Marshalls (E.A.) Ltd. and Deloitte, the last three of which have been as Director, Finance and Strategy at NIC Bank. Mr. Abwoga holds a BA degree in Economics from Moi University and an MBA, Strategic Management from the University of Nairobi. He is also a Certified Public Accountant, CPA (K) and Certified Public Secretary, CPS (K) in Kenya. He joined the Board on 21st March 2018.</p>
<p><b>Mr. Philip R. Lopokoiyit</b> (Independent, Non-Executive Director)</p>	<p>Mr. Lopokoiyit has a wealth of experience in Finance, accounting, risk management, internal controls and corporate governance, having worked for over 20 years in various senior management capacities in multinational companies, his last assignment was Area Head of Finance BAT East and Central Africa until 2017. He is a Non -Executive Director at CIC Insurance Group Ltd. Mr. Lopokoiyit holds a B.Com Degree (Hons.), Accounting Option from the University of Nairobi and MBA degree from the Warwick Business School, UK. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Chartered Management Accountants (ACMA). He joined the Board on 8th February 2018.</p>
<p><b>Mr. George A. Maina</b> (Non-Executive Director)</p>	<p>Mr. Maina has extensive experience in Investment Banking, Business consultancy, commodity trading, project management and oil industry experience in Africa, the Caribbean and Central America. He is currently the Chairman of BAT Kenya PLC, a trustee at Starehe Boys Centre and Gertrude Gardens Children Hospital and Director of several other companies, and previously served as Managing Director of Kenya Shell and BP Kenya Limited until 2002. Mr. Maina holds a B. Tech (Hons) degree in Aeronautical Engineering and Design from Loughborough University, UK. He joined the Board on 1st June 2002.</p>

Director	Profile
<p><b>Mr. Andrew S. M. Ndegwa</b> (Non-Executive Director)</p>	<p>Mr. Ndegwa has extensive experience in business management and financial services. He is currently Executive Director of First Chartered Securities Limited, a Non-Executive Director at Unga Group PLC and director of several other companies. He previously served with Citibank and thereafter AMBank until 1995. Mr. Ndegwa holds an MA (Hons) degree in Philosophy, Politics and Economics from Oxford University, UK. He joined the Board on 23rd April 1997.</p>
<p><b>Mrs. Esther N. Ngaine</b> (Independent, Non-Executive Director)</p>	<p>Mrs. Ngaine is a senior banker with 36 years of experience and over the years has played a role in the development of the Financial Services Sector in Kenya and the East Africa Region. She is currently the Managing Director of her consultancy company, Non-Executive Director of several other companies and previously served as Director and Head of Public Sector at Citibank NA, Nairobi until 2014. Mrs. Ngaine holds a BSc. In International Business Administration, Finance option from United States International University (USIU). She joined the NIC Board on 15th June 2014.</p>
<p><b>Mr. Paras V. Shah</b> (Non-Executive Director)</p>	<p>Mr. Shah is a lawyer by profession and has extensive legal experience. He is currently a partner at Coulson Harney LLP (Bowmans) and a director of several other companies. Mr. Shah holds an LLB (Hons) degree from King's College London, Diploma in legal practice from the College of Law, London, Diploma in Legal Practice from Kenya School of Law and Diploma in Management from Henley School of Management. He is also a Certified Public Secretary and a member of the ICPSK, LSK, Chartered Institute of Arbitrators and Law Society of England &amp; Wales. He joined the Board on 23rd February 2010.</p>
<p><b>Mr. Jonathan Somen</b> (Independent, Non-Executive Director)</p>	<p>Mr. Somen is an IT expert and well-known entrepreneur in Kenya. He is the founder and former Group Managing Director of Access Kenya Group Limited, one of the pioneer internet service providers in Kenya. He is also the founder and director of various companies in the technology industry, including Eldama Technologies Limited and Virtual IT Limited and is a keen sportsman and avid promoter of environmental conservation. Mr. Somen holds a BSc. Degree in Economics and Accounting from the University of Bristol, UK. He joined the Board on 8th February 2018.</p>
<p><b>Mr. Livingstone Murage</b> Group Company Secretary (Executive)</p>	<p>Mr. Murage has a B.Com (Hons) degree from University of Nairobi and is a Certified Public Accountant and a Certified Public Secretary. He is also a member of ICPAK and ICPSK.</p> <p>Mr. Murage has over 30 years' experience in the financial sector. He previously worked for Pricewaterhouse Coopers and Mobil Oil, before joining the Mercantile Finance Company in 1986. In 1990, he was part of the team that led to the formation of The African Mercantile Banking Company Limited (AMBank) and was subsequently involved in its merger with National Industrial Credit Bank in 1997. After the merger, he held several senior leadership positions including Head of Treasury, Head of Operations, Head of Human Resources and Head of Finance and Administration. In 1999, he was appointed Company Secretary, a position he holds to date.</p>

## Senior Management Team

NIC is led by a team of competent professionals comprising of a highly experienced and knowledgeable senior management personnel. Key members of NIC's senior management are as follows:

*Table 8: Senior Management Profile*

### NIC Executive Team

Director	Profile
<b>Mr. John Gachora</b> Group Managing Director	Mr. Gachora has several years of experience in executive management positions at various global companies in Corporate and Investment Banking, Structuring and Financial Engineering, Commercial Banking and Financial services. He is a Director of several other companies and previously served as a Managing Director at Bank of America Securities, USA and as Managing Director, Corporate and Investment Banking at Barclays Africa prior to joining the NIC Group. Mr. Gachora holds a Bachelor of Science and a Masters in Engineering degrees in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology, USA and MBA degree from the Wharton School, University of Pennsylvania, USA. He joined the Board on 21st August 2013 and was appointed Group Managing Director in September 2013.
<b>Mr. Alan J Dodd</b> Executive Director	Mr. Dodd has extensive regional and international banking experience covering East and Southern Africa, Middle East and Asia. He is a Director of several other companies and previously served as Executive Director, Corporate at Standard Chartered Bank Kenya Ltd. Mr. Dodd holds a BA (Hons) degree in Economics from University of Portsmouth, UK and is a member of the Institute of Financial Services, UK. He joined the NIC Group in January 2006 as Director, Corporate Banking, and was appointed to the Board as Executive Director on 22nd February 2006.
<b>Ms. Margaret Karume</b> Managing Director, NIC Bank Tanzania	Ms. Karume is the Managing Director of NIC Bank Tanzania. Prior to her appointment, she was the Director of Credit Risk at NIC Bank Kenya. She has over 25 years of experience in banking having also worked for Barclays Bank (K) Limited. Margaret holds a Global Executive MBA and BSc. in International Business Administration from United States International University (USIU), Africa and a Diploma in Customer Relationship Management from the Institute of Financial Services (UK). She is also an Associate of the Kenya Institute of Bankers. She joined NIC on 18th September 2006.
<b>Mr. Sam Ntulume</b> Managing Director, NC Bank Uganda	Mr Ntulume holds an MBA from the East & Southern Africa Management Institute (ESAMI), is a Fellow of the Association of Chartered Certified Accountants (FCCA), is a Certified Public Accountant (Institute of Certified Public Accountants of Uganda) and also holds a Diploma in Business Studies. He has over 25 years' experience in business leadership and management, financial management, corporate and business reporting, risk and control, human capital management attained from the Financial Services, petroleum distribution & marketing, public sector and manufacturing sectors. He joined NIC on 2nd May 2012.



Director	Profile
<p><b>Mr. David Abwoga</b></p> <p>Director, Finance &amp; Strategy</p>	<p>Mr. Abwoga holds a Bachelor of Arts degree in Economics from Moi University and an MBA (Strategic Management) from the University of Nairobi. He joined NIC from Citibank N.A where he was the East Africa Cluster Chief Financial Officer (CFO), responsible for Kenya, Tanzania, Uganda and Zambia. Prior to this, he held various executive management positions at Citi, Marshalls (EA) Ltd and Deloitte &amp; Touche. David is a Certified Public Accountant, CPA (K) and CPS (K) with 22 years of extensive experience in Audit, Operations and Finance. He joined the Board on 21st March 2018.</p>
<p><b>Mr. Edwin Induli</b></p> <p>Director, Risk Management</p>	<p>Mr. Induli has over 25 years of banking experience with a concentration in Risk &amp; Compliance Management, Credit Risk, Relationship Management, and Credit Operations having worked in those functions at various banks. Prior to joining NIC, he worked for ABN Amro Bank, Standard Chartered Bank and GT Bank Kenya (formerly Fina Bank) where he was Head of Credit Risk. Edwin has a Bachelor of Science degree (Mathematics major) from Moi University, and a KPMG Diploma in Risk Management - Banking &amp; Finance. He joined NIC on 1st June 2008.</p>
<p><b>Mr. Ellie G. Chiuri</b></p> <p>Director, Corporate Banking</p>	<p>Mr. Chiuri holds an MBA in International Business from Liverpool University, UK. He joined NIC in 2004, as an Analyst within the Corporate Banking Division, and has, over the years grown through the ranks and taken on increasing responsibilities within the division. In 2014 he was appointed as the Head of Corporate Banking. He was appointed Director, Corporate Banking in January, 2016.</p>
<p><b>Mr. Julius M Kamau</b></p> <p>Director, Technology and Operations</p>	<p>Mr. Kamau has 19 years of experience in managing Banking, IT Operations and Projects. Prior to his appointment Julius has held various positions in Citi Bank, Standard Chartered Bank and Ecobank Kenya where he was Head of Operations &amp; Technology. He holds a degree in Bachelor of Commerce, Marketing from the University of Nairobi and is also a Certified Public Accountant, CPA (K). He joined NIC on 15th October 2014.</p>
<p><b>Mrs. Monica Kihia</b></p> <p>Director, Human Resources</p>	<p>Mrs. Kihia holds an MBA (Marketing &amp; Strategic Management) from the University of Nairobi, and Bachelor of Education (Mathematics &amp; Economics) from Egerton University. She is also a Certified Executive Coach by the Academy of Executive Coaching - UK. Prior to joining NIC, she was the Deputy Head of HR for E.A. and Head of Learning &amp; Development for Sub-Saharan Africa at Citi Bank responsible for providing leadership in the human capital and organizational development functions. Prior to this, she held several senior positions in Africa within the Human Resources, Operations and Customer Service functions of Citi Bank having joined in 1990. She joined NIC in July 2014.</p>

Director	Profile
<p><b>Mrs. Rosalind Kimani-Gichuru</b></p> <p>Director, Marketing, Communication &amp; Citizenship</p>	<p>Ms. Gichuru holds an MBA from Northeastern University, Boston, USA and a Bachelor of Commerce degree from McMaster University, Hamilton, Ontario, Canada. She is also a Certified Executive Coach by the Academy of Executive Coaching, United Kingdom. Rosalind is a seasoned Marketing and Communications leader with 19 years' experience having started her career in the US where she held various brand roles for the US market (Duracell and Oral-B Braun) working for The Gillette Company. She then worked for The Coca-Cola Company in various roles in Sub-Saharan Africa including South Africa, Mozambique and Eastern Africa. Before joining NIC Group, she was the Strategic Marketing Manager for the Coca-Cola brand for Coca-Cola's Central, East and West Africa Business Unit where she provided strategic marketing leadership and direction for the brand Coca-Cola™ across 39 African Markets. Rosalind transitioned from the FMCG sector to Banking and Financial Services in February 2014 when she joined NIC.</p>
<p><b>Mr. Sankul Mandavia</b></p> <p>Director, Treasury</p>	<p>Mr. Mandavia holds a BSc. Business Administration degree from United States International University (USIU). He has over 26 years' experience in Treasury, starting off as a trainee dealer in 1993. He has previously worked as Assistant General Manager Institutional Banking and Liability Management at Commercial Bank of Africa and served as Head of Treasury at First American Bank of Kenya. He joined NIC in 2006 as Head of Treasury and was appointed Director, Treasury in 2010.</p>
<p><b>Mr. Livingstone Murage</b></p> <p>Group Company Secretary</p>	<p>Mr. Murage has a B.Com (Hons) degree from University of Nairobi and is a Certified Public Accountant and a Certified Public Secretary. He is also a member of ICPAK and ICPSK.</p> <p>Mr. Murage has over 30 years' experience in the financial sector. He previously worked for Pricewaterhouse Coopers and Mobil Oil, before joining the Mercantile Finance Company in 1986. In 1990, he was part of the team that led to the formation of The African Mercantile Banking Company Limited (AMBank) and was subsequently involved in its merger with National Industrial Credit Bank in 1997. After the merger, he held several senior leadership positions including Head of Treasury, Head of Operations, Head of Human Resources and Head of Finance and Administration. In 1999, he was appointed Company Secretary, a position he holds to date.</p>

## Historical Financial Information

NIC prepares its financial statements to 31st December each year in accordance with International Financial Reporting Standards. The sections that follow set out extracts of the audited financial statements of NIC, for the three financial periods to 31st December 2017. The extracts from the financial statements for the nine months period to 30th September 2018 are un-audited.

