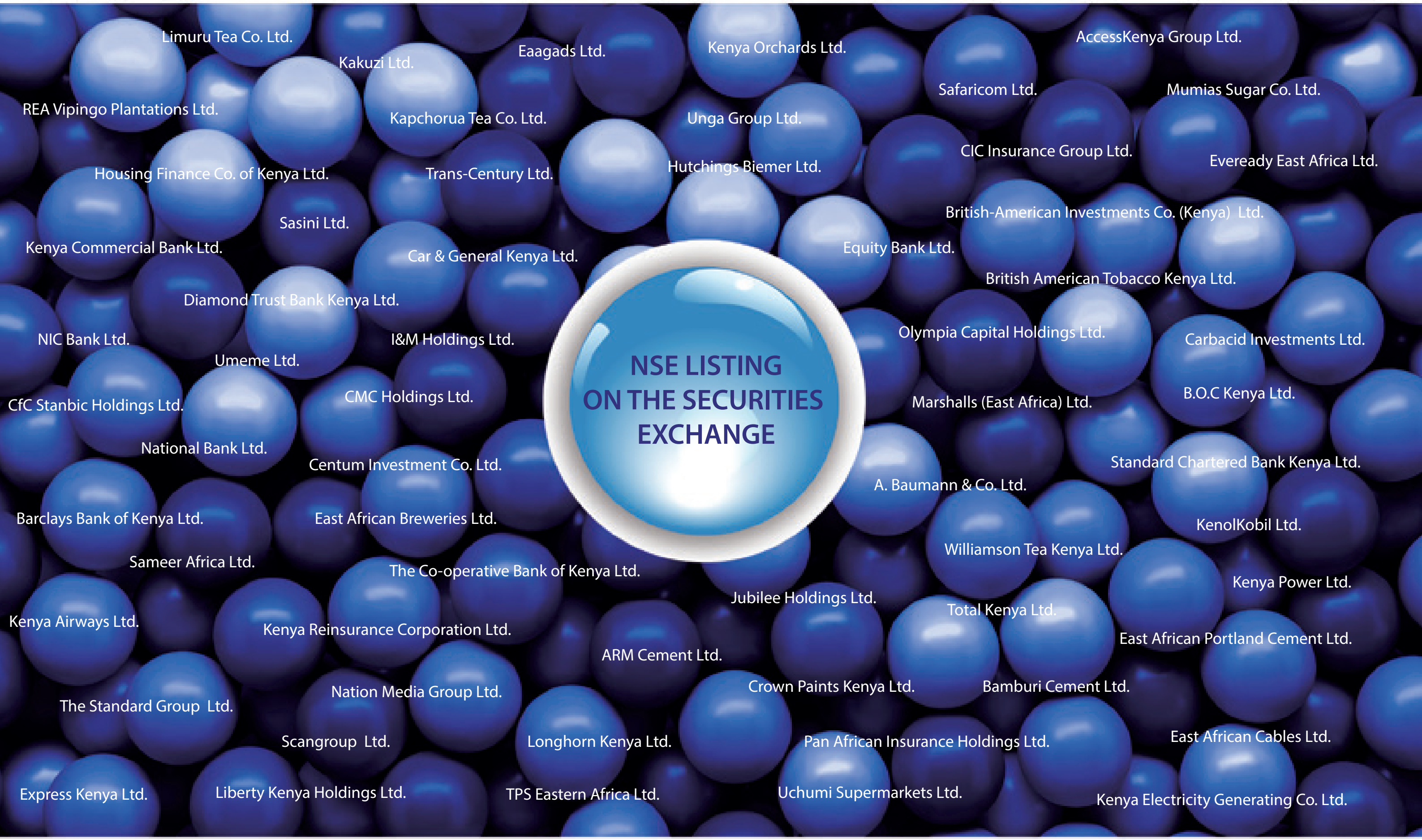
NAIROBI SECURITIES EXCHANGE



2012
Annual Report & Financial Statements

NSE LISTING ON THE SECURITIES EXCHANGE

Limuru Tea Co. Ltd.
Kakuzi Ltd.
Eaagads Ltd.
Kenya Orchards Ltd.
AccessKenya Group Ltd.
Safaricom Ltd.
Mumias Sugar Co. Ltd.
REA Vipingo Plantations Ltd.
Kapchorua Tea Co. Ltd.
Unga Group Ltd.
CIC Insurance Group Ltd.
Eveready East Africa Ltd.
Housing Finance Co. of Kenya Ltd.
Trans-Century Ltd.
Hutchings Biemer Ltd.
British-American Investments Co. (Kenya) Ltd.
Sasini Ltd.
Kenya Commercial Bank Ltd.
Car & General Kenya Ltd.
Equity Bank Ltd.
British American Tobacco Kenya Ltd.
Diamond Trust Bank Kenya Ltd.
NIC Bank Ltd.
Umeme Ltd.
I&M Holdings Ltd.
Olympia Capital Holdings Ltd.
Carbacid Investments Ltd.
CfC Stanbic Holdings Ltd.
CMC Holdings Ltd.
Marshalls (East Africa) Ltd.
B.O.C Kenya Ltd.
National Bank Ltd.
Centum Investment Co. Ltd.
Standard Chartered Bank Kenya Ltd.
A. Baumann & Co. Ltd.
Barclays Bank of Kenya Ltd.
East African Breweries Ltd.
KenolKobil Ltd.
Williamson Tea Kenya Ltd.
Sameer Africa Ltd.
The Co-operative Bank of Kenya Ltd.
Kenya Power Ltd.
Jubilee Holdings Ltd.
Total Kenya Ltd.
Kenya Airways Ltd.
Kenya Reinsurance Corporation Ltd.
East African Portland Cement Ltd.
ARM Cement Ltd.
Crown Paints Kenya Ltd.
Bamburi Cement Ltd.
Nation Media Group Ltd.
The Standard Group Ltd.
Scangroup Ltd.
Longhorn Kenya Ltd.
Pan African Insurance Holdings Ltd.
East African Cables Ltd.
Express Kenya Ltd.
Liberty Kenya Holdings Ltd.
TPS Eastern Africa Ltd.
Uchumi Supermarkets Ltd.
Kenya Electricity Generating Co. Ltd.

CONTENTS

	PAGE
BUSINESS REVIEW	
Notice of the Annual General Meeting	2-3
Financial Highlights	4
Board of Directors	5
Corporate Information	6
Chairman's Statement	7-8
Chief Executive's Report	9-10
Operations and Technology Team	12
CORPORATE GOVERNANCE	
Corporate Governance Statement	13-21
Market and Product Development Team	22
Corporate Social Responsibilty	23-24
Compliance and Legal Team	25
Report of the Directors	26
Statement of Directors' Responsibilities	27
Chief Executive's Team	28
Independent Auditor's Report	29
Audit Team	30
Finance and Strategy Team	31
FINANCIAL STATEMENTS	
Statement of Comprehensive Income	32
Statement of Financial Position	33
Statement of Changes in Equity	34
Statement of Cash Flows	35
Notes to the Financial Statements	36-61

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that an ANNUAL GENERAL MEETING of the Nairobi Securities Exchange Limited shall be held on Thursday May 23, 2013, commencing at 3:00 p.m. at the Sarova Stanley Hotel Nairobi to transact the following business:

ORDINARY BUSINESS

1. To read the notice convening the meeting.

2. To table the proxies and note the presence of a quorum.

3. To confirm the minutes of the Annual General Meeting held on July 5, 2012.

4. To receive the Chairman's Statement and the Chief Executive's Report.

5. To receive and consider the audited accounts for the Financial Year ended December 31, 2012 and the reports of the Directors and Auditors thereon.

6. To approve and declare a first and final dividend for the year ended December 31, 2012 of Kenya Shillings Twenty Four Million Five Hundred Thousand (Kshs. 24,500,000/-) representing a dividend per share of Kenya Shillings One (Kshs. 1/-) for every share be issued to the shareholders in the Register.

7. To elect Directors.

    a) In accordance with Article 123 of the NSE Articles of Association, Mr. Geoffrey Odundo (a Trading Participant Director) retires by rotation and being eligible offers himself for re-election;

    b) In accordance with Article 123 of the NSE Articles of Association, Mr. Hosea Kimutai Kili (an Independent Director) retires by rotation and being eligible offers himself for re-election;

    c) In accordance with Article 123 of the NSE Articles of Association, Mrs. Farhana Hassanali-Hashmani (an Independent Director) retires by rotation and although being eligible does not offer herself for re-election.

8. To approve the Directors' fees for the financial year ended December 31, 2012.

9. To re-appoint Deloitte & Touche as the auditors for the Financial Year ending December 31, 2013 and to authorize the directors to fix their remuneration.

SPECIAL BUSINESS

10. To consider and if thought fit, pass the following resolutions as Special Resolutions:

    (a) THAT the Company ceases to be a private company and forthwith be converted to a public company.

    (b) THAT subject to the approval of the Capital Markets Authority the Company does hereby approve and adopt the Articles of Association, a copy of which is attached hereto and signed for identification by the Chairman, as the new Articles of Association of the Company in substitution for and to the exclusion of all the existing Articles of Association of the Company.

(c) THAT the Company files a Statement in Lieu of Prospectus at the Companies Registry as required under Section 32(1) of the Companies Act (Chapter 486 of the Laws of Kenya).

(d) THAT subject to the Company receiving all regulatory approvals, including but not limited to the approval of the Capital Markets Authority, all of the ordinary shares of Kenya Shillings One (Kshs 1/-) each in the capital of the Company be and are hereby approved for listing on the Nairobi Securities Exchange.

(e) THAT as required by the Laws of Kenya in connection with and pursuant to the listing of the whole of the issued ordinary share capital of the Company, the Company does issue a Listing Statement and the same be filed with the Registrar of Companies pursuant to Section 43 of the Companies Act and that the dating thereof be determined by the directors of the Company.

(f) THAT the Directors be and are hereby authorised to create an employee share purchase plan and in this regard to offer a maximum of Five Hundred Thousand [500,000] of the unissued shares in the capital of the Company at a price to be agreed by the Board of Directors to such employees of the Company and in such proportion as the Directors shall deem fit during such period and on such other terms and conditions as may be determined by the Directors and the Shareholders of the Company hereby waive their pre-emption rights in respect of such offer and issue of shares to the employees of the Company.

(g) THAT the Directors be and are hereby authorised to do and effect all acts and things required to give effect to the above resolutions.

(h) THAT the Secretary be directed to arrange for the filing with the Registrar of Companies of all necessary returns consequent upon the business dealt with at this meeting.

ANY OTHER BUSINESS

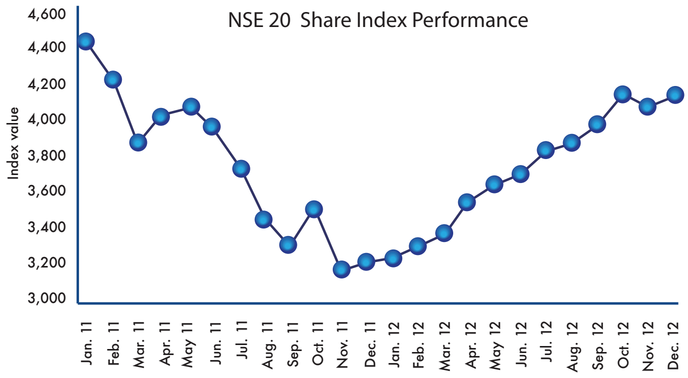
11. To consider any other business for which notice has been received.

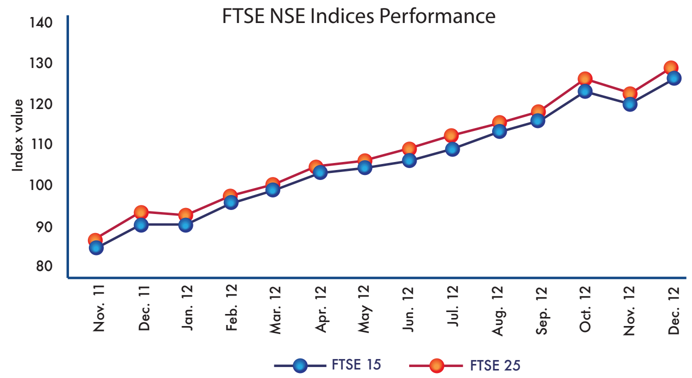
BY ORDER OF THE BOARD

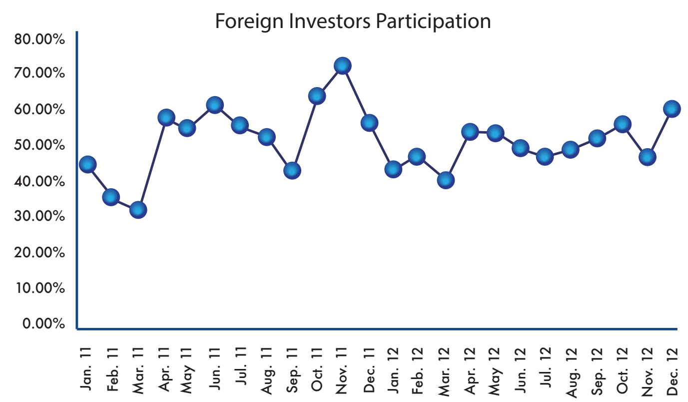
MAONGA NDONYE ASSOCIATES
SECRETARY *(Appointed on April 26, 2013)*

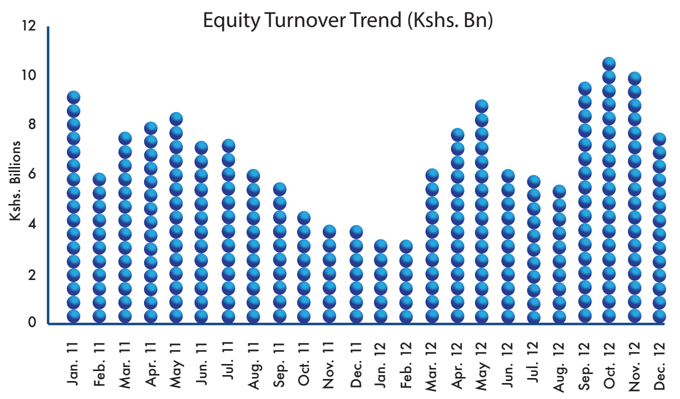
April 30 2013

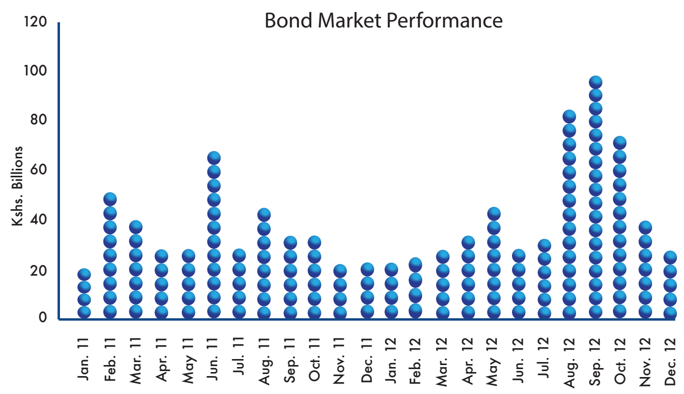
Note:A shareholder entitled to attend and vote at the above meeting is entitled to be present in person or by proxy. Such proxy need not be a shareholder of the Company. A form of proxy is enclosed and should be returned to the registered office of the Company to arrive not later than 48 hours before the time fixed for the meeting.


NSE 20 Share Index Performance
Index value
4,600
4,400
4,200
4,000
3,800
3,600
3,400
3,200
3,000
Jan. 11
Feb. 11
Mar. 11
Apr. 11
May 11
Jun. 11
Jul. 11
Aug. 11
Sep. 11
Oct. 11
Nov. 11
Dec. 11
Jan. 12
Feb. 12
Mar. 12
Apr. 12
May 12
Jun. 12
Jul. 12
Aug. 12
Sep. 12
Oct. 12
Nov. 12
Dec. 12


FTSE NSE Indices Performance
Index value
140
130
120
110
100
90
80
Nov. 11
Dec. 11
Jan. 12
Feb. 12
Mar. 12
Apr. 12
May 12
Jun. 12
Jul. 12
Aug. 12
Sep. 12
Oct. 12
Nov. 12
Dec. 12
FTSE 15
FTSE 25


Foreign Investors Participation
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
Jan. 11
Feb. 11
Mar. 11
Apr. 11
May 11
Jun. 11
Jul. 11
Aug. 11
Sep. 11
Oct. 11
Nov. 11
Dec. 11
Jan. 12
Feb. 12
Mar. 12
Apr. 12
May 12
Jun. 12
Jul. 12
Aug. 12
Sep. 12
Oct. 12
Nov. 12
Dec. 12


Equity Turnover Trend (Kshs. Bn)
Kshs. Billions
12
10
8
6
4
2
0
Jan. 11
Feb. 11
Mar. 11
Apr. 11
May 11
Jun. 11
Jul. 11
Aug. 11
Sep. 11
Oct. 11
Nov. 11
Dec. 11
Jan. 12
Feb. 12
Mar. 12
Apr. 12
May 12
Jun. 12
Jul. 12
Aug. 12
Sep. 12
Oct. 12
Nov. 12
Dec. 12


Bond Market Performance
Kshs. Billions
120
100
80
60
40
20
0
Jan. 11
Feb. 11
Mar. 11
Apr. 11
May 11
Jun. 11
Jul. 11
Aug. 11
Sep. 11
Oct. 11
Nov. 11
Dec. 11
Jan. 12
Feb. 12
Mar. 12
Apr. 12
May 12
Jun. 12
Jul. 12
Aug. 12
Sep. 12
Oct. 12
Nov. 12
Dec. 12

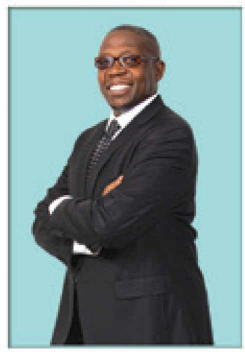
Board of Directors

Edward Njoroge
Chairman

Bob Karina
Vice Chairman

Farhana Hassanali- Hashmani

Hosea Kili



Geoffrey Odundo

Samuel Kimani

Winnie Nyamute

Jonathan Ciano

Peter Mwangi

Corporate Information

DIRECTORS	Mr. Edward Njoroge	Chairman
	Mr. Bob Karina	Vice Chairman
	Mr. Geoffrey Odundo	
	Ms. Winnie Nyamute	
	Ms. Farhanna Hassanali - Hashmani	
	Mr. Hosea K Kili	
	Mr. Samuel N Kimani	
	Dr. Jonathan Ciano	
	Mr. Peter Mwangi	Chief Executive
SECRETARY	Peter Mwangi Certified Public Secretary (Kenya) P O Box 43633 - 00100 Nairobi	
REGISTERED OFFICE	Nation Centre, 1st Floor P O Box 43633 - 00100 Kimathi Street Nairobi	
BANKERS	Kenya Commercial Bank Limited Moi Avenue Branch P O Box 30081 - 00100 Nairobi	
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki Way, Muthangari P O Box 40092 - 00100 Nairobi	
LEGAL ADVISERS	Hamilton Harrison & Mathews ICEA Building, 4th Floor Kenyatta Avenue P O Box 30333, 00100 GPO Nairobi	

Dear Shareholders

On behalf of the Board of Directors of the Nairobi Securities Exchange (NSE), I am delighted to present to you a report on the performance of your company for the financial year ending December 31, 2012.