## Summarized Consolidated Statement of Comprehensive Income

Table 9: NIC Statement of Comprehensive Income

KES '000	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Interest Income	17,014,132	19,020,675	19,416,130	20,999,501
Interest Expense	(7,271,599)	(6,852,078)	(7,641,620)	(8,716,105)
<b>Net Interest Income</b>	<b>9,742,533</b>	<b>12,168,597</b>	<b>11,774,510</b>	<b>12,283,396</b>
Fees and commissions income	1,844,430	2,010,351	1,294,386	1,387,426
Fee and commission expense	(76,527)	(100,410)	(102,735)	(112,802)
<b>Net fee and commission income</b>	<b>1,767,902</b>	<b>1,909,941</b>	<b>1,191,651</b>	<b>1,274,624</b>
Other operating income	2,187,731	2,009,208	1,369,057	2,531,705
<b>Operating Income</b>	<b>13,698,166</b>	<b>16,087,746</b>	<b>14,335,218</b>	<b>16,089,725</b>
Impairment on loans and advances	(1,652,475)	(3,749,530)	(2,479,535)	(3,338,598)
Employee expenses	(3,063,909)	(3,397,131)	(3,373,785)	(3,834,982)
Other operating expenses	(2,584,508)	(2,774,136)	(2,880,948)	(3,093,280)
<b>Operating Expenses</b>	<b>(7,300,892)</b>	<b>(9,920,797)</b>	<b>(8,734,268)</b>	<b>(10,266,860)</b>
<b>Profit Before Tax &amp; exceptional items</b>	<b>6,397,275</b>	<b>6,166,949</b>	<b>5,600,950</b>	<b>5,822,865</b>
<b>Exceptional income</b>	-	-	-	-
Profit after exceptional items	6,397,275	6,166,949	5,600,950	5,822,865
<b>Income Tax Expense</b>	<b>(1,912,150)</b>	<b>(1,836,553)</b>	<b>(1,456,532)</b>	<b>(1,594,495)</b>
<b>Profit after Tax &amp; exceptional items</b>	<b>4,485,125</b>	<b>4,330,396</b>	<b>4,144,418</b>	<b>4,228,370</b>

Source: NIC Annual Report and Financial Statements FY 2015, 2016 2017 and 2018

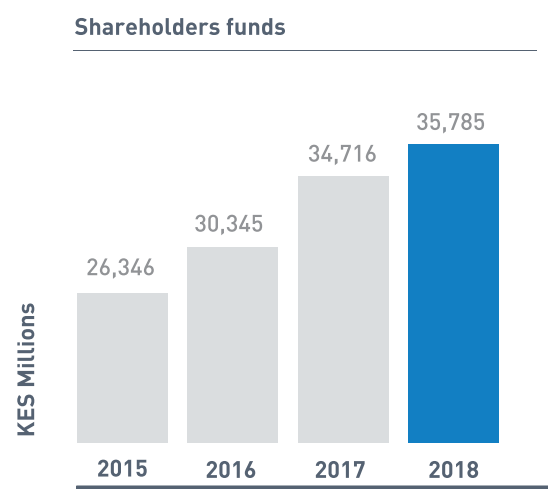
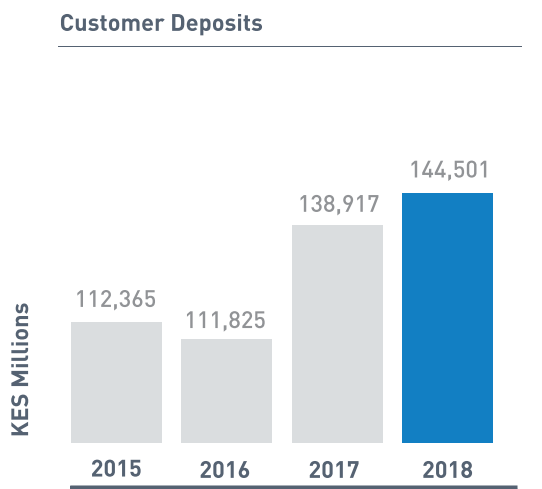
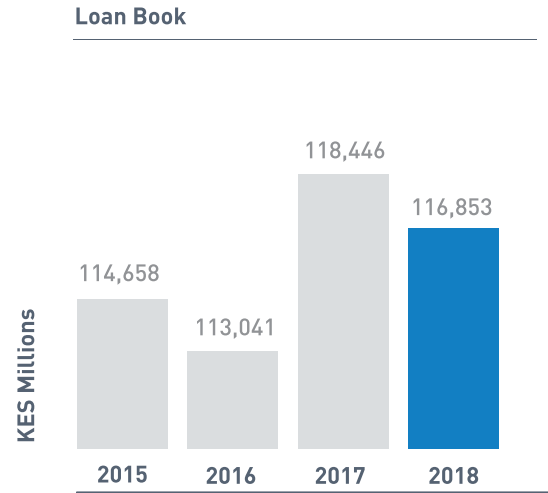
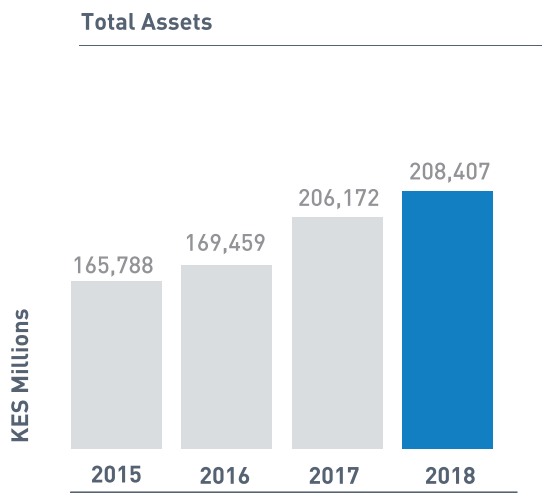
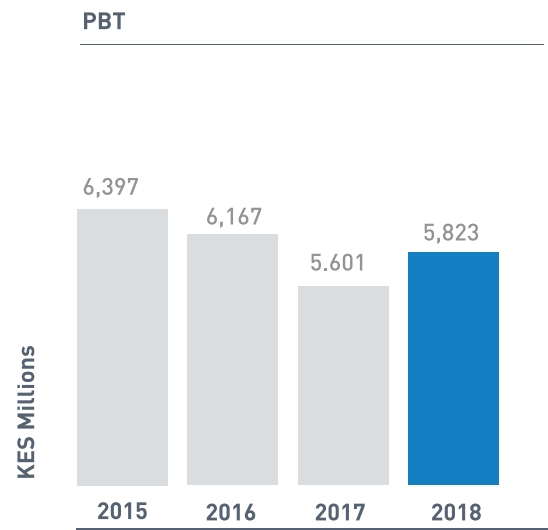
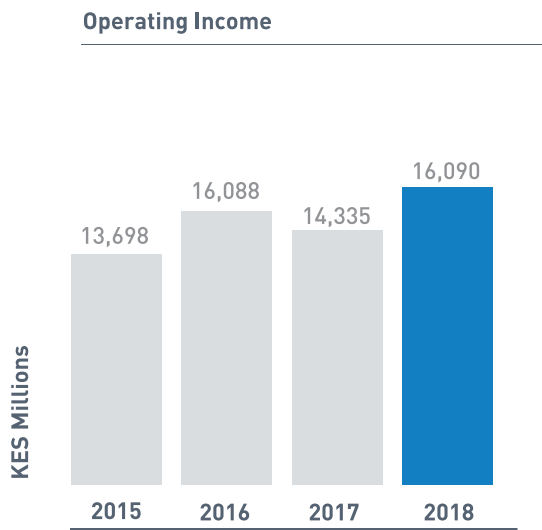
## Summarized Historical Statement of Financial Position

Table 10: NIC Statement of Financial Position

KES '000	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
<b>ASSETS</b>				
Cash and balances with Central Banks	8,940,056	7,263,501	9,516,131	11,955,411
Items in the course of collection	848,819	399,772	233,004	400,689
Deposits and balances due from banking institutions	6,675,640	9,682,207	12,425,067	5,237,549
Derivative assets	-	-	-	161,554
Government securities	27,911,907	30,698,495	54,715,795	61,706,465
Loans and advances to customers	114,657,644	113,040,863	118,446,485	116,853,003
Other assets	1,192,994	1,338,613	2,356,680	1,590,532
Current income tax recoverable	112,729	137,003	395,513	1,075,176
Other investments	1,517,656	1,507,847	1,413,836	1,310,103
Property and equipment	1,063,760	1,043,497	1,148,712	1,369,575
Intangible assets	991,513	1,071,441	1,580,311	1,829,118
Operating lease prepayments	523,000	522,875	522,750	522,625
Deferred tax asset	1,352,550	2,752,871	3,418,176	4,395,617
<b>TOTAL ASSETS</b>	<b>165,788,268</b>	<b>169,458,985</b>	<b>206,172,460</b>	<b>208,407,417</b>
<b>LIABILITIES</b>				
Customer deposits	112,364,637	111,824,685	138,916,570	144,501,060
Deposits and balances due to banking institutions	9,064,552	2,775,926	12,138,495	9,906,429
Borrowings	15,356,190	19,965,484	17,025,858	14,868,337
Derivative liabilities	77,389	57,552	16,467	-
Current income tax payable	148,480	455,649	5,045	11,288
Other liabilities	2,378,407	3,998,726	3,331,400	3,292,183
Unclaimed dividends	52,471	35,599	22,388	42,986
<b>TOTAL LIABILITIES</b>	<b>139,442,126</b>	<b>139,113,621</b>	<b>171,456,223</b>	<b>172,622,283</b>
<b>EQUITY</b>				
Share capital	3,199,728	3,199,728	3,199,728	3,519,701
Share premium	2,700,017	2,700,017	2,700,017	2,373,994
Revaluation surplus on property	179,983	175,202	-	175,750
Investments revaluation reserve	(627,333)	(208,875)	(87,896)	755,873
Foreign currency translation reserve	(810,627)	(760,327)	(886,639)	(1,083,412)
Regulatory reserve(s)	1,314,333	1,238,486	1,042,359	63,462
Other reserves	(157,172)	(157,172)	(157,172)	(157,172)
Retained earnings	19,421,923	23,012,504	27,815,058	28,897,206
Proposed dividend	639,946	639,946	639,946	879,925
<b>Total capital and reserves attributable to equity holders in the company.</b>	<b>25,860,798</b>	<b>29,839,509</b>	<b>34,265,401</b>	<b>35,425,327</b>
Non-controlling interests	485,344	505,855	450,836	359,807
<b>TOTAL EQUITY</b>	<b>26,346,142</b>	<b>30,345,364</b>	<b>34,716,237</b>	<b>35,785,134</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>165,788,268</b>	<b>169,458,985</b>	<b>206,172,460</b>	<b>208,407,417</b>