OPERATING ENVIRONMENT

Kenya achieved a real GDP growth rate of 4.3 % in 2012. This was a slight decline from the 4.4% achieved in 2011. The slowdown was attributable to the volatile business environment, especially the high interest rates that reigned over the first half of the year.

PERFORMANCE

Despite the apprehension surrounding the scheduled General Elections and a less than favourable macroeconomic climate, the Exchange made a net profit of Kshs. 85.1 Million off a total income level of Kshs. 384.9 Million.

DIVIDENDS

Given the positive performance for the year ended December 31 2012, the Board of Directors proposes a first and final dividend of Kshs. 1.00 per share.

RE-ELECTION OF DIRECTORS

Mr. Geoffrey Odundo and Mr. Hosea Kimutai Kili retired by rotation and being eligible for re-election, they were all re-elected as Directors of the Nairobi Securities Exchange Limited.

ELECTION OF NEW DIRECTOR

Mrs. Farhana Hassanali-Hashmani (an Independent Director), retired by rotation and, although being eligible, did not offer herself for re-election. On behalf of the Board of Directors, I thank Mrs. Farhana Hassanali-Hashmani for her invaluable time and service to the Exchange. We wish Mrs. Hassanali-Hashmani the best in her future endeavors. I would like to welcome to the Board of Directors, Ms. Sharon Maviala, who, you elected as an Independent Director to replace Mrs. Farhana Hassanali-Hashmani. Ms. Maviala is an advocate and has previously served as the Corporate Secretary for Pan African Insurance Company Ltd. She is currently a director of Pinnacle Projects. Her experience in the real estate sector will be very useful to your Board as the Exchange introduces Real Estate Investment Trusts.

DEMUTUALISATION

I am also pleased to confirm to you, that in 2012, the Cabinet Secretary, National Treasury, Government of Kenya and the CMA Investor Compensation Fund, were each allocated a 5.1% stake in the NSE. Each of the other 22 shareholders has a stake of 4.08%. The Exchange, as of now, has a total of 24 shareholders.

DEVELOPMENTS

The Exchange successfully established the Growth Enterprise Market Segment (GEMS) and currently, has 14 licensed Nominated Advisors (NOMADS) to advice and guide candidate firms through the listing process for the segment.

Our approximately 60 year presence within the Nairobi Central Business District will shortly come to an end. The brick-and-mortar residence of the Exchange will from June 2013, be located at 55 Westlands Road.

The launch of a segment for Real Estate Investment Trusts (REITS) is imminent. As at the time of writing, the Exchange is awaiting the gazettement of the Capital Markets (Real Estate Investment Trusts) (Collective Investment Scheme) Regulations, 2012, by the incoming Cabinet Secretary of the National Treasury.

CORPORATE SOCIAL RESPONSIBILITY

In 2012, the Board of Directors endorsed financial literacy as the focus of our CSR initiatives. The Exchange believes that informed investors are the best deterrent against corporate malfeasance. We, hence, constantly work towards creating and improving financial literacy programs. The initiative flagship is the NSE Investment Challenge. This is an annual online competition for university students, which simulates the activities that happen around trading in listed securities (bonds and shares).

FUTURE OUTLOOK

Following the successful conclusion of the 2013 elections and the ushering in of the new two- tier Government (national and county), we are optimistic of the future performance of the economy in general and the Exchange in particular. We forecast that real GDP will grow by 4.8% in 2013, on the back of the more stable political climate, lower interest rates and lower inflation. Looking past 2013, we anticipate that double digit real GDP growth could be attained, especially if the hydrocarbon deposits discovered in March 2012 prove to be commercially viable.

APPRECIATION

On behalf of the Board of Directors, I wish to express our unreserved appreciation to all the retail and institutional investors in our capital markets (both foreign and local), our listed companies and debt issuers. I commend the Staff and Management of the NSE for making commendable progress in the execution of the 2010 – 2014 Corporate Plan.

In conclusion, I would like to single out our shareholders for your confidence in the Board during the ongoing process of transforming the Nairobi Securities Exchange from a mutual to a corporate entity.

EDDY NJOROGE
CHAIRMAN

May 23, 2013

The Chief Executive's Statement

Dear Shareholders

On behalf of the Management and Staff of the Nairobi Securities Exchange (NSE), I am delighted to share with you highlights on the operational and financial performance of your company for the year ending December 31, 2012

TRADING PERFORMANCE

In 2012, equity turnover rose 11.0% from 2011's Kshs. 156.1 Billion to Kshs. 173.6 Billion. The proportion of equity transactions executed by foreign investors averaged 49.2%. In the same period, secondary market activity on the Fixed Income Market Segment (FISMS) rose 17.0% to Kshs.1,141.4 Billion from Kshs. 974 Billion recorded the previous year. Market capitalisation rose by an impressive 46.5 % to Kshs.1.27 trillion ($14.53 billion).

FINANCIAL PERFORMANCE

I am pleased to report that the Exchange made a net profit of Kshs. 85.1 Million, though this reflected a slight 1.0% decrease from 2011's Kshs. 85.6 Million. The Exchange's total income was Kshs. 384.9 Million, a 13.5% increase over the previous year's Kshs. 338 Million.

Total transaction levies increased 12.1% to Kshs.248.3 Million from Kshs.221.4 Million in 2011. Annual listing fees increased 1.6% to Kshs. 71.2 Million from Kshs. 70.0 Million in 2011. Fees for initial and additional listings rose 0.5% to Kshs. 10.53 Million from Kshs. 10.48 Million in 2011.

The Exchange strategically aims to diversify income away from the traditional transaction levies and listing fees. Total income got a significant boost from alternative revenue sources. Interest income increased by 6.3% to Kshs. 21.8 Million from Kshs. 20.5 Million previously; data vending fees grew 39.4% to Kshs 13.1 Million from Kshs 9.4 Million; sales of publications increased 96.8% to Kshs 1.5 Million from Kshs. 754,000 in 2011. Last year, the Exchange began to charge fees for provision of services through the Broker Back Office. Revenues from this service were Kshs.12.36 Million.

NSE ACHIEVEMENTS

Sixteen (16) of the seventeen (17) active trading participants of the Exchange are now 'live' on the Broker Back Office (BBO). This system vastly improves risk management and bolsters the monitoring and auditing of transactions executed on the NSE.

The first inwards cross-listing occurred on December 14, 2012 with the entry of Umeme, the Uganda power distributor, onto the Main Investment Market Segment (MIMS) of the Exchange.

Finally, the Exchange strengthened its human capital, growing the number of permanent staff to thirty eight (38) from thirty four (34).

OUR PRIORITIES FOR 2013

We will be marketing the GEMS value proposition to potential issuers. Discussions with our Nominated Advisors indicate that a number of firms

have plans to list on GEMS before the close of the calendar year 2013.

The NSE is awaiting the approval of the Authority on the NSE Real Estate Investment Trusts (REITS) Rules that were submitted earlier in the year and the subsequent gazettement of the Regulations.

We believe the time is now for the introduction of derivatives trading on a centralised platform. Derivatives can be used either for speculation or for risk management. The Exchange has entered into a partnership with Securities Trading Technology (STT) of South Africa to develop a local Derivatives Market. To bolster this initiative, the NSE became an associate member of the Association of Futures Markets (AFM) in February, 2013. The Association promotes and encourages the establishment of new derivative and related markets and organizes international conferences to promote communication, transfer of information and experiences among members. It is our intention to offer single stock futures, currency futures, index futures and in the medium term, interest rate futures.

We are currently holding discussions with the Capital Markets Authority on the modalities of establishing this market.

APPRECIATION

On behalf of the Management and Staff of the Exchange, I would like to extend my appreciation and gratitude to the Board of Directors for their guidance, the staff for their loyalty and hard work and our listed companies, trading participants and service providers for their unwavering support.

MR. PETER MWANGI
CHIEF EXECUTIVE

May 23, 2013

It's time for growth. Growth that will now see businesses seize the opportunity to list on the securities market with exceptional ease. Growth that requires efficiency and speed in the listing process. This what the new Growth Enterprise Market Segment (GEMS) now offers. Find out how your business can be among the first in Kenya to list on GEMS.

NSE

NAIROBI SECURITIES EXCHANGE LIMITED

Operations and Technology Team


David Wainaina


Joseph Gichuru


Leah Mumbi


Tim Kamau


Caleb Kivuva (HOD)

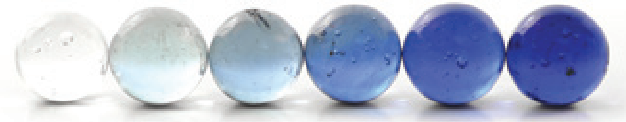

Patrick Omondi


Sammy Mutua


Anthony Muema


David Waggemma


Jane Nyansiri



Corporate Governance Statement

Overview

Corporate governance refers to the structures and processes guiding the leadership of the company. The company has instituted systems to ensure that high standards of corporate governance are maintained at all levels of the organization and is in compliance with the requirements of all applicable laws and regulations including but not limited to the Capital Market Authority (CMA) rules, regulations and guidelines on Corporate Governance and the Nairobi Securities Exchange Management and Membership rules and policies and procedures.

The Role of the Board

The Board is collectively responsible to the company's shareholders for the long-term success of the company, its strategic direction, its values and governance. It provides the leadership, integrity, enterprise and good judgment necessary to meet its business objectives within the framework of its internal controls while also discharging the company's obligations to its shareholders.

The Key Responsibilities of the Board include:

a) To define and chart out the company's vision and mission. The Board has ultimate responsibility for the attainment of the company's vision.
b) To set the strategy, approve business plans and annual budgets and any subsequent material changes in strategic direction;
c) To monitor Management's implementation of the strategic plans and financial objectives as defined by the Board;
d) To define levels of materiality, reserving specific powers to itself and delegating other matters with the necessary written authority to Management;
e) To ensure that the company applies ethics in all its dealings and exercises corporate social responsibility;
f) To ensure that procedures and processes are in place to protect the company's assets and reputation;
g) To ensure compliance by the company with all relevant laws and regulations, audit and accounting principles, and such other principles as maybe established by the Board from time to time;
h) To approve Terms of Reference of Board committees and make appointments and changes in the composition of such Committees as are established from time to time;
i) To identify key risks, opportunities and strengths relating to the company;
j) To set policies on internal control and obtain regular assurance that the system is functioning effectively and is effective in managing risks;
k) To appoint the Chief Executive, senior staff, external auditors and other consultants; and
l) To exercise such other powers as are necessary to enforce the requirements of the CMA Act, Articles of Association and the Rules governing the company.

Division of Responsibilities

The Chairman and the Chief Executive are responsible for the profitable operations of the company. Their roles are separate, with each having distinct and clearly defined roles and responsibilities. The Chairman directs the Board's business and acts as it's facilitator and guide, ensuring that the Board is effective in its tasks of setting and implementing the company's direction and strategy. The Chairman is responsible for leadership of the Board, for ensuring its effectiveness in all aspects of its role and for facilitating the productive contribution of all Directors. He sets the agenda for the Board meetings in consultation with the Chief Executive. The Chairman is accountable to the Board for leading the direction of the company's corporate and financial strategy and for the overall supervision of the policies, rules and regulations governing the company.

The Chief Executive has overall responsibility for the business of the Company. He enforces the provisions of the Act and the rules of the Company and immediately reports any violations to the Board and the Authority and ensures compliance with the requirements of the Act, and rules in operations, transactions and all affairs of the Company including listings and continuous reporting obligations of listed companies. He is also responsible for the supervision of the trading activities of the Company and takes all necessary steps to maintain orderly and efficient trading and functioning of facilities, in accordance with the rules and as prescribed by the Act. He reports periodically to the Board on all matters concerning the operations and affairs of the company and attends all meetings of the committees and provides technical input where necessary.

He promotes the objectives and functions of the company and liaises with the Authority and its representatives in respect of administrative and technical matters of the company. He is also responsible for the stewardship of the company's assets and, jointly with the Chairman, for representation of the company externally.

Board Composition

As at the date of this Annual Report, the Board of the Nairobi Securities Exchange is constituted as follows:

a) Six (6) Independent and Non-Executive Directors; and
b) Two (2) Directors appointed from among or to represent Trading Participants.

Below is the current composition of the Board.

1.	Mr. Edward Njoroge	Chairman/ Independent Non-Executive Director
2.	Mr. Bob Karina	Vice Chairman/ Trading Participant /Non-Executive Director
3.	Mr. Geoffrey O. Odundo	Trading Participant/Non-Executive Director
4.	Ms. Farhana Hassanali - Hashmani	Independent Non-Executive Director
5.	Mr. Hosea Kimutai Kili	Independent Non-Executive Director
6.	Dr. Jonathan Ciano	Independent Non-Executive Director
7.	Mr. Samuel Kimani	Independent Non-Executive Director
8.	Ms. Winnie Nyamute	Independent Non-Executive Director
9.	Mr. Peter Mwangi	Chief Executive

Attendance at meetings in 2012

Name	February 24	March 12	March 15	April 10	June 7	July 5	August 28	November 29
Mr. Edward Njoroge	√	√	√	√	√	√	√	√
Mr. Bob Karina*				√	√	√	√	√
Mr. Geoffrey O. Odundo*				√	√	√	√	√
Ms. Farhana Hassanali - Hashmani*				√	√	√	√	
Mr. Hosea Kimutai Kili*				√	√	√	√	√
Dr. Jonathan Ciano*				√	√	√	√	√
Mr. Samuel Kimani*				√	√	√		√
Ms. Winnie Nyamute***	√	√	√	√		√	√	√
Mr. Lutaf Kassam**	√	√	√					
Mr. Job Kihumba**	√	√	√					
Mr. Stanley Ngaine**	√	√	√					
Ms. Catherine Musakali**	√	√						
Mr. Lucas Otieno**	√	√	√					
Mr. George Maina**	√	√	√					
Mr. David Njoroge**	√							
Mr. Andre DeSimone**			√					
Mr. Peter Mwangi	√	√	√	√	√	√	√	√

* Appointed on March 15, 2012
** Retired on March 15, 2012
*** Retired on March 15, 2012 and re-elected on March 15, 2012

Board Committees

The Board has established seven Board Committees with delegated authority to assist the Board effectively carry out its obligations. These Committees are:

a) Finance and Manpower Committee;
b) Listing and Admissions Committee;
c) Disciplinary and Compliance Committee;
d) Trading and Surveillance Committee;
e) Technology Committee;
f) Business Development and Public Education Committee; and
g) Audit, Risk & Corporate Governance Committee.

At each ordinary Board meeting, the chairpersons of the Board Committees are required to report to the Board on the highlights of the deliberations of the Committees and to escalate to the Board all matters requiring the Board's consideration and approval. Below is a summary of the roles, membership and activities of the various committees.

a) Finance and Manpower Committee

The mandate of the Finance and Manpower Committee is to review the economy, efficiency and effectiveness of operations including non-financial controls of the company and make recommendations to Management as well as to evaluate the efficacy of the company's Human Resources Manual and to monitor the profile of the company's workforce in terms of its consistency with business objectives.

Current Members:

1. Dr. Jonathan Ciano - Chairman
2. Mr. Geoffrey Odundo - Member
3. Mr. Andre DeSimone - Member
4. Ms. Farhana Hassanali - Hashmani - Member
5. Mr. Peter Mwangi - Chief Executive

Attendance at meetings in 2012

Name	February 8	May 10	August 22	November 19	November 22
Dr. Jonathan Ciano*		√	√	√	√
Mr. Geoffrey Odundo*		√	√	√	√
Mr. A. DeSimone*	√	√	√		
Ms. Farhana Hassanali - Hashmani*			√	√	
Mr. Samuel Kimani*			√		
Mr. George Maina**	√				
Mr. David Njoroge**	√				
Mr. Stanley Ngaine**	√				
Mr. Peter Mwangi	√	√	√	√	√

* Appointed on April 10, 2012
** Retired on March 15, 2012

b) Listing and Admissions Committee

The Listings and Admissions Committee is mandated to review and recommend approval of applications for admission to listing of new equity securities in any of the market segment, to recommend approval of applications for admission of new Trading Participants and to review compliance with continuing listing obligations by listed companies and to make recommendations to the Board on the necessary action for non compliance which include imposing penalties and other sanctions and/or recommending suspension of listing of securities for a predetermined period as may be necessary and restoration of such securities to listing in line with the laid out procedures.

Current Members:

1. Mr. Edward Njoroge - Chairman
2. Mr. Bob Karina - Member
3. Mr. Geoffrey Odundo - Member
4. Dr. Jonathan Ciano - Member
5. Ms. Winnie Nyamute - Member
6. Mr. Peter Mwangi - Chief Executive

Attendance at meetings in 2012

Name	June 7	July 16
Mr. Edward Njoroge*	√	√
Mr. Bob Karina*	√	√
Mr. Geoffrey Odundo*	√	√
Dr. Jonathan Ciano*	√	√
Ms. Winnie Nyamute*		
Mr. Peter Mwangi	√	√

* Appointed April 10, 2012

c) Disciplinary and Compliance Committee

The general mandate of the Disciplinary and Compliance Committee is to protect investors by monitoring and enforcing compliance of Capital Market Laws, Regulations, Rules, Guidelines and Directives by all Trading Participants and Issuers of Securities.

Current Members:

1. Mr. Hosea Kimutai Kili – Chairman
2. Ms. Rose Mambo – Member
3. Ms. Winnie Nyamute – Member
4. Mr. Karim Anjarwalla – Member
5. Mr. Peter Mwangi – Chief Executive

Attendance at meetings in 2012

Name	January 25	May 4	August 21	November 21
Mr. Hosea Kimutai Kili*		√	√	√
Ms. Rose Mambo	√	√	√	
Ms. Winnie Nyamute	√		√	√
Mr. Karim Anjarwalla*			√	
Mr. Lutaf Kassam**	√			
Ms. Catherine Musakali**	√			
Mr. Andre DeSimone**	√			
Mr. Peter Mwangi	√	√	√	√

* Appointed on April 10, 2012
** Retired on March 15, 2012

d) Trading and Surveillance Committee

The Trading and Surveillance Committee is mandated to advise the Board and Management of the company on the compliance with the regulatory frame work focused on protecting securities market participants, trade reporting and trade surveillance and to provide a transparent and efficient oversight for the trading environment.

Current Members:

1. Mr. Bob Karina - Chairman
2. Mr. John Odhiambo - Member
3. Ms. Rose Mambo - Member
4. Mr. Davis Gachuba - Member
5. Mr. Joseph Kahenya - Member
6. Mr. John Kirimi - Member
7. Mr. Peter Mwangi - Chief Executive

Attendance at meetings in 2012

Name	February 2	May 14	August 14	November 12
Mr. Bob Karina		√	√	√
Mr. John Odhiambo		√	√	
Ms. Rose Mambo	√	√	√	√
Mr. Davis Gachuba***				
Mr. Joseph Kahenya*		√		√
Mr. John Kirimi	√	√	√	√
Mr. Fred Murimi Ngari*		√	√	√
Mr. Job Kihumba	√	√	√	
Mr. Lucas Otieno**	√			
Mr. Dennis Waweru**	√			
Mr. Peter Mwangi	√	√	√	√

*Appointed on April 10, 2012
** Retired on March 15, 2012
*** Appointed on January 30, 2013

e) Technology Committee

The Technology Committee is mandated to recommend to the Board the Business Strategy for the Technology platform necessary to support NSE Trading Infrastructure, make recommendations for approval, prioritization, and funding of Technology projects based on the information management needs of the NSE and Advice Management on appropriate risk management strategies for NSE Trading Infrastructure.