Source: NIC Annual Report and Financial Statements FY 2015, 2016 2017 and 2018

Figure 2: NIC Key Performance Metrics



## PART 5 – THE MERGER STRUCTURE AND PROCESS

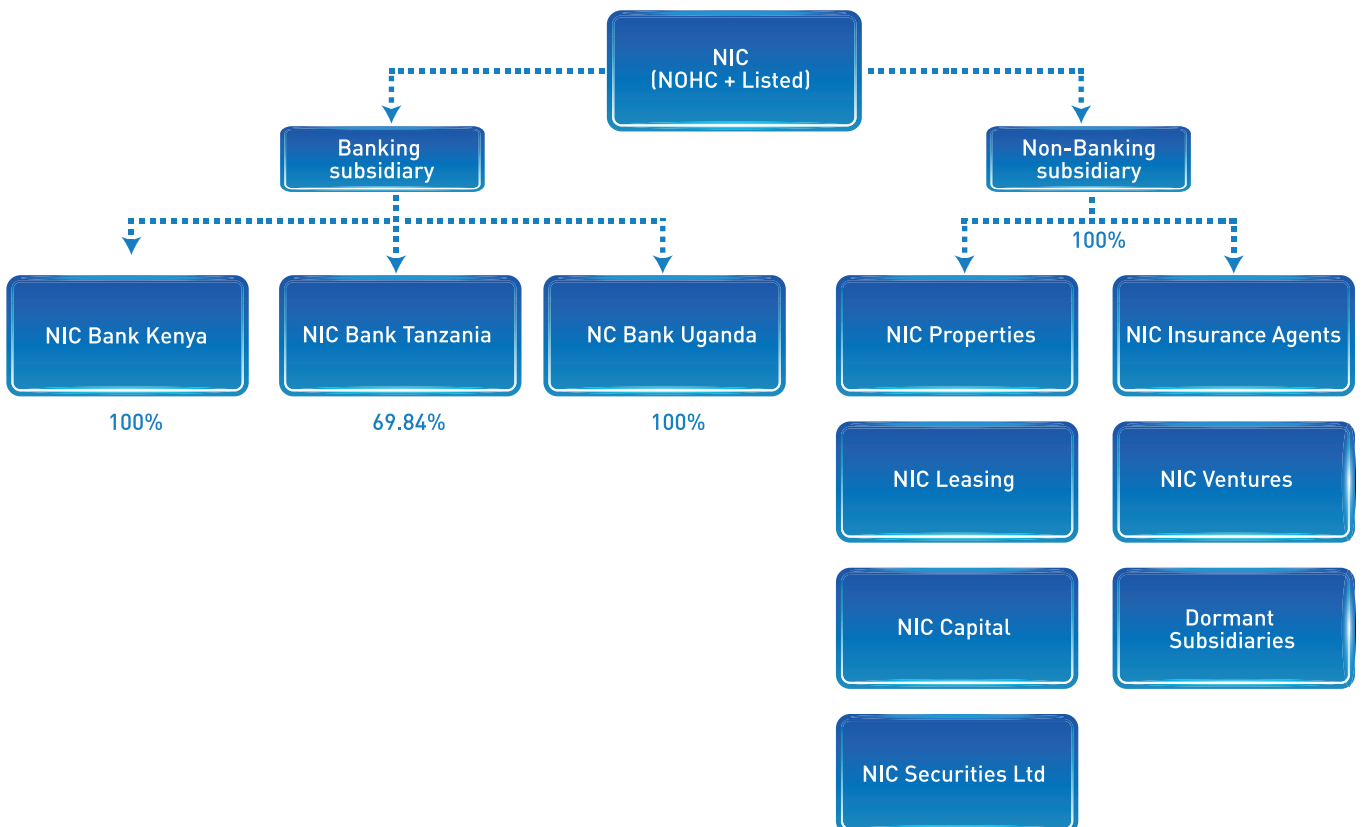
### Current Group Structure

#### NIC Group

NIC is the holding company of the NIC Group conducting banking business in Kenya and Uganda through NIC Bank Kenya and NC Bank Uganda (both wholly owned subsidiaries of NIC) and banking business in Tanzania through NIC Bank Tanzania, a subsidiary in which NIC holds a 69.84% stake.

In addition, the NIC Group conducts investment banking business in Kenya through NIC Capital (a wholly owned subsidiary of NIC Group), which wholly owns a securities brokerage business in Kenya (NIC Securities), and conducts bancassurance in Kenya through a wholly owned subsidiary, NIC Insurance Agents, and equipment and vehicle leasing through NIC Leasing, a wholly owned limited liability partnership.

The current group structure of the NIC Group is as follows:



Source: NIC

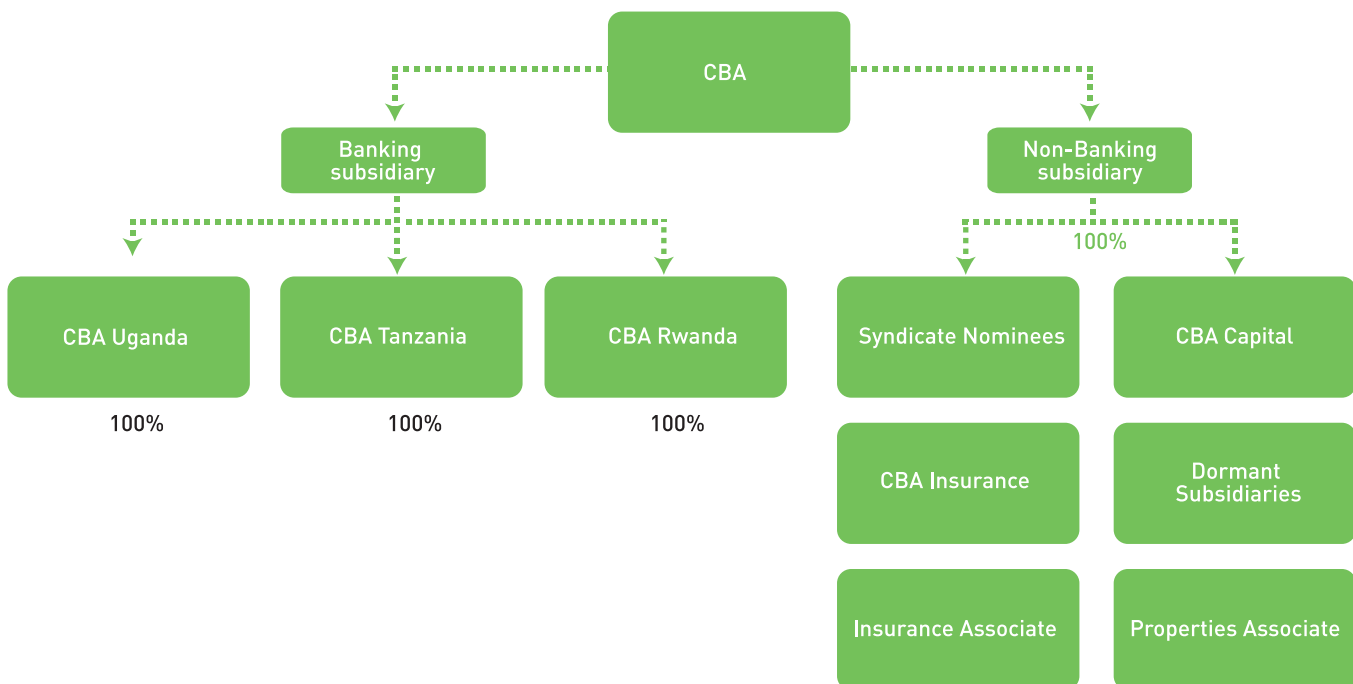
## CBA Group

CBA is the holding company of the CBA Group. CBA is also the entity in the CBA Group conducting banking business in Kenya.

The CBA Group also conducts investment banking business in Kenya through CBA Capital, bancassurance in Kenya through CBA Insurance and banking businesses in Uganda, Tanzania and Rwanda through CBA Uganda, CBA Tanzania and CBA Rwanda respectively, which are all wholly owned subsidiaries of CBA.

CBA also has minority shareholdings in AIG Kenya Insurance Company Limited (33.3%) and CBA Mutuya Property Group Limited (23.34%).

The current group structure of the CBA Group is as follows:



Source: CBA

## **The Merger (to be implemented through the Share Exchange)**

### ***Key Transaction Documents***

The Merger shall be implemented in accordance with two key transaction documents, the Merger Agreement and the Offer Letters, the key terms of which are summarized below. Copies of the Merger Agreement and the Offer Letters are available for inspection.

### **Merger Agreement**

NIC, NIC Bank Kenya and CBA entered into the Merger Agreement setting out the key terms of the Merger on 01st March 2019. The Merger Agreement is a framework agreement that sets out the process and terms and conditions for the businesses, operations, assets and liabilities of each of CBA and NIC Group to be merged.

Specifically, the Merger Agreement provides that:

- completion of the Merger is subject to the fulfilment (or waiver, subject to applicable law, at the discretion of NIC, NIC Bank Kenya and CBA) of various conditions precedent, which are summarized below;
- if any of the approvals required in the conditions are given by any regulatory or other governmental body on a conditional basis, the parties shall consider the terms and whether to appeal the decision or to comply with the approval conditions, with the intention that the parties shall choose the solution that is least disruptive to the intention of the parties to complete the Merger on the terms of the agreement;
- the Merger will be effected through the Share Exchange pursuant to which the CBA Shareholders will (in accordance with the articles of association of CBA) sell and transfer their shares in CBA to NIC Bank Kenya in exchange (ultimately, through an intermediate exchange in NIC Bank Kenya) for the issue to the CBA Shareholders of the new shares, and which will upon such issue constitute 53% of the issued shares in NIC.

Accordingly, the Share Exchange will be effected in two steps as follows:

- First, the CBA Shareholders will sell and transfer all of their shares in CBA to NIC Bank Kenya in exchange for the issue to the CBA Shareholders of shares in NIC Bank Kenya; and
- Immediately thereafter, the CBA Shareholders will sell and transfer the shares issued to them in NIC Bank Kenya to NIC in exchange for the issue to the CBA Shareholders of the new shares.

The Share Exchange is being effected in two steps through the intermediate exchange in NIC Bank Kenya so that CBA becomes a subsidiary of NIC Bank Kenya (rather than of NIC) to enable the Kenyan Banking Business Amalgamation to be by way of a transfer of business, assets and subsidiary from a parent company (NIC Bank Kenya) to its subsidiary (CBA) and so that the CBA Shareholders become shareholders of NIC.