Current Members:

1. Mr. Geoffrey Odundo - Chairman
2. Mr. Bob Karina - Member
3. Mr. Stanley Ngaine - Member
4. Mr. Joseph Kitamirike - Member
5. Mr. Kris Senanu - Member
6. Ms. Rose Mambo - Member
7. Mr. Peter Mwangi - Chief Executive

Attendance at meetings in 2012

Name	February 9	May 17	August 10	November 21
Mr. Geoffrey Odundo	√	√	√	√
Mr. Bob Karina	√	√	√	√
Mr. Stanley Ngaine	√		√	√
Mr. Joseph Kitamirike	√			√
Mr. Kris Senanu	√	√	√	
Ms. Rose Mambo	√	√	√	
Ms. Catherine Musakali**	√			
Mr. James Gikonyo	√	√	√	√
Mr. Peter Mwangi	√	√	√	√

** Retired on March 15, 2012

f) Business Development and Public Education Committee

The general mandate of the Business Development and Public Education Committee is to analyze potential growth opportunities, support and monitor the implementation of growth opportunities as well as recommend to Management the areas needing public education with regard to the company and the Market.

Current Members:

1. Mr. Samuel Kimani - Chairman
2. Ms. Farhana Hassanali - Hashmani - Member
3. Dr. Jonathan Ciano - Member
4. Mr. Job Kihumba - Member
5. Mr. Ewart Salins - Member
6. Ms. Christine Mweti - Member
7. Mr. Edward Burbidge - Member
8. Mr. Peter Mwangi - Chief Executive

Attendance at meetings in 2012

Name	January 27	May 8	August 9	November 14
Mr. Samuel Kimani*		√	√	√
Mrs. Farhana Hassanali - Hashmani*			√	√
Dr. Jonathan Ciano*		√		√
Mr. Job Kihumba	√		√	√
Mr. Ewart Salins*		√	√	√
Ms. Christine Mweti		√	√	√
Mr. Edward Burbidge	√	√	√	√
Mr. Lucas Otieno**	√			
Mr. Ben Nyamweya	√			
Mr. Peter Mwangi	√	√	√	√

*Appointed on April 10, 2012
** Retired on March 15, 2012

g) Audit, Risk & Corporate Governance Committee

The Mandate of the Audit, Risk & Corporate Governance Committee is to review the adequacy of Internal Audit Programmes for the Year and to monitor, review and make recommendations to Management on the adequacy of the company's internal control and risk management systems and to monitor, review and make recommendations to Management on the process for monitoring compliance with relevant laws and regulations, and, with the company's legal counsel if appropriate, any legal matters that could have a significant impact on the company's financial statements.

Current members:

1. Ms. Winnie Nyamute - Chairman
2. Mr. Hosea Kimutai Kili - Member
3. Mr. Lucas Otieno - Member
4. Mr. Isaac Onyango - Member

Attendance at meetings in 2012

Name	January 24	May 15	August 8	November 15
Ms. Winnie Nyamute	√	√	√	√
Mr. Hosea Kimutai Kili*		√		
Mr. Lucas Otieno	√	√	√	√
Mr. Isaac Onyango	√	√	√	√

* Appointed on April 10, 2012

Nairobi Securities Exchange Corporate Governance Factsheet

Size of Board	9
Number of Independent Non-Executive Directors	6
Number of Trading Participant Non-Executive Directors	2
Number of Executive Directors	1
Number of women on the Board	2
Separate Chairman and CEO	Yes
Terms of Reference for Board Committees	Yes
Independent Audit Committee	Yes
Number of Financial experts on Audit Committee	3
Number of Board Meetings held in full year 2012	8
Number of Annual General Meetings held in 2012	1
Re-election of Directors in accordance with Articles of Association	Yes
Board Induction Programs conducted	Yes

Market and Product Development Team


Silvana Wanjiru


Terry Adembesa


Donald Ouma (HOD)


Caroline Karugu


Jackson Kiminje


Lina Nginja


Godfrey Omilly


Waithera Mwai

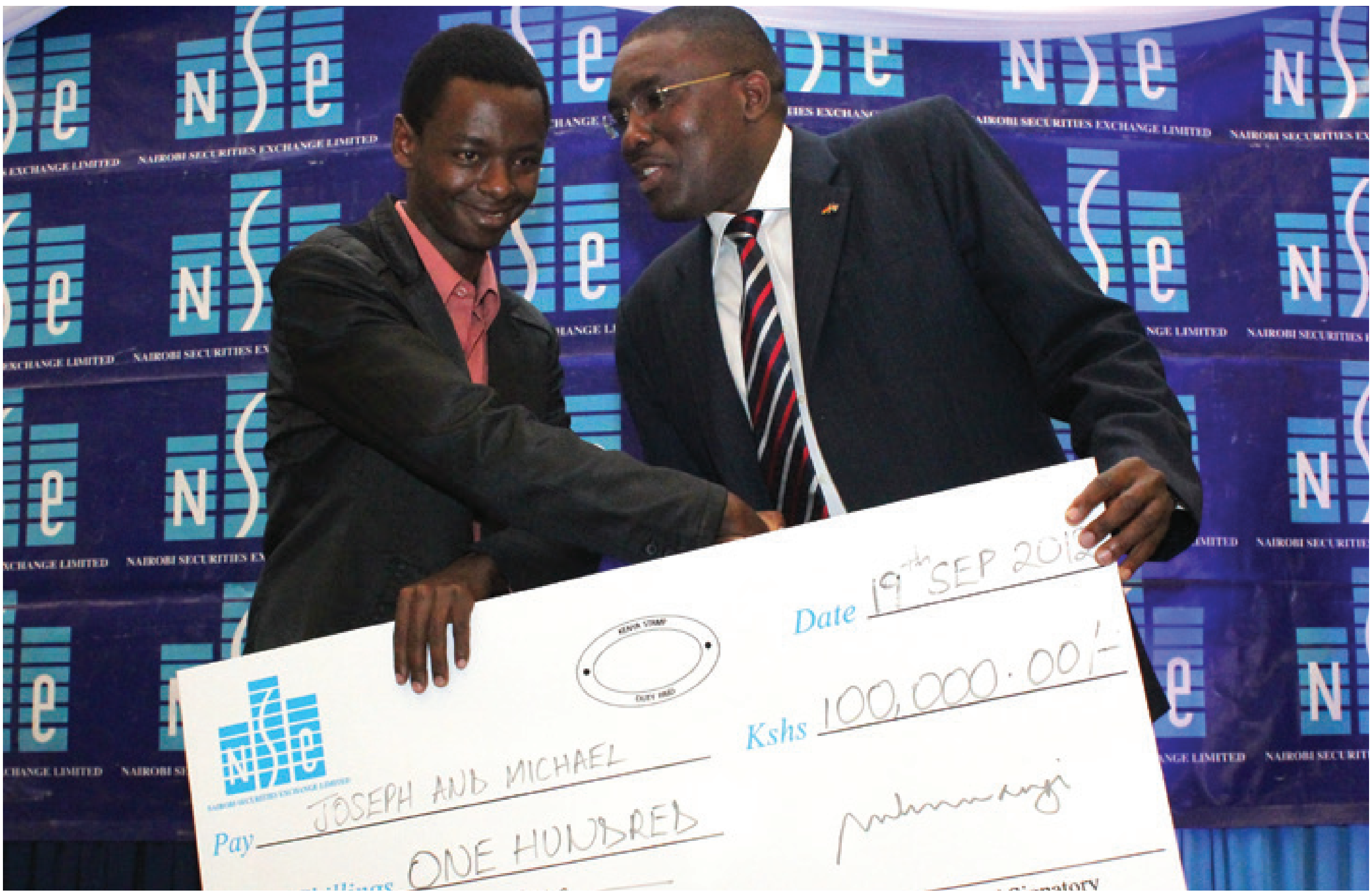
Corporate Social Responsibility

TIn 2012, the Board of Directors endorsed financial literacy as the focus of our corporate social responsibility (CSR) initiatives. We believe that it is our responsibility as a Self Regulatory Organization and the operator of a securities exchange, to help create a more knowledgeable society by increasing both access and understanding of securities markets information. This in turn contributes to sustainable economic growth. We believe informed investors are the best deterrent against corporate malfeasance. We constantly work towards creating and improving financial literacy programs. At the same time, we pursue initiatives related to environmental preservation and philanthropy.

FINANCIAL LITERACY PROGRAMS

NSE Investment Challenge

The flagship for the NSE's financial literacy programmes is the annual NSE Investment Challenge. This is an annual online competition which simulates the activities that happen around trading in securities (Bonds & Stocks) listed on the Exchange. This is an edutainment initiative, geared towards university students and those in polytechnics, colleges and other tertiary institutions. Participants are grouped into teams of up to four (4) and given virtual money to invest based on real time prices. At the end of the competition, they are evaluated on the value of their portfolio, participation in the online discussion forums and reasoning



NSE Investment challenge 2012 winning team, Joseph and Michael from Kenyatta University receive their prize from Assistant Minister for Youth Affairs and Sports HM. Kabando wa Kabando.

NSE Chairman Eddy Njoroge plants a tree at Wema Centre

behind the investment decisions. This ensures that participants learn from the process how to make impactful investment decisions. The competition runs for three (3) months and the winners receive cash prizes with which to invest in listed securities and internships to give them real work experience.