- The new shares shall be free from all liens, charges and encumbrances and shall rank pari passu with all existing shares of NIC;
- prior to the acquisition by NIC Bank Kenya of the CBA shares from the CBA Shareholders, NIC Bank Kenya shall increase its capital by a maximum of 16,915,000 new ordinary shares of Kenya Shilling one thousand (KES 1,000) each in the capital of the company to enable it to have sufficient shares to issue and allot, in accordance with section 329 of the Companies Act and its articles of association to the CBA shareholders in consideration for the acquisition of all the shares from the CBA Shareholders, such that the CBA shareholders shall own 53% of the issued share capital of NIC Bank Kenya, such new shares to be credited as fully paid and to rank pari passu in all respects with the existing Ordinary Shares. The CBA Shareholders will immediately transfer these Ordinary Shares to NIC in consideration for the issue and allotment to the CBA Shareholders of the New Shares, which will upon such issue constitute 53% of the issued share capital of NIC;
- as soon as reasonably practicable after the Share Exchange:
  - i. the Kenyan Banking Business Amalgamation shall occur pursuant to the BATA and section 9 of the Banking Act; and
  - ii. the other Business Amalgamations, Consolidations and Restructuring shall be implemented;
- with effect from 01st March 2019 until completion of the Merger, the parties shall comply with various pre-completion obligations to ensure that the businesses of each of NIC and CBA are conducted in the ordinary course, and the assets of each business are preserved and maintained as appropriate pending completion of the Merger.

### **The Offer Letters**

For purposes of the Share Exchange, NIC issued the Offer Letters to the 34 CBA Shareholders offering to acquire their shares in CBA, being all the issued shares in the capital of CBA, on 12th February 2019. The Offer forms a key component of the Merger.

The Offer Letter provided each CBA shareholder with background information relating to the Offer, the terms and conditions of the Offer and the documentation required to accept the Offer. Specifically, it provided that:

- the Merger would be carried out through the Share Exchange, and it is proposed that the CBA Shareholders will exchange all their shares in CBA for the New Shares in NIC. The Share Exchange ratio would be based on a 53:47 relative valuation of CBA and NIC respectively. Following completion of the Share Exchange, the Business Amalgamations, Consolidations and Restructurings would be effected (as more particularly detailed below);
- completion of the Merger was subject to the fulfilment (or waiver, subject to applicable law, at the discretion of NIC, NIC Bank Kenya and CBA) of various conditions precedent;
- the Offer opened on 12th February 2019 and remained open for acceptance for a period of 14 days until 5pm on 26th February 2019. NIC reserved the right to extend the Offer Period beyond such time and/or date with the consent of the Board of CBA;
- in order to accept the Offer, CBA shareholders were required to complete the Form of Acceptance enclosed with the Offer Letter and deliver it, together with supporting documents to the Group Managing Director of CBA, before 5pm on 26th February 2019 unless extended; and
- CBA Shareholders do not need to take any action if they do not wish to accept the Offer

In accordance with a letter from NIC to the CBA shareholders dated 26th February 2019 ("**Extension Letter**"), NIC gave notice to the CBA shareholders that in accordance with the consent of the Board of CBA, it was extending the Offer Period such that the Offer remained open for acceptance until 5pm on 11th March 2019. Following the lapse of the acceptance date, NIC has, with the consent of the Board of CBA, extended the Offer Period further.

We are however pleased to confirm that as at 11th March 2019, NIC had received acceptances of the Offer from 29 of the 34 CBA Shareholders holding in aggregate 99.07% of the issued shares in CBA.

A copy of the Offer Letter and the Extension Letters are available for inspection.

### **Conditions to the Merger**

Completion of the Merger is subject to the fulfilment (or waiver, subject to applicable law, at the discretion of NIC, NIC Bank Kenya and CBA) of various conditions precedent, including the following ("**Conditions**"):

- (a) the offer for acquisition of all the shares in CBA being accepted by CBA Shareholders owning at least ninety per cent (90%) in value of the shares of CBA;
- (b) corporate (shareholder and board) approvals of NIC, NIC Bank Kenya and CBA including the approvals of the shareholders of NIC referred to herein to be obtained at the AGM;
- (c) receipt of all requisite regulatory approvals. The required regulatory approvals are described below;
- (d) entry into various transaction agreements to effect the Merger and compliance with applicable legal and contractual requirements;
- (e) consents from lenders, counterparties, lessors/landlords of or to NIC and the NIC Group entities and CBA and the CBA Group entities in respect of the proposed change of shareholding of the relevant entity with respect to loan and financing agreements, material contracts and leases; and
- (f) obtaining of applicable tax and stamp duty exemptions from the Cabinet Secretary, National Treasury in respect of stamp duties and capital gains taxes arising pursuant to the Merger and the proposed transactions thereunder.

We confirm that the parties have conducted financial, legal and tax due diligence on each other and are satisfied with the results thereof.

### **Applicable regulatory approvals**

The relevant regulatory approvals required to effect the Merger are as follows:

- (a) the written approval of the CMA to:
  - (i) the issue of the new shares to the CBA Shareholders under Regulation 11 and the Fourth Schedule as read with the Fifth Schedule of the Public Offers, Listing and Disclosures Regulations;
  - (ii) the admission to listing of the New Shares under Regulation 3(3)(c) of the Public Offers, Listing and Disclosures Regulations; and
  - (iii) the issue of this Circular to the shareholders of NIC under Regulation 63(7) of the Licensing Regulations;
- (b) the written confirmation from the CMA that it has no objection to the change in shareholding of NIC Bank Kenya, NIC Capital, NIC Securities and CBA Capital in accordance with section 24(8) of the CMA Act;

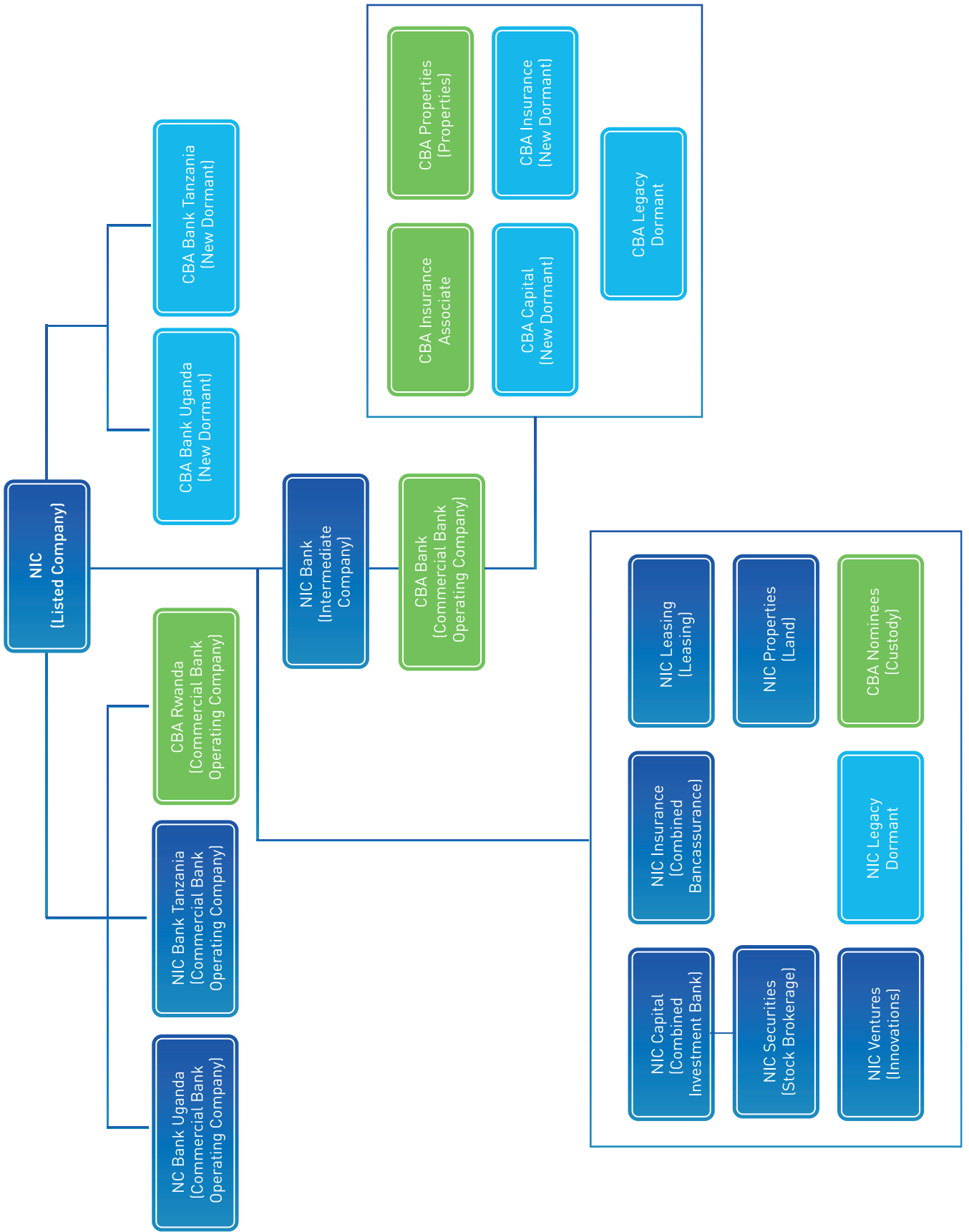
- (c) the approval of the Cabinet Secretary of the National Treasury of the Merger and the Kenyan Banking Businesses Amalgamation pursuant to section 9 of the Banking Act, in terms that are reasonably satisfactory to the parties;
- (d) the written approval of the CBK of the consummation of the Merger under the provisions of section 13 of the Banking Act (and under the Prudential Guidelines (CBK/PG/12)) in terms that are reasonably satisfactory to the parties;
- (e) the written approval of the CBK of the changes in shareholding of NIC under the Banking Act, CBK/PG/02 Prudential Guidelines and CBK/PG/24 Prudential Guidelines in terms that are reasonably satisfactory to the parties;
- (f) the issue of an authorising order by the CAK for the Merger in accordance with section 42 of the Competition Act in terms that are reasonably satisfactory to the parties;
- (g) the written approval of other applicable competition authorities of the Merger;
- (h) the written approval of the Bank of Tanzania of the Merger;
- (i) the written approval of the Bank of Uganda of the Merger; and
- (j) the written approval of the National Bank of Rwanda of the Merger.

#### **Group Structure following the implementation of the Merger**

Following the Share Exchange:

- (a) CBA will become a wholly owned subsidiary of NIC Bank Kenya (which is a wholly owned subsidiary of NIC) and thus a wholly owned subsidiary within the merged group;
- (b) NIC will be the holding company of the merged businesses and will remain a publicly listed company quoted on the Nairobi Securities Exchange; and
- (c) the CBA Shareholders will become shareholders of NIC, holding 53% of the issued shares in NIC.

The group structure of the merged business will be as set out below:



Source: NIC and CBA

### **Business Amalgamations, Consolidations and Restructurings following the Merger**

Following the Share Exchange and for purposes of business efficiency and subject to legal and tax considerations, it is intended that there be a reorganisation of the merged group such that all the group entities within the merged group including those currently held by CBA will be held directly by NIC as the holding company and entities within the merged group conducting similar businesses in the same jurisdiction will be amalgamated to avoid duplication.