The 2012 Milestones were as follows:-

1 Reached 172 accredited, tertiary institutions across Kenya;
2. Educated 8,278 youth through investor forums;
3. Registered 5,621 participants in the 2012 NSE Investment Challenge

The NSE Wednesday Forums

Every week, the Nairobi Securities Exchange hosts various groups predominantly from primary schools, high schools and universities, to discuss how the market works. With our Market and Product Development Department dedicated towards this public education, we see an average of 10,000 visitors on an annual basis. In 2012 we hosted 13,064 students through our forums which are vital to enlightening our youth on the basic fundamentals of the capital markets and operations of the Nairobi Securities Exchange.

SOCIAL INVESTMENT

We recognize the value of life and strive to improve the livelihood of disadvantaged children by assisting them to the best of our efforts. In this spirit, the Nairobi Securities Exchange in partnership with the Central Depository & Settlement Corporation and Capital Markets Authority, supports the WEMA Centre which is a Non Governmental Organization (NGO) founded in 1993 as a response to the increase of street children in Mombasa and the Coast region. In 2012 we donated 10 computers to support the "Dream Catcher" Mobile Education project which is a bus fitted with computers that will traverse Mombasa City and target street children to give them basic literacy and numeracy skills, eventually offering possibilities for enrolment to formal school or vocational training.

The NSE staff members also actively participate in the Standard Chartered Nairobi Marathon and the Mater Heart Run.

Donation of computers at Wema Centre, Mombasa

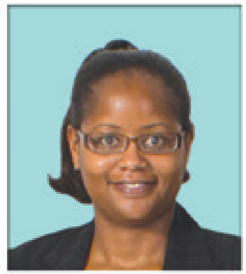
Compliance and Legal Team

Victor Sabila

Tom Kimaru

Andrew Wachira (HOD)

Belinda Odera



Fiona Malonza

Nelly Orwaya

Stephen Muendo

Loise Wangui

Report of the Directors

The directors have pleasure in presenting the audited financial statements for the year ended 31 December 2012 which show the state of the company's affairs.

PRINCIPAL ACTIVITIES

The company is the sole securities exchange, licensed by the Capital Markets Authority to promote, develop, support and carry on the business of a securities exchange and to discharge all the functions of a securities exchange.

RESULTS FOR THE YEAR

	Sh'000
Profit for the year before taxation	127,387
Taxation charge	(42,606)
Profit for the year transferred to retained earnings	**84,781**

DIVIDENDS

The directors recommend the payment of a first and final dividend of Sh 24.5 million in respect of the year ended 31 December 2012 (2011: Sh 22 million).

DIRECTORS

The current members of the Board of Directors are as shown on page 5.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with section 159 (2) of the Kenyan Companies Act.

By Order of the Board

Peter Mwangi

Secretary

Nairobi

April 2, 2013

Statement of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Mr. Edward Njoroge
Chairman

Dr. Jonathan Ciano
Director

Mr. Peter Mwangi
Chief Executive

April 2, 2013

Chief Executive's Team


Caroline Gakinya


Peter Mwangi


Rogito Nyangeri

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte PlaceWaiyaki Way, Muthangari
P.O. Box 40092 – GPO 00100
Nairobi,Kenya
Tel: +254 (20) 423 0000
+254 (20) 444 1344/05-12
Fax: +254 (20) 444 8966
Dropping Zone No. 92
Email: admin@deloitte.co.ke
www.deloitte.com

Independent Auditor's Report
to the shareholders of the Nairobi Securities Exchange Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Nairobi Securities Exchange Limited, set out on pages 32 to 61 which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the company's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
iii) the company's statement of financial position (balance sheet) and statement of comprehensive income (profit and loss account) are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)
April 2, 2013
Nairobi

Audit Team


Felix Saina


Maryanne Muchui

Finance and Strategy Team

David Irungu

Justine Busili

Winnie Jones

Jane Kiarie (HOD)

Alex Githiaka

Lucy Kamar

Judy Nyachomba

Titus Kiilu

Charles Gitonga

Statement of Comprehensive Income
for the year ended 31 December 2012

	Note	2012 Sh'000	2011 Sh'000
OPERATING INCOME	3	329,961	301,946
INTEREST INCOME	6	21,758	20,488
OTHER INCOME	7	33,184	16,540
		384,903	338,974
ADMINISTRATIVE EXPENSES		(258,800)	(239,465)
FINANCE COSTS	8	(2,095)	-
SHARE OF PROFIT OF ASSOCIATE COMPANY	13	3,479	6,190
PROVISIONS FOR DOUBTFUL DEBTS	17(b)	(100)	(675)
PROFIT BEFORE TAXATION		127,387	105,024
TAXATION CHARGE	9(a)	(42,606)	(19,401)
PROFIT FOR THE YEAR		**84,781**	**85,623**
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**84,781**	**85,623**
		Sh	Sh
EARNINGS PER SHARE - Basic and diluted	24	3.46	-

Statement of Financial Position
as at 31 December 2012

	Note	2012 Sh'000	2011 Sh'000
ASSETS			
Non current assets			
Property and equipment	10	161,054	26,597
Investment property	11	242,485	-
Intangible assets	12	79,947	61,783
Investment in associate company	13	46,688	43,209
Corporate bonds held to maturity	14	35,509	35,507
Government securities held to maturity	15	157,445	157,537
Deferred taxation asset	16	16,221	19,573
		739,349	344,206
Current assets			
Trade and other receivables	17	49,284	45,658
Tax recoverable	9(c)	14,485	11,978
Short term deposits	18	35,026	60,994
Bank and cash balances	18	44,546	12,483
		143,341	131,113
TOTAL ASSETS		**882,690**	**475,319**
EQUITY AND LIABILITIES			
Equity			
Share capital	19	24,500	2
Members' fund		-	22,240
Retained earnings		468,018	407,495
Shareholders' funds		492,518	429,737
Non current liabilities			
Borrowings	20	285,982	-
Current liabilities			
Borrowings	20	15,539	-
Trade and other payables	21	66,651	45,582
Dividends payable	22	22,000	-
		104,190	45,582
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		**882,690**	**475,319**

The financial statements on pages 32 to 61 were approved and authorised for issue by the Board of Directors on 2nd April 2013 and were signed on its behalf by:

Mr. Edward Njoroge
Chairman

Dr. Jonathan Ciano
Director

Mr. Peter Mwangi
Chief Executive

FINANCIAL STATEMENTS

Statement of Changes in Equity
for the year ended 31 December 2012

	Share capital Sh'000	Members' fund Sh'000	Retained earnings Sh'000	Total Sh'000
At 1 January 2011	-	22,240	321,872	344,112
Issue of share capital	2	-	-	2
Total comprehensive income for the year	-	-	85,623	85,623
At 31 December 2011	2	22,240	407,495	429,737
At 1 January 2012	2	22,240	407,495	429,737
Bonus issue	21,998	(21,998)	-	-
Members funds transferred	-	(242)	242	-
Shares issued in the year (note 19 b)	2,500	-	(2,500)	-
2011 dividend declared in the year	-	-	(22,000)	(22,000)
Total comprehensive income for the year	-	-	84,781	84,781
At 31 December 2012	24,500	-	468,018	492,518

Members' fund relates to a pool of membership fees paid by members of the Nairobi Securities Exchange when joining the Exchange. During the year bonus shares were issued at the rate of 9,999 shares per every share held. The balance in the members' funds after the bonus issue was transferred to retained earnings as the company no longer had members but shareholders as at year end.

Pursuant to a Special Resolution passed at an Extra Ordinary General meeting held on 6 July 2011 to issue no more than 2,000,000 shares each to the Permanent Secretary, Treasury and the Capital Markets Investor Compensation Fund, the Board resolved on the 28th August 2012 to allot and issue 1,250,000 shares each as fully paid up. These shares rank pari passu with all other shares except that they were not eligible for the bonus issue as approved above nor for the payment of the first and final dividend for the financial year ended 31 December 2011.

Statement of Cash Flows
for the year ended 31 December 2012

	Note	2012 Sh'000	2011 Sh'000
Cash flows from operating activities			
Cash generated from operations	23	140,625	114,392
Tax paid	9(c)	(41,761)	(68,399)
Net cash generated from operating activities		98,864	45,993
Cash flows from investing activities			
Purchase of property and equipment	10	(144,537)	(23,223)
Purchase of investment property	11	(242,485)	-
Purchase of computer software	12	(27,021)	(48,133)
Interest received		21,274	18,027
Net cash used in investing activities		(392,769)	(53,329)
Cash flows from financing activities			
Borrowings received	20	300,000	-
Increase/(decrease) in cash and cash equivalents		6,095	(7,336)
Cash and cash equivalents at the beginning of the year		73,477	80,813
Cash and cash equivalents at the end of the year	18	79,572	73,477

1 ACCOUNTING POLICIES

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is represented by or is equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2012

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income item by item in the statement of changes in equity or in the notes to the financial statements. The company will continue disclosing an analysis of other comprehensive income item by item in the statement of changes in equity.
Amendments to IAS 12: Deferred Tax – Recovery of Underlying Assets	The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 Investment Property will be recovered entirely through sale. The amendments were issued in response to concerns that application of IAS 12's general approach can be difficult or subjective for investment property measured at fair value because it may be that the entity intends to hold the asset for an indefinite or indeterminate period of time, during which it anticipates both rental income and capital appreciation. The application of the amendments had no effect on the Company's financial statements.

1 ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(ii) New and Amendments to standards in issue but not effective	*Effective for annual periods beginning on or after*
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1 January 2013 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments – Classification and Measurement (2010)	1 January 2015
IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition	1 January 2015
IAS 1, Presentation of Financial Statements – presentation of items of other comprehensive income	1 July 2012
IAS 28, Investments in Associates and Joint Ventures (2011)	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 28 (as revised in 2011), Investments in Associates and Joint Ventures	1 January 2013

1 ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods

- **IFRS 9, Financial Instruments**

  IFRS 9, *Financial Instruments*, issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

  IFRS 9 requires all recognised financial assets that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement,* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

  The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk and not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

  IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.
  The directors anticipate that IFRS 9 will be adopted in the company's financial statements for the annual period beginning 1 January 2015 and that the application may have significant impact on amounts reported in respect of the company's financial assets and financial liabilities. However it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- **IFRS 12, Disclosure of Interests in Other Entities**

  Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

  In high-level terms, the required disclosures are grouped into the following broad categories:

  - **Significant judgements and assumptions** - such as how control, joint control, significant influence has been determined
  - **Interests in subsidiaries -** including details of the structure of the group, risks associated with structured entities, changes in control, and so on
  - **Interests in joint arrangements and associates -** the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information).

1 ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (continued)

- **IFRS 12, Disclosure of Interests in Other Entities (Continued)**

  - **Interests in unconsolidated structured entities –** information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

  IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

  IFRS 12 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

  As the impact of adoption depends on the nature of relationships between the Company and other entities at the date of adoption, it is not practical to quantify the impact.

- **IFRS 13, Fair Value Measurement**
  Replaces the guidance on fair value measurements in existing IFRS accounting literature with a single standard.

  The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

  IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

  - **Level 1 –** quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date

  - **Level 2 –** inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

  - **Level 3 –** unobservable inputs for the asset or liability
    Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g. whether it is recognised in the financial statements or merely disclosed) and the level in which it is classified.

  IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

  The directors anticipate that IFRS 13 will be adopted in the company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

1 ACCOUNTING POLICIES (Continued)

b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods (Continued)

- **IAS 28 Investments in Associates and Joint Ventures (2011)**

  This Standard supersedes IAS 28 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

  The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

  IAS 28 is effective for annual periods beginning on or after 1 January 2013.

  As the impact of adoption depends on the nature of relationships between the Company and other entities at the date of adoption, it is not practical to quantify the impact.

- **Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)**

  These amend IAS 12, Income Taxes, to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. As a result of the amendments, SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

  The above amendments have been effective for annual periods beginning on or after 1 January 2012.
  The company purchased an investment property during the year, however the property was not valued as at year end as the cost of acquisition was deemed to closely approximate the fair value. The revised standard has been adopted by the company but has no impact to the company's current year's financial statements.

(iii) Early adoption of standards

The company did not early-adopt new or amended standards in 2012.

Basis of preparation

The financial statements are prepared under the historical cost basis of accounting except where indicated. The principal accounting policies are set out below.

Revenue recognition

Initial listing income is recognized in the year in which the listing company makes the flotation. Additional listing income is recognized during the year in which the issuing company makes announcement of the bonus/rights issues.

Transaction levy income is based on a percentage of the value of shares traded and is recognised on the dates of the transactions.

1 ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Annual listing fee is computed on the basis of the daily weighted average capitalisation value of the listed securities for the 11 months period between 1 January – 30 November.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the date of reporting that are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

Property and equipment

All equipment is stated at historical cost less accumulated depreciation and impairment losses.

Depreciation is calculated on the straight line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

Motor vehicles	4 years
Furniture, fittings and partitions	8 years
Office equipment	4 years
Computer equipment	4 years
Building	Over the period of the lease

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of equipment are determined as the difference between the sales proceeds and the carrying amount of the asset at the date of disposal and taken into account in determining operating profit.

Intangible assets

Intangible assets represent computer software which is stated at cost less amortisation. Amortisation is calculated to write-off software on a straight-line basis over the estimated useful life of 4 – 10 years.

Impairment of tangible and intangible assets

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

1. ACCOUNTING POLICIES (continued)

Investment property

Investment property, which is property held to earn rentals, is stated at its fair value at the reporting date as determined through its revaluation by external valuers. Gains or losses arising from changes in fair value of the investment property are included in profit or loss in the period in which they arise net of deferred taxes. The investment property was acquired at the end of the year. The cost of purchase was deemed to approximate the fair value and thus as at 31 December 2012, the property was carried at cost.

Financial instruments

The company classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held to maturity investments and available for sale assets. Management determines appropriate classification for its investments at initial recognition.

Receivables

Receivables are financial assets with fixed or determinable payments and are not quoted in an active market. After initial measurement at cost, receivables are subsequently remeasured to amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments classified as fair value through profit or loss are initially recognised at cost and subsequently re-measured to fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realised and unrealised gains and losses are included in the profit or loss. Interest earned whilst holding held for trading investments is reported as investment income.

Held to maturity investments

Held to maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the company has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowances for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation and losses arising from impairment of such investments are recognised in the profit or loss.

Available for sale financial assets

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices are classified as available for sale and are initially recognised at cost. Available for sale investments are subsequently re-measured to fair value, based on quoted bid prices or amount derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in other comprehensive income and accumulated in the fair value reserve, with the exception of impairment losses, interest calculated using effective interest method, and foreign exchange gains and loss on monetary assets which are recognized in profit or loss.

1. ACCOUNTING POLICIES (continued)

Financial instruments (Continued)

When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

Derecognition of financial assets

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or where the company has transferred substantially all risks and rewards of ownership.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

Investments in associate

An associate is an entity over which the company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the statement of financial position at cost as adjusted for post-acquisition changes in the company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the company's interest in that associate are recognised only to the extent that the company has incurred legal or constructive obligations or made payments on behalf of the associate.

Employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of reporting.

Segmental reporting

The company does not have discrete operating segments and thus no segmental reporting information has been disclosed in these financial statements.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

1. ACCOUNTING POLICIES (continued)

Taxation (Continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income.

Retirement benefit obligations

The company operates a defined contribution provident scheme for all its employees. The scheme is administered by British American Insurance Company (Kenya) Limited and is funded by contributions from both the company and employees.

The company also contributes to a statutory contribution pension scheme, the National Social Security Fund (NSSF). The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of Sh 200 per month per employee. The company's contributions to these schemes are charged to the profit or loss in the year in which they relate.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in the presentation in the current year.

2 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

In the process of applying the company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key areas of judgment in applying the entities accounting policies are dealt with below:

(a) Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see (b) below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Held-to-maturity financial assets

The directors have reviewed the company's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the company's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is Sh 227.98 million (31 December 2011: Sh 254.04 million). Details of these assets are set out in note 14, 15 and 18.

(b) Key sources of estimation uncertainty

Impairment losses

At each date of reporting, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property, equipment and software

The company reviews the estimated useful lives of equipment and software at the end of each reporting period.

3 OPERATING INCOME

	2012 Sh'000	2011 Sh'000
Transactions levy	248,256	221,429
Annual listing fees	71,179	70,039
Initial listing fees	7,424	9,075
Application and additional listing fees	3,102	1,403
	329,961	301,946

		2012 Sh'000	2011 Sh'000
4	**PROFIT BEFORE TAXATION**		
	The profit before taxation is arrived at after charging:		
	Staff costs (note 5)	88,092	90,990
	Operating lease rentals	22,731	19,200
	Amortisation of intangible assets (note 12)	8,857	12,468
	Depreciation on equipment (note 10)	10,024	14,836
	Directors' emoluments:		
	- Executive	12,246	10,665
	- Non - executive	4,896	5,702
	Auditors' remuneration	1,300	1,200
	Provision for doubtful debts (note 17(b))	100	675
	Loss on disposal of asset	56	-
5	**STAFF COSTS**		
	Salaries and wages	68,489	69,905
	Staff bonus	10,320	11,550
	Leave pay expense	1,358	1,469
	Provident fund contribution	7,844	7,985
	Social security costs (NSSF)	81	81
		88,092	90.990
6	**INTEREST INCOME**		
	Held to maturity investments - interest on treasury bonds	11,580	12,433
	- interest on corporate bonds	2,825	2,885
	- interest on term deposits	7,292	5,064
	Interest on staff loans and advances	61	106
		21,758	20,488
7	**OTHER INCOME**		
	Data vending	13,086	9,394
	Broker back office subscription	12,360	-
	Members subscription fee	1,800	1,800
	Advertisement fee on The Exchange Magazine	495	1,023
	Sale of publications and merchandising items	1,484	754
	Sale of magazine	1	38
	Gain on CDSC shares acquired from DSE	-	1,494
	Provision write back	-	640
	Other income	3,958	1,397
		33,184	16,540

		2012 Sh'000	2011 Sh'000
8	**FINANCE COSTS**		
	Interest expense on borrowings	1,521	-
	Amortisation on bonds	574	-
		2,095	-
9	**TAXATION**		
	(a) Taxation charge		
	Current taxation based on adjusted profit for the year at 30%	39,254	34,825
	Prior year current tax under-provision	-	7
	Deferred taxation charge/(credit) (note 16)	3,352	(2,644)
	Prior year deferred tax (under)/overprovision	-	(12,787)
		42,606	19,401
	(b) Reconciliation of taxation charge to the expected tax based on accounting profit		
	Profit before tax	127,387	105,024
	Tax calculated at a tax rate of 30%	38,216	31,507
	Tax effects on expenses not deductible for tax	4,390	2,574
	Tax effects on incomes not subject to tax	-	(1,893)
	Prior year deferred tax (under)/overprovision	-	(12,787)
	Taxation charge	42,606	19,401
	(c) Tax movement		
	Balance at 1 January	(11,978)	21,596
	Charge to profit or loss	39,254	34,825
	Tax paid	(41,761)	(68,399)
	Balance at 31 December	(14,485)	(11,978)