In Kenya, following the Share Exchange (at which point CBA will be a wholly owned subsidiary within the NIC Group whose sole shareholder will be NIC Bank Kenya), amongst others, it is intended that the banking business of NIC Bank Kenya be amalgamated with and into the banking business of CBA by the transfer of the whole of the banking business of NIC Bank Kenya and all associated assets and liabilities to CBA in accordance with the terms of the BATA and pursuant to section 9 of the Banking Act. The key terms of the BATA are as follows:

- (a) the transaction will occur following the Share Exchange once CBA is a wholly owned subsidiary within the NIC Group whose sole shareholder will be NIC Bank Kenya;
- (b) the transfer will be for all the banking business and all the assets and liabilities of NIC Bank Kenya and will be effected in accordance with section 9 of the Banking Act pursuant to which at completion of the transaction, all the assets and liabilities, and rights and obligations, of NIC Bank Kenya will be vested automatically in CBA;
- (c) the consideration for the transfer by NIC Bank Kenya of its banking business, assets and liabilities to CBA will be the allotment and issue to NIC Bank Kenya of new ordinary shares in the capital of CBA;
- (d) the employment of the employees of NIC Bank Kenya who so consent will have their employment taken over by CBA on similar terms and conditions of employment to their current employment with NIC Bank Kenya and with their period of employment with NIC Bank Kenya being recognised by CBA; and
- (e) the business of NIC Bank Kenya will transfer as a going concern from NIC Bank Kenya to CBA; and
- (f) the transfer should be exempt from stamp duties and registration fees pursuant to section 9(9) of the Banking Act.

In addition, following the Share Exchange, it is intended that:

- (a) the banking businesses of NC Uganda and CBA Uganda be amalgamated;
- (b) the banking businesses of NIC Tanzania and CBA Tanzania be amalgamated;
- (c) the businesses of CBA Capital, NIC Capital and NIC Securities be amalgamated;
- (d) the businesses of CBA Insurance and NIC Insurance Agents be amalgamated; and
- (e) CBA transfers its entire shareholding in CBA Rwanda to NIC such that CBA Rwanda will be owned directly by NIC.

It is also envisaged that as part of the Merger, the dormant and non-operational subsidiaries of each of NIC and CBA will be wound up in due course.

## Proposed Change of Name

As part of the Merger, it is envisaged that the name of the merged group of companies (including of NIC and the banks within the merged group) will be changed and a new brand will be adopted and rolled out in due course. Whilst a new name / brand is yet to be selected, the Management of both NIC and CBA are jointly working with external brand consultants to identify a name / brand that will reflect the identity, values and aspirations of the new merged entity. This significant workstream remains ongoing and it is expected that a new name will be selected in the coming months.

To enable the new name to be adopted and rolled out in due course, Resolution 7(j) set out in the NIC AGM notice and resolutions set out at Part 11 of this Circular, which is proposed as a special resolution, requests that the shareholders approve an amendment to NIC's Articles of Association to enable the Directors of NIC to change the name of NIC by way of a Directors resolution.

Resolution 7(j) provides as follows:

**THAT** *in accordance with sections 62(a) and 64 of the Companies Act, a new clause 7.56.16 be inserted into the Company's Articles of Association as follows:*

*"7.56.16. To change the name of the Company, from time to time, by a Directors resolution, and for the avoidance of doubt, no approval from the shareholders of the Company shall be required in respect of any such change of name."*

The Directors recommend that the shareholders pass this resolution to enable a new name for the merged entity to be selected and adopted in due course.

## Proposed composition of the Board of the merged entity

On completion of the Merger, the Boards of NIC and the various entities within the merged group will be reconstituted. While the identities of the Directors of the merged entity and the entities within the merged group have not yet been determined, they will comprise representatives of the existing Boards of NIC and CBA and the NIC Group entities and the CBA Group entities.

It is anticipated that on completion of the Merger, some existing Directors of NIC will resign and new Directors, including representatives of the existing Board of CBA, shall be appointed. In accordance with NIC's Articles of Association, the Directors have the power at any time and from time to time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Directors, but so that the total number of Directors shall not at any time exceed thirteen. Any person appointed to fill a casual vacancy shall retain office only until the following annual general meeting and shall then be eligible for re-election.

## Current Status of Merger

As noted above, NIC, NIC Bank Kenya and CBA executed the Merger Agreement on 01st March 2019. The Offer Letters were issued by NIC to the CBA Shareholders on 12th February 2019 and as at the date of this Circular, NIC has received acceptance of the Offer from 29 of the 34 CBA Shareholders holding in aggregate 99.07% of the issued shares in CBA.

The parties are now in the process of fulfilling the other Conditions to the Merger.

The Annual General Meeting of CBA will be held on 16th April 2019 where the approvals of the CBA Shareholders required for purposes of the Merger will be sought.

It is expected that the Conditions should be fulfilled by 30th June 2019 following which the Merger will be implemented.

*Table 11: Anticipated Timetable to effect the Merger*

EVENT	KEY DATES
NIC and CBA Board of Directors Approval	31st January 2019
Issuance of Offer Letters by NIC to CBA Shareholders	12th February 2019
Execution of Merger Agreement	1st March 2019
Receipt of Acceptance of Offer by CBA Shareholders	11th March 2019
CMA approval of Shareholders Circular	01st April 2019
Latest time to return proxy forms for the NIC Group PLC AGM	12.00 p.m. 15th April 2019
AGM	17th April 2019
Public announcement of Shareholders' approval	18th April 2019
Noteholders EGM and approval	29th April 2019
Central Bank of Kenya approval	24th May 2019
Bank of Tanzania approval	31st May 2019
Bank of Uganda approval	07th June 2019
National Bank of Rwanda approval	07th June 2019
CAK approval	14th June 2019
Fair Competition Commission approval	14th June 2019
CMA approval of the issue of the NIC Group new shares to the Selling CBA Shareholders	19th June 2019
Completion of the Merger	30th June 2019
CMA and NSE approval for the admission to Listing of the NIC Group new shares	15th July 2019
Date for admission of the new shares for listing	17th July 2019

**Note: The dates are subject to change.**

## PART 6 – BENEFITS OF THE MERGER TO VARIOUS STAKEHOLDERS

The Merger will create a combined entity with greater financial strength, a continued strong governance culture and over 100 years of joint banking experience.

### **The Merger is expected to have the following benefits for shareholders:**

- The Merger is anticipated to lead to enhanced value for the two Groups and their shareholders. The economic benefits of the Merger will enable the combined new entity to increase revenue and possibly save costs;
- There will be an expected increase in cost efficiency as a result of the Merger due to economies of scale. As the two Groups amalgamate to form a bigger new banking group, the scale of operations will increase;
- An increase in market share. The new group will be more cost-efficient and competitive; and
- Ability to invest in new digital and other banking products.

### **The Merger is anticipated to present the following benefits for customers:**

- Enhanced focus on service and provision of solutions to customers;
- Increased customer touch points (100 branches and 94 ATM's);
- Access to market leading solutions which include - Asset Finance, Digital Banking, Corporate and SME solutions;
- Continued focus on building long term relationships;
- Larger contact centre available 24/7;
- Access to world class technology;
- Faster services on core banking services; and
- Strong Relationship Management and best in class banking workforce with a customer centric culture.

### **The Merger is anticipated to have the following benefits for staff:**

- Skilled and valuable employees may experience career growth and development opportunities due to the size of the merged banking group;
- The new company structure may also offer the chance to receive training and further individual career goals; and
- The merged entity may offer a more positive company culture that can bring about positive change for employees and the company overall.



## PART 7 – THE PROPOSED ESOP AND ITS RATIONALE

The Directors of NIC consider that the creation and implementation of an ESOP following completion of the Merger is in the best interests of NIC and its employees.

An ESOP is expected to bring benefits for the employees of the merged Group including:

- Incentivizing employees by providing them with an additional reward mechanism;
- Enhancing organizational performance and overall productivity;
- Presenting NIC as an employer of choice and a differentiator in recruiting, retaining, and rewarding employees; and
- Aligning the objectives of NIC and its employees.

Accordingly, the Directors propose to create an ESOP for eligible employees of the merged entity following completion of the Merger. The creation and implementation of the ESOP shall be subject to the approval of the shareholders of NIC and the CMA in accordance with the Capital Markets (Collective Investment Schemes) Regulations, 2001.

We note that currently, CBA has an ESOP (share allotment) for the benefit of its employees which holds 2.50% of the shares of CBA which will translate into a 1.32% shareholding in the post-merger share capital of NIC. It is this allotment that the Board proposes to roll into an NIC Group ESOP.

Resolution (g) set out in the AGM Notice at Part 11 of this Circular, provides:

**THAT** the Directors be authorized to:

- create an ESOP for eligible employees of the group following completion of the Merger (subject to the approval of the Capital Markets Authority and applicable law);*
- appoint trustees to administer the ESOP and agree the terms of the trust deed in respect of the ESOP; and*
- Prepare, amend, execute and implement any further documents and undertake such further acts on behalf of NIC which are necessary or desirable to give effect to the ESOP.*

The Directors recommend that the shareholders pass this resolution to enable an ESOP to be created and implemented post completion of the Merger.

## PART 8 – EXTRACT OF THE INDEPENDENT FINANCIAL ADVISER'S REPORT ON THE PROPOSED MERGER

The Board of Directors of both CBA and NIC appointed an Independent Financial Adviser (Faida Investment Bank) to provide a fairness opinion on the proposed share exchange ratio of 47:53 based on relative valuation of NIC and CBA respectively. Furthermore, the Independent Financial Adviser has also reviewed the banking sector as well as the competitive advantages that the merged entity will realise.

In accessing the fairness of the exchange ratio, the Independent Financial Adviser applied the following valuation methodologies namely: Discounted Cash flow/Dividend Discount Model method, Excess Return Model and the Net Assets Multiples method, which are briefly explained below.

### Dividend Discount Model

In the Dividend Discount Model, the value of a stock is determined by discounting the expected future dividends of the share (over the forecast horizon) at an appropriate discount rate that reflects the risk characteristics of the expected future dividends. The discount rate typically used is the cost of equity (since dividends are the cash flows directly available to equity investors), which is defined as the minimum rate of return a shareholder requires for investing equity capital into a business.

A terminal value at the end of the forecast period is also determined by either forecasting dividends in the terminal period (e.g. by use of the Gordon Growth Perpetuity Model) or by applying an exit multiple (such as P/B or P/E multiple). The terminal value is defined as the estimated equity value of the company at the end of the forecast period.

The theoretical underpinning for this model is that the value of any asset is equal to the present value of the expected cash flows generated by that asset.

### Excess Returns Method

Under the Excess Returns method, the value of equity is measured as a function of the equity capital currently invested and the present value of expected excess returns. The excess returns refers to the returns that a shareholder would earn above the required cost of capital. A company that has positive excess returns is creating value while one that has negative excess returns is destroying value.

The value of the equity portion of the company is determined by the sum of capital currently invested in the company and the present value of expected excess returns from future investments. This is computed as shown below:

$$\text{Value of the Equity} = \text{Equity Capital Currently Invested} + \text{Present Value of Expected Excess Returns}$$

Excess returns can be stated in terms of the return on equity and the cost of equity as shown below:

$$\text{Excess Equity Return} = [\text{Net Profits} - [\text{Cost of Equity} \times (\text{Book Value of Equity Capital Invested})]$$

In valuing NIC and CBA, the Independent Financial adviser obtained the return on equity based on the forecasted after tax profits and forecasted book values over the forecast period (FY2019 – FY2023).

### Net Asset Multiple

Under this methodology, the values of NIC and CBA were determined by applying an appropriate multiple to the current net assets of the respective entities. The multiple used is the Price to Book Value (PBV) ratio, which is the number of times the net assets can be divided into price.

### Valuation Summary under the Various Methods

Under the various valuation methodologies explained above, the valuation process resulted in a merger ratio range of 43.88% to 47.41% for NIC and 52.59% and 56.12% for CBA as summarised below.

Company	Merger Ratio Under DDM	Merger Ratio Under Excess Return	Merger Ratio under Net Asset Multiple
CBA	52.59%	56.12%	53.73%
NIC	47.41%	43.88%	46.27%

### Competitive Advantage

Following the completion of the Merger, it is anticipated that the merged entity will be ranked top three (3) in the Kenyan banking sector with the capacity to be a significant regional player. The resulting entity will be amongst the largest asset financiers, digital lenders and wholesale banks in the region with a geographical footprint spanning five (5) countries i.e. Kenya, Tanzania, Uganda, Rwanda and Ivory Coast, and a customer base in excess of over 40 million customers.

The combined entity will hold 9.6%, 9.6% and 9.0% market share in terms of Total Assets, Customer Deposits and Loans and Advances respectively ***(These metric numbers are based on 30th September 2018 Banking sector statistics)***

Other additional benefits expected to accrue out of this merger include but are not limited to:

- Market Leadership – greatly enhance retail/consumer banking platform with increased branch footprint
- 100+ branches and over 41m deposit accounts
- Increases market share and greatly enhances presence in centres of wealth
- Economies of Scale – the merger provides a platform for growth.
- Synergies – revenue generation opportunities and complementary customer base.
- Efficiency – consolidation of the infrastructure supporting operations, IT, compliance, risk management etc.
- Growth and Diversification – regional expansion and consolidation opportunities.
- Strategic Integration
  - Enhanced capital adequacy – capacity to fund and structure large corporate transactions
  - Strong digital banking platform – opportunity to continue leading the digital space
  - Access to high quality talent
  - Market positioning – better competitive positioning underpinned by a strong brand

### Threats

The following factors pose a challenge to the banking sector in Kenya that the merged entity will also be faced with.

#### Increased Competition

Competition within the banking sector is becoming aggressive as players seek to grow their top and bottom lines. In addition, non-traditional competition from non-conventional banking entities such as Financial Technology companies using software to provide financial services and mobile money transfer services. These developments are likely to revolutionize the way that banking industry players provide their services. Banks need to adjust quickly to the changes in technology to prevent losing their market share.

### **Interest Rate Capping**

Following the introduction of interest rate capping in 2016 by the Banking Act which sets the maximum lending rate at a maximum of 4% above the Central Bank Base Rate, interest income on loans and advances, which is the largest contributor to total income of banks has significantly decreased. In December 2015, the interest income was KES 291.2 Billion compared to KES 257.9 Billion recorded in December 2017. These challenges have resulted in banks adopting various strategies to ensure they continue delivering their services while creating shareholder value.

### **Consumer Expectations**

Bank customers expect personalized and meaningful experiences through simple and intuitive interfaces on any device, anywhere and at any time. Today's customers are also better informed and more price sensitive than before. They would therefore not hesitate to forego banking products for similar services offered by Fin Techs and mobile money services that are custom tailored to their needs.

### **Opportunities**

Many opportunities remain in the banking sector that the merged entity can leverage on:

#### **Mobile Phone Banking**

Mobile phone banking is an increasingly growing phenomenon and banks have the opportunity of expanding their services to suit this distribution channels. Loan dissemination via mobile phones has been well received by the market. Mobile account opening is also another avenue that many banks can use to increase their market share. Use of mobile platforms to provide banking services offers a good alternative to reach the unbanked population due to their convenience.

#### **Unbanked Population**

According to Global Findex report of 2017, Kenya was considered to be among the countries with economies where a third or less of the adults are unbanked. Although over recent years the number of unbanked people has been reducing, there still exists a large pool of people who have no access to financial services especially the poor, women and the youth.

#### **Technology**

Technological advancement and stiff competition in the banking industry has led to major implementation of technology such as internet and mobile banking applications. This has impacted positively on the industry i.e. through reduced transaction time, and better customer experience. Banks are using social media to advertise but also receive customer feedback.

#### **Independent Financial Advisor Opinion**

Faida Investment Bank stated in their report as follows: "Further to our analysis, after carefully considering all the information available to us, and based on the market, economic and other relevant considerations prevailing as at 8th February 2019, and subject to our terms of reference, we are of the opinion that the proposed merger ratio of 47% (NIC Group): 53% (CBA Group) is fair and within the range of our valuation results. The shareholders should be aware that the prospective financial information used in accessing the fairness of the Merger ratio contains forward looking statements with respects to the two business entities. Such information is subject to risks and uncertainties that could cause actual results to differ materially from those forecasted and due regard should be given to this fact."

## PART 9 – PRO-FORMA FINANCIAL INFORMATION

As set out in the Chairman's Letter, the Merger is expected to increase the market share of the combined entity and enable NIC to gain access to alliances across different geographies where each bank has operations, as a basis of growing shareholder value. To help illustrate the potential impact, tables 12, 13, 14 and 15 set out the pro-forma income statements and balance sheets of the merged entity assuming that the Merger had been completed as at 31st December 2017 and as at 31st December 2018.

### Pro-forma Income Statement

The Board considers that this merger is expected to unlock further value for NIC on the basis that incremental earnings can be realized from extraction of synergies of both CBA's and NIC's existing business. Accordingly, it is projected in the medium to long term that this Merger is likely to favourably impact NIC's earnings.

The tables below present the pro forma consolidated income statements for the year ended 31st December 2017 and nine months consolidated income statement for the period ended 31st December 2018, assuming that the Merger contemplated herein, had been consummated on both dates.

Table 12: Pro-forma Statement of Comprehensive Income for the period ended 31<sup>st</sup> December 2017

KES '000	NIC	CBA	Adjustments	Combined
	31-Dec-17	31-Dec-17		31-Dec-17
Interest Income	18,415,422	19,412,058	(45,321)	37,782,159
Interest Expense	(7,641,620)	(9,763,240)	45,321	(17,359,539)
<b>Net Interest Income</b>	<b>10,773,802</b>	<b>9,648,818</b>		<b>20,422,620</b>
Fee and commission income	2,295,094	7,666,803		9,961,897
Other operating income	1,869,246	2,756,125		4,625,371
<b>Operating Income</b>	<b>14,938,142</b>	<b>20,071,746</b>		<b>35,009,888</b>
Impairment on loans and advances	(2,979,723)	(3,046,690)		(6,026,413)
Employee expenses	(3,373,785)	(4,361,630)		(7,735,415)
Other operating expenses	(2,983,684)	(5,914,056)		(8,897,740)
<b>Operating Expenses</b>	<b>(9,337,192)</b>	<b>(13,322,376)</b>		<b>(22,659,568)</b>
<b>Profit Before Tax &amp; exceptional items</b>	<b>5,600,950</b>	<b>6,749,370</b>		<b>12,350,320</b>
Exceptional income	-	146,376		146,376
<b>Profit Before after exceptional items</b>	<b>5,600,950</b>	<b>6,895,746</b>		<b>12,496,696</b>
Share of associate profit	-	196,931		196,931
<b>Profit before tax</b>	<b>5,600,950</b>	<b>7,092,677</b>		<b>12,693,627</b>
Income Tax Expense	(1,456,532)	(1,550,596)		(3,007,128)
<b>Profit for the Year</b>	<b>4,144,418</b>	<b>5,542,081</b>		<b>9,686,499</b>
<b>No of shares Issued</b>	<b>703,940,164</b>	<b>287,774,006</b>		

Source: CBA Group and NIC Group Published results

Table 13: Pro-forma Statement of Comprehensive Income for the period ended 31<sup>st</sup> December 2018

KES '000	NIC 31-Dec-18	CBA 31-Dec-18	Adjustments	Combined 31-Dec-18
Interest Income	19,295,810	25,509,856	(28,955)	44,776,711
Interest Expense	(8,716,105)	(9,740,305)	28,955	(18,427,455)
<b>Net Interest Income</b>	<b>10,579,705</b>	<b>15,769,551</b>		<b>26,349,256</b>
Fee and commission income	2,506,839	2,529,995		5,036,834
Other operating income	2,131,361	2,901,025		5,032,386
<b>Operating Income</b>	<b>15,217,905</b>	<b>21,200,571</b>		<b>36,418,476</b>
Impairment on loans and advances	(2,353,977)	(3,709,228)		(6,063,205)
Employee expenses	(3,834,982)	(4,065,290)		(7,900,272)
Other operating expenses	(3,206,081)	(6,975,844)		(10,181,925)
<b>Operating Expenses</b>	<b>(9,395,040)</b>	<b>(14,750,362)</b>		<b>(24,145,402)</b>
<b>Profit Before Tax &amp; exceptional items</b>	<b>5,822,865</b>	<b>6,450,209</b>		<b>12,273,074</b>
Exceptional income	-	-		-
<b>Profit Before after exceptional items</b>	<b>5,822,865</b>	<b>6,450,209</b>		<b>12,273,074</b>
Share of associate profit	-	283,979		283,979
<b>Profit before tax</b>	<b>5,822,865</b>	<b>6,734,188</b>		<b>12,557,053</b>
Income Tax Expense	(1,594,495)	(1,730,869)		(3,325,364)
<b>Profit for the Year</b>	<b>4,228,370</b>	<b>5,003,319</b>		<b>9,231,689</b>
<b>No of shares Issued</b>	<b>703,940,164</b>	<b>287,774,006</b>		

Source: CBA Group and NIC Group Published results

#### Pro-forma impact on NIC Group Financial Position

Tables 14 and 15 that follow, set out pro-forma Statements of Financial Position of the merged entity assuming that the Merger had been completed as at 31st December 2017 and 31st December 2018, respectively.