10 PROPERTY AND EQUIPMENT

	Building Sh'000	Motor vehicles Sh'000	Furniture & fittings Sh'000	Office equipment Sh'000	Computer equipment Sh'000	Total Sh'000
COST						
At 1 January 2011	-	8,871	16,834	12,768	69,727	108,200
Additions	-	-	1,755	1,073	20,395	23,223
Write offs	-	-	-	(2,250)	(21,579)	(23,829)
At 1 January 2012	-	8,871	18,589	11,591	68,543	107,594
Additions	140,552	-	-	315	3,670	144,537
Disposals	-	-	-	(65)	(6,483)	(6,548)
Write off	-	-	(29)	42	161	174
At 31 December 2012	140,552	8,871	18,560	11,883	65,891	245,757
DEPRECIATION						
At 1 January 2011	-	5,278	10,316	12,201	62,195	89,990
Charge for the year	-	1,717	1,759	657	10,703	14,836
Eliminated on write off	-	-	-	(2,250)	(21,579)	(23,829)
At 1 January 2012	-	6,995	12,075	10,608	51,319	80,997
Charge for the year	-	1,717	1,734	399	6,174	10,024
Eliminated on disposal	-	-	-	(9)	(6,483)	(6,492)
Write off	-	159	(159)	18	156	174
At 31 December 2012	-	8,871	13,650	11,016	51,166	84,703
NET BOOK VALUE						
At 31 December 2012	140,552	-	4,910	867	14,725	161,054
At 31 December 2011	-	1,876	6,514	983	17,224	26,597

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated equipment with a cost of Sh 114.9 million (2011 - Sh 78.6 million) which are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates, it would have amounted to Sh 20.9 million (2011 – Sh 18.1 million).

During the year the company acquired a property which will partly be used as offices for the company and partly leased out. The portion to be used for office space has been classified as property and equipment and the portion to be leased out as investment property.

11 INVESTMENT PROPERTY

	2012 Sh'000	2011 Sh'000
COST		
As at 1 January	-	-
Additions	242,485	-
As at 31 December	242,485	-

The company acquired a building constructed on leasehold land in December 2012 at a total cost of Sh 383.037 million. The portion leased out has been included under investment property while the rest is carried under property and equipment. The investment property was carried at cost as at 31 December 2012.

The property purchase was partly financed by a loan of Sh 300 million from Kenya Commercial Bank Limited and is charged as security for the loan as disclosed in Note 20.

12 INTANGIBLE ASSETS

	Automated trading system software Sh'000	Other software Sh'000	Broker back office software Sh '000	Total Sh'000
COST				
At 1 January 2011	59,702	18,132	-	77,834
Additions	-	1,762	46,371	48,133
At 1 January 2012	59,702	19,894	46,371	125,967
Additions	2,448	3,014	21,559	27,021
At 31 December 2012	62,150	22,908	67,930	152,988
AMORTISATION				
At 1 January 2011	40,916	10,800	-	51,716
Amortisation for the year	9,492	2,976	-	12,468
At 1 January 2012	50,408	13,776	-	64,184
Amortisation for the year	2,362	3,015	3,480	8,857
At 31 December 2012	52,770	16,791	3,480	73,041
NET BOOK VALUE				
At 31 December 2012	9,380	6,117	64,450	79,947
At 31 December 2011	9,294	6,118	46,371	61,783

13 INVESTMENT IN ASSOCIATE COMPANY

The investment in associate company represents an investment in Central Depository and Settlement Corporation (CDSC) Limited. The company held an ownership percentage of 22.5% as at 31 December 2012 (2011- 22.5%).

	2012 Sh'000	2011 Sh'000
(a) The movement in the balance is as follows;		
At 1 January	43,209	33,025
Share of profit for the year	3,479	6,190
Additional shares acquired	-	3,994
At 31 December	46,688	43,209
(b) Summarised financial information in respect of the associate company is set out below;		
Total assets	233,398	213,214
Total liabilities	(25,893)	(21,170)
Net assets	207,505	192,044
Company's share of net assets of associate	46,688	43,209
Total revenue	172,523	190,311
Total profit for the year	15,630	27,270
Company's share of profit of the associate	3,517	6,271
Company's share of other comprehensive income	(38)	(81)
	3,479	6,190

(c) Details of the associate company at the end of the reporting period are as follows

.

Name of associate	Country of incorporation and operation 2012	Number of shares held by the company @ Sh 100 per share 2012	2011	Proportion of ownership interest and power held by the company 2012	2011
Central Depository and Settlement Corporation (CDSC) KenyaLimited	Kenya	225,000	225,000	22.5%	22.5%

The principal activity of the associate is provision of automated clearing, delivery and settlement facilities in respect of transactions carried out at the Nairobi Securities Exchange Limited.

		2012 Sh'000	2011 Sh'000
14	**CORPORATE BONDS – held to maturity**		
	Safaricom Limited	20,232	20,233
	Housing Finance Company of Kenya Limited	15,277	15,274
		35,509	35,507
	Maturity analysis;		
	Maturing within 5 years	35,509	15,274
	Maturing after 5 years	-	20,233
		35,509	35,507

The effective interest rate on the corporate bonds as at 31 December 2012 was 8.1% p.a. (2011: 8.1% p.a.).

		2012 Sh'000	2011 Sh'000
15	**GOVERNMENT SECURITIES HELD TO MATURITY**		
	Treasury bonds maturing:		
	After 1 to 10 years	157,445	157,537

The weighted average interest rate on the treasury bonds was 7.5% p.a (2011: 8% p.a).

16 DEFERRED TAX ASSET

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The net deferred tax (asset)/ liability is attributable to the following items;

	2012 Sh'000	2011 Sh'000
Excess depreciation over capital allowances	279	3,510
Leave provision	479	601
General bad debts provision	15,463	15,462
	16,221	19,573
The movement in the deferred tax asset is as follows:		
At 1 January	19,573	4,142
(Charge)/credit to profit (note 9(a))	(3,352)	2,644
Prior year under provision	-	12,787
At 31 December	16,221	19,573

		2012 Sh'000	2011 Sh'000
17	**(a) TRADE AND OTHER RECEIVABLES**		
	Trade receivables	47,148	43,722
	Prepayments and deposits	13,514	13,131
	Other receivables	4,796	4,879
	Receivable from members of the Exchange	49,867	49,867
		115,325	111,599
	Provision for doubtful debts (note 17b)	(66,041)	(65,941)
		49,284	45,658
	(b) PROVISION FOR DOUBTFUL DEBTS		
	Movements in the provisions bad debts were as follows:		
	At 1 January	65,941	65,906
	Charge to profit or loss	100	675
	Write back during the year	-	(640)
	At 31 December (note 17(a))	66,041	65,941
18	**CASH AND CASH EQUIVALENTS**		
	Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:-		
	Bank and cash balances	44,546	12,483
	Term deposits	-	60,994
	Call deposit	35,026	-
		79,572	73,477

The deposits are held to maturity and measured at amortised cost. The deposits were held at the following institution:

	2012 Sh'000	2011 Sh'000
Kenya Commercial Bank Limited	35,026	60,994

The effective interest rate on the call deposit as at 31 December 2012 was 8% p.a. (2011: Term deposit 20%).

19 SHARE CAPITAL

	2012 Sh'000	2011 Sh'000
Authorised		
25,000,000 ordinary shares of Sh 1 each	25,000	25,000

Issued and fully paid:

The movement in share capital was as follows:

	Number of shares in thousands	Value of shares Sh'000
At 1 January 2012	2	2
Bonus shares issued in the year	21,998	21,998
Shares issued in the year to the:		
-Permanent Secretary – Treasury (Note 19 (b))	1,250	1,250
-Capital Markets Investor Compensation Fund (Note 19(b))	1,250	1,250
At 31 December 2012	24,500	24,500

(a) During the year, bonus shares were issued at the ratio of 9,999 per every share held. The total shares issued amounted to Sh 21,997,800. The bonus shares issue was approved by the shareholders at an Extraordinary General Meeting held on 15th March 2012.

(b) Pursuant to a Special Resolution passed at an Extra Ordinary General meeting held on 6th July 2011 to issue no more than 2,000,000 shares each to the Permanent Secretary, Treasury and the Capital Markets Investor Compensation Fund, the Board resolved on the 28th August 2012 to allot and issue 1,250,000 shares each as fully paid up. These shares rank pari passu with all other shares except that they were not eligible for the bonus issue as approved above nor for the payment of the first and final dividend for the financial year ended 31 December 2011.

20 BORROWINGS

	2012 Sh'000	2011 Sh'000
Current portion	15,539	-
Non current portion	285,982	-
	301,521	-
Interest accrued	1,521	-
Borrowings received	300,000	-
	301,521	-

20 BORROWINGS (Continued)

The company borrowed an amount of Sh 300 million from the Kenya Commercial Bank Limited to partly finance the purchase of a building (note 10 and 11). The accrued interest amounted to Sh 1,521,000 and has been included as part of the loan balance. The loan is repayable in equal monthly installments of Sh 4.84 million each over a period of 5 years. The loan is secured by a legal charge of Sh 300 million over property purchased and a debenture of the same amount over the assets of the company. The effective interest rate during the year was 15% p.a.

	2012 Sh'000	2011 Sh'000
21 TRADE AND OTHER PAYABLES		
Trade payables	8,394	6,425
Annual listing fees received in advance	11,672	11,521
Accrued expenses	21,656	2,802
Staff leave provision	1,596	2,002
Capital Markets Authority	1,270	865
Data vendors deposit	633	513
Tax penalties payable	9,655	10,839
Other payables	11,775	10,615
	66,651	45,582

22 DIVIDENDS PAYABLE

The dividends payable represents the first and final dividend for the year ended 31 December 2011.

23 NOTE TO THE STATEMENT OF CASHFLOWS

Reconciliation of profit before tax to cash generated from operations:

	2012 Sh'000	2011 Sh'000
Profit before tax	127,387	105,024
Adjustments