Table 14: Pro-forma consolidated statement of financial position as at 31st December 2017:

KES '000	NIC 31-Dec-17	CBA 31-Dec-17	Adjust. 1	Adjust. 2	Combined 31-Dec-17
<b>ASSETS</b>					
Cash and balances with Central Banks	9,516,131	23,349,322			32,865,453
Financial assets at fair value through profit & loss	617,872	438,389			1,056,261
Deposits and balances due from banking institutions	12,425,067	26,134,026		(4,003,871)	34,555,223
Government securities	51,495,068	57,798,406			109,293,474
Other Securities	2,702,639	8,219,634			10,922,273
Tax recoverable	395,513	4,920			400,433
Loans and advances to customers	119,760,537	113,642,338	(5,531)		233,397,344
Investments in associates	-	3,540,896			3,540,896
Property and equipment	1,148,712	2,913,684			4,062,396
Operating lease prepayments	522,750	-			522,750
Intangible assets	1,580,310	3,280,536			4,860,846
Deferred tax asset	3,418,176	2,583,217			6,001,393
Other assets	2,589,684	3,873,657			6,463,341
<b>TOTAL ASSETS</b>	<b>206,172,460</b>	<b>245,779,025</b>			<b>447,942,083</b>
<b>LIABILITIES</b>					
Customer deposits	138,916,570	193,767,156			332,683,726
Deposits and balances to banking institutions	12,138,495	9,724,957	(4,003,871)	(5,531)	17,854,050
Borrowings	17,025,858	8,019,537			25,045,395
Tax payable	5,045	81,002			86,047
Deferred tax liability	-	124			124
Dividends payable	22,388	-			22,388
Other liabilities	3,347,867	4,056,535			7,404,402
<b>TOTAL LIABILITIES</b>	<b>171,456,223</b>	<b>215,649,311</b>			<b>383,096,132</b>
<b>EQUITY</b>					
Share capital	3,199,728	5,755,468	3,608,204	(5,755,468)	6,807,932
Share premium	2,700,017	5,036,649	20,747,173	(5,036,649)	23,447,190
Retained earnings	27,815,058	15,875,383	5,774,337	(15,875,383)	33,589,395
Statutory loan loss reserve	1,042,359	2,148,226		(2,148,226)	1,042,359
Proposed Dividend	639,946	1,421,677		(1,421,677)	639,946
Other reserves	(1,131,707)	(107,689)		107,689	(1,131,707)
Non-controlling interest	450,836	-			450,836
<b>TOTAL EQUITY</b>	<b>34,716,237</b>	<b>30,129,714</b>			<b>64,845,951</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>206,172,460</b>	<b>245,779,025</b>			<b>447,942,083</b>

Source: CBA Group and NIC Group Published results

Table 15: Pro-forma consolidated statement of financial position as at 31st December 2018

KES '000	NIC 31-Dec-18	CBA 31-Dec-18	Adjust. 1	Adjust. 2	Combined 31-Dec-18
<b>ASSETS</b>					
Cash and balances with Central Banks	11,972,902	18,488,300			30,461,202
Financial assets at fair value through profit & loss	691,915	116,900			808,815
Deposits and balances due from banking institutions	5,253,062	18,481,312	(2,951,322)		20,783,052
Government securities	58,046,908	65,064,995			123,111,903
Other Securities	3,118,210	3,996,498			7,114,708
Tax recoverable	1,075,176	70,075			1,145,251
Loans and advances to customers	118,071,672	121,503,411	(2,906)		239,572,177
Investments in associates	-	3,724,975			3,724,975
Property and equipment	1,369,575	2,303,483			3,673,058
Lease prepayments	522,625				522,625
Intangible assets	1,829,118	3,332,803			5,161,921
Goodwill		362,610			362,610
Deferred tax asset	4,395,617	3,670,382			8,065,999
Other assets	2,152,775	3,991,148			6,143,923
<b>TOTAL ASSETS</b>	<b>208,499,555</b>	<b>245,106,892</b>			<b>450,652,219</b>
<b>LIABILITIES</b>					
Customer deposits	144,501,060	196,527,724			341,028,784
Deposits and balances to banking institutions	9,906,429	5,446,410		(2,954,228)	12,398,611
Borrowings	14,868,336	7,962,958			22,831,294
Tax payable	11,288				11,288
Derivative Liabilities		22,308			22,308
Deferred tax liability	-	21,271			21,271
Dividends payable	42,986				42,986
Other liabilities	3,384,322	4,518,410			7,902,732
<b>TOTAL LIABILITIES</b>	<b>172,714,421</b>	<b>214,499,081</b>			<b>384,259,274</b>
<b>EQUITY</b>					
Share capital	3,519,701	5,755,468	3,969,024	(5,755,468)	7,488,725
Share premium	2,373,994	5,036,649	18,098,751	(5,036,649)	20,472,745
Retained earnings	28,897,206	18,317,229	8,540,036	(18,317,229)	37,437,242
Statutory loan loss reserve	63,462	829,290		(829,290)	63,462
Other reserves	(308,961)	(996,305)		996,305	(308,961)
Proposed Dividend	879,925	1,665,480		(1,665,480)	879,925
Non-controlling interest	359,807	-			359,807
<b>TOTAL EQUITY</b>	<b>35,785,134</b>	<b>30,607,811</b>			<b>66,392,945</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>208,499,555</b>	<b>245,106,892</b>			<b>450,652,219</b>

Source: CBA Group and NIC Group Published results



### Shareholding information

The table below illustrates the pro-forma impact of the Merger on NIC's existing shareholders in terms of numbers of ordinary shares they hold and their respective shareholding percentages as at 31st January 2019 (most recent shareholding information available).

Table 16: Top 10 Shareholders of CBA pre-merger

Shareholders	No of Shares Pre-merger	% Ownership
Enke Investments Limited	71,680,073	24.91%
Ropat Nominees Limited	64,749,141	22.50%
Livingstone Registrars Limited - A/C No. 1	57,267,033	19.90%
Yana Investments Limited	32,060,350	11.14%
Ropat Trust Company Limited	15,442,172	5.37%
Livingstone Registrars Limited – A/C No. 2	12,557,523	4.36%
Livingstone Registrars Limited, Trustees of the CBA ESOP	7,194,350	2.50%
Muhoho Kenyatta	4,203,344	1.46%
Manvinder Kaur Rai	3,763,991	1.31%
Hon. Simeon Nyachae	3,139,648	1.09%
Others	15,716,381	5.46%
<b>Total</b>	<b>287,774,006</b>	<b>100.00%</b>

Source: CBA

Table 17: Top 10 Shareholders of NIC pre-merger

Shareholders	No of Shares Pre-merger	% Ownership
First Chartered Securities Limited	111,521,351	15.84%
ICEA LION Asset Management Limited Account 2000	64,463,608	9.16%
Livingstone Registrars Limited	61,457,168	8.73%
Rivel Kenya Limited	58,369,703	8.29%
Amwa Holdings Ltd	14,951,943	2.12%
Tropical Veterinary Services Limited	12,110,130	1.72%
Makimwa Consultants Limited	9,531,214	1.35%
Murwoki Holdings Limited	8,678,715	1.23%
SCB A/C Pan African Unit Linked FD	7,192,450	1.02%
Thuthuma Limited	7,080,465	1.01%
Others	348,583,417	49.52%
<b>Total</b>	<b>703,940,164</b>	<b>100.00%</b>

Source: NIC

Table 18: Shareholding information post-merger

Shareholders	No of Shares Pre-merger	% Ownership	No of Shares Post-merger	% Ownership
Enke Investments Ltd	—	—	197,724,566	13.21%
Ropat Nominees Limited	—	—	178,606,066	11.93%
Livingstone Registrars Ltd A/C No. 1	—	—	157,967,184	10.56%
First Chartered Securities Limited	111,521,351	15.84%	111,521,351	7.45%
Yana Investments Limited	—	—	88,436,277	5.91%
ICEA LION Asset Management Limited Account 2000	64,463,608	9.16%	64,463,608	4.23%
Livingstone Registrars Limited	61,457,168	8.73%	61,457,168	4.11%
Rivel Kenya Limited	58,369,703	8.29%	58,369,703	3.90%
Ropat Trust Company Limited	—	—	42,596,172	2.85%
Livingstone Registrars Limited – A/C No. 2	—	—	34,639,066	2.31%
Other NIC Shareholders	408,128,334	57.98%	408,128,334	27.27%
Other CBA Shareholders	—	—	93,835,519	6.27%
<b>Total</b>	<b>703,940,164</b>	<b>100.00%</b>	<b>1,497,745,014</b>	<b>100.00%</b>

Source: NIC and CBA

## PART 10 – ADDITIONAL DISCLOSURES AND GENERAL INFORMATION

### 1. Responsibility Statement

The Directors of NIC, whose names appear on page 30 of this Circular accept responsibility for the information contained herein. To the best of their knowledge and belief the Directors (who have taken all reasonable care to ensure that such is the case) are of the view that 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 pursuant to paragraph 17 of the Fourth Schedule to the Public Offers, Listing and Disclosures Regulations.

### 2. Share Capital

As at the date of this Circular, the nominal share capital of NIC group is KES 4,000,000,000 divided into 800,000,000 ordinary shares of KES 5 each. The issued share capital is KES 3,519,700,820 comprised of 703,940,164 ordinary shares of KES 5 each and the shares are all fully paid-up.

The Articles of Association describe all of the rights attached to the ordinary shares with respect to such matters as voting, dividends, liquidation proceeds and other matters. A copy of the Articles of Association is available for inspection as noted in point 6 below.

The New Shares when issued shall rank pari passu with the existing ordinary shares, and shall have a par value of KES 5 each and shall, upon issue, be credited as fully-paid up. Upon completion of the Merger, CBA Shareholders will receive their share certificates initially in certificate form but these shall, subsequently be dematerialized upon Listing.

793,804,865 New Shares shall be allotted and shall be admitted into the official list of the NSE on or around 1st August 2019. Upon allotment, an announcement shall be made by NIC within 24 hours, and if the 24 hours fall on a day other than a business day, on the next business day before commencement of trading at the NSE.

#### **Requirement for increase in nominal capital for NIC and NIC Bank Kenya**

In order to issue and allot share in NIC to the CBA Shareholders, it will be necessary to increase the share capital of NIC.

The Board may only allot ordinary shares or grant rights over ordinary shares if authorised to do so by the shareholders. Resolution H as contained in the Notice of the AGM as stated below seeks to grant a new authority under section 329 of the Companies Act to authorise the Board of NIC to issue and allot shares in NIC in connection with the Merger. If given, the authority will expire at the earlier of the completion of the Merger and the close of business on the fifth anniversary of the date of this Notice.

### 3. Director's Interests

The following Directors had direct or indirect beneficial equity interests in the ordinary shares of NIC as at the date of this Circular.

	Name	Nationality	Shares held
1.	James P. M. Ndegwa	Kenyan	52,578,948
2.	Andrew S. M. Ndegwa	Kenyan	52,567,074
3.	John Gachora	Kenyan	347,050
4.	Esther N. Ngaine	Kenyan	63,800
5.	Paras V. Shah	Kenyan	93,500
6.	David Abwoga	Kenyan	8,281

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

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

The following Directors of NIC had direct or indirect beneficial equity interests in the ordinary shares of CBA Group as at the date of this Circular:

	Name	Nationality	Shares held
1.	James P. M. Ndegwa	Kenyan	3,139,380
2.	Andrew S. M. Ndegwa	Kenyan	3,486,771

### 4. Consents

Iseme, Kamau & Maema Advocates, Coulson Harney LLP (Legal Advisers), Faida Investment Bank Ltd (Independent Financial Adviser), Viva Africa Consulting (Transaction Structuring Consultant) and PricewaterhouseCoopers Kenya (Integration Accountant) have given and not withdrawn their respective consents to the issue of this Circular with the inclusion herein of their names (and where relevant, reports) and the references thereto, in the form and context in which they appear respectively.

### 5. Compliance and Disclosure – The Capital Markets Act

Part 3 and Part 4 of this Circular contains a brief description of the business, directors, management and historical financial information of both CBA and NIC.

The Merger Agreement dated 01st March 2019 between CBA and NIC provided that the consideration for the New Shares is to be satisfied by the transfer by the CBA Shareholders of shares held by them in CBA.

The approval and listing fee payable on the New Shares is to a maximum of KES 625,000 while the other costs for the transaction are:

Table 19: Transaction Fees

Cost Category	Amount (KES)
Competition Authority of Kenya Application Fee	2,000,000
All Advisory Provision (inclusive of VAT)	200,000,000
<b>TOTAL</b>	<b>202,000,000</b>

In accordance with the disclosure requirements under paragraph 28(a) of The Fourth Schedule to the Public Offers, Listing and Disclosures Regulations, the Board hereby declares that the annual financial statements of NIC for the year ended 31st December 2018 have been audited and received an unqualified opinion and the annual report in respect of these financial statements will be presented at the next Annual General Meeting of the Shareholders.

The disclosures contained in Part 5, 6, 8 and Part 9 of this Circular provides information on the rationale used in assessing the reasonableness of the Merger.

As at the date of the issuance of this Circular, none of the advisers namely; Faida Investment Bank, the firm that carried out the fairness opinion and the Independent Financial Adviser Role, EY, the firm that carried out the financial due diligence, Iseme Kamau & Maema Advocates, the firm that was in charge of the legal due diligence including their partners and employees, had any material relationship with NIC other than the specified advisory contracts. Save as disclosed herein there are no related party transactions.

## 6. Documents available for inspection

Copies of the documents available for inspection by shareholders are listed here below. These documents will be made available free of charge to the shareholders of NIC, at NIC's offices at Masaba Road, P.O. Box 44599, GPO 00100, Nairobi, Kenya between 9.00 a.m. and 5.00 p.m. Monday to Friday (except public holidays and bank holidays in Kenya) from the date hereof until 16th April 2019:

- a) NIC Group audited financial statements for the five financial years ended 31st December 2014, 2015, 2016, 2017 and 2018;
- b) Resolution of the NIC Group Board of Directors meeting held on 30th January 2019;
- c) NIC's Memorandum and Articles of Association;
- d) the approval of the CMA relating to this Circular;
- e) the Merger Agreement between CBA, NIC Bank Kenya and NIC dated 01st March 2019;
- f) the Offer Letter dated 12th February 2019;
- g) the Extension Letter dated 26th February 2019 and 11th March 2019;
- h) the Independent Financial Adviser report prepared by Faida Investment Bank Limited; and
- i) Audited Financial Statements of CBA Group for the five financial years ended 31st December 2014, 2015, 2016, 2017, and 2018.

## PART 11 - AGM NOTICE

### NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the fifty ninth Annual General Meeting of the Shareholders of NIC Group PLC (the "**Company**") will be held at the Tsavo Ballroom, Kenyatta International Convention Centre (KICC) Nairobi on 17th April, 2019 at 10.30 am for the following purposes:-

1. To read the Notice convening the Meeting.
2. To receive, consider and if thought fit, adopt the Financial Statements for the year ended 31st December 2018 and the Directors' and Auditors' Reports thereon.
3. To approve the payment of a first and final dividend of Shs. 1.25 per ordinary share (2017: final dividend of Shs 1.00 per ordinary share) on the paid up capital of Shs. 3,519,700,820.
4. To approve the Directors' Remuneration Policy and Report and the remuneration paid to the Directors in the year ended 31st December 2018 and to authorize the Board to fix the remuneration of the Directors for the year 2019.
5. To elect Directors:
  - (a) In accordance with Article 7.18 of the Company's Articles of Association, the following Directors retire by rotation and being eligible, offer themselves for re-election:
    - i) J. P. M. Ndegwa; and
    - ii) P. V. Shah.
  - (b) In accordance with the provisions of section 769 of the Companies Act, 2015 ("**Companies Act**"), the following Directors, being members of the Board Audit and Risk Committee, be elected to serve as members of the said Committee:
    - i) P. R. Lopokoityit (Chairman);
    - ii) E. N. Ngaine; and
    - iii) G. A. Maina.
6. To appoint PricewaterhouseCoopers as the Auditors of the Company until the end of the next Annual General Meeting by virtue of section 721(4) of the Companies Act, subject to Central Bank of Kenya approval in accordance with section 24(1) of the Banking Act (Cap.488) ("**Banking Act**"), and to authorize the Directors to fix their remuneration.
7. Proposed merger with Commercial Bank of Africa Limited ("**CBA**")

Upon consideration of the Shareholder Circular relating to the proposed merger ("**Merger**") of the Company with CBA circulated to the Shareholders together with this Notice and presented at the meeting, to consider and if thought fit, pass the following resolutions, noting that the implementation of the Merger is subject to, and conditional upon, the various conditions, approvals and exemptions listed in the Shareholder Circular in form and substance satisfactory to the Company and applicable law:

#### As Ordinary Resolutions

- a) THAT the entry by the Company into the Merger Agreement with NIC Bank Kenya PLC ("**NIC Bank**") and CBA, a summary of which is set out in the Shareholder Circular ("**Merger Agreement**"), be and is hereby approved and ratified and the Company be authorized to perform its obligations thereunder;

- b) **THAT** the letters of offer from the Company to the shareholders of CBA (the “**CBA shareholders**”) to acquire all their shares in CBA (“**Letters of Offer**”), a summary of which is set out in the Shareholder Circular, be and is hereby approved and ratified in accordance with their terms, such that the acquisition by the Company (through NIC Bank) of all the shares in CBA, and the subsequent acquisition from CBA shareholders of all NIC Bank shares issued and allotted to such CBA shareholders, in consideration for the issue and allotment to CBA shareholders of new shares in the capital of the Company which will upon such issue constitute 53% of the issued share capital of the Company (the “**Share Exchange**”), be and is hereby approved;
- c) THAT following the completion of the Share Exchange, the transfer by NIC Bank to CBA (which will at such time be a wholly owned subsidiary of NIC Bank) of the whole of the banking business and all associated assets and liabilities thereof carried on by NIC Bank prior to the date of the transfer pursuant to the terms of a business and asset transfer agreement entered into or to be entered into between CBA and NIC Bank (which terms are summarized in the Shareholder Circular) (the “**BATA**”) be and is hereby approved, subject to, and in accordance with, the provisions of section 9 of the Banking Act;
- d) **THAT** the Company, as the sole shareholder of NIC Bank be and is hereby authorized to pass resolutions authorizing NIC Bank and (where applicable) the directors of NIC Bank to
- i) increase its capital by allotting and issuing new shares in NIC Bank (“**New NIC Bank Shares**”) to the shareholders of CBA in consideration for their shares in CBA pursuant to sections 329 of the Companies Act and the Articles of Association of NIC Bank;
  - ii) acquire the issued shares in CBA from the CBA shareholders;
  - iii) approve and register the transfer by the CBA shareholders to the Company of the New NIC Bank Shares in exchange for the issue and allotment of shares in the Company to the CBA shareholders;
  - iv) approve the transfer by NIC Bank to CBA (which will at such time be a wholly owned subsidiary of NIC Bank) of the whole of the banking business and all associated assets and liabilities thereof carried on by NIC Bank prior to the date of the transfer pursuant to the terms of the BATA and in accordance with section 9 of the Banking Act; and
  - v) approve the Merger and undertake such further acts as may be required to implement the Merger;
- e) **THAT** in addition to the Merger Agreement and Letters of Offer, it is anticipated that numerous other ancillary or administrative agreements and documents will be required to be prepared and executed in order to implement the Merger, including the BATA, share acquisition agreements, business and asset transfer agreements, amalgamation agreements, ancillary documents and applications for various regulatory approvals and exemptions (“**Transaction Documents**”) and that the Directors be authorized to prepare, amend, execute, deliver and implement:
- i) each of the Transaction Documents as appropriate; and
  - ii) any further documents and undertake such further acts on behalf of the Company which are necessary or desirable to give effect to the Merger Agreement, Letters of Offer or any of the Transaction Documents or to implement the Merger;

- f) **THAT** in accordance with section 9 of the Banking Act, the Merger, a summary of which is set out in the Shareholder Circular, be and is hereby approved in accordance with the terms of the Merger Agreement, Letters of Offer, BATA and other Transaction Documents;
- g) **THAT** the Directors be authorized to:
- iv) create an Employee Share Ownership Plan (“**ESOP**”) for eligible employees of the group following completion of the Merger (subject to the approval of the Capital Markets Authority and applicable law);
  - ii) appoint trustees to administer the ESOP and agree the terms of the trust deed in respect of the ESOP with the trustees; and
  - iii) prepare, amend, execute and implement any further documents and undertake such further acts on behalf of the Company which are necessary or desirable to give effect to the ESOP.
- h) **THAT** in accordance with section 329 of the Companies Act, Regulation 2 of the Fourth Schedule to the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002 and the Company’s Articles of Association and noting that the provisions of section 338 of the Companies Act are not applicable on the allotment of new shares in the Company pursuant to section 342 of the Companies Act as the new shares are to be wholly paid up otherwise than in cash, the Directors be and are hereby unconditionally authorized to:
- i) allot and issue up to a maximum of 793,804,865 new ordinary shares of Kenya Shillings five (Shs. 5) each in the Company (“**Ordinary Shares**”), to the CBA shareholders on completion of the Share Exchange in accordance with the terms of the Merger Agreement and the Letters of Offer such that the CBA shareholders shall own 53% of the issued share capital of the Company, such new shares to be credited as fully paid and to rank pari passu in all respects with the existing Ordinary Shares; and
  - ii) take any ancillary actions as may be required in connection with the allotment and issue of such Ordinary Shares, including:
    - a. increasing the nominal share capital of the Company from Kenya Shillings four billion (Shs. 4,000,000,000) comprising of eight hundred million (800,000,000) Ordinary Shares, as required at the relevant time;
    - b. entering the new Ordinary Shares issued into the register of members of the Company against the name of each relevant shareholder; and
    - c. ensuring any new Ordinary Shares are admitted to trading and listing at the Nairobi Securities Exchange,

provided that the Ordinary Shares so allotted shall not participate in the dividend declared by the Company for the year ended 31st December, 2018. The authority given under this resolution (h) shall expire, unless renewed, varied or revoked by the Company, on the earlier of the completion of the Merger and the close of business on the fifth anniversary of the date hereof but, in each case, so that the Company may make offers and enter into agreements prior to the expiration of the authority which would, or might, require shares to be allotted or rights to subscribe for shares to be granted after the authority ends and the Directors may allot shares or grant rights to subscribe for shares under any such offer or agreement as if the authority had not ended;



**As a Special Resolution**

- i) THAT in accordance with sections 62(a) and 64 of the Companies Act, a new clause 7.56.16 be inserted into the Company's Articles of Association as follows:

*"7.56.16. To change the name of the Company, from time to time, by a Directors resolution, and for the avoidance of doubt, no approval from the shareholders of the Company shall be required in respect of any such change of name."*

**As an Ordinary resolution**

8. To authorize the Directors to, at any time, purchase, acquire or dispose of any property, including shares in any company, as they shall deem fit, subject to a maximum limit of 10% of the Company's total assets.

**As an Ordinary resolution**

9. To authorize the Directors and the Company Secretary of the Company to prepare and execute such documents and effect such filings as are required to give effect to the above resolutions.
10. To transact any other business of the meeting of which due notice has been received.

**BY ORDER OF THE BOARD**

**Livingstone Murage**

**Group Company Secretary**

**Nairobi**

**21st March, 2019**

- i. A Member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his, her or its behalf. A proxy need not be a Member of the Company. To be valid, a proxy form must be duly completed by the Member and lodged with the Group Company Secretary at the Company's registered office situated at NIC House, Masaba Road, Nairobi, Kenya, before 10.30 am on 15th April, 2019, failing which it will be invalid. In the case of a Member which is a corporate body then the proxy must be given under its common seal.
- ii. A copy of this notice, proxy form and a full copy of the Company's consolidated group financial statements including explanatory notes are available from our website [www.nicgroup.com](http://www.nicgroup.com) or a printed copy may be obtained from the Company's share registrars, Custody & Registrar Services Limited upon request. A printed copy will also be available at the venue on the day of the Annual General Meeting.





2019

### **Head Office**

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  **nicbankkenya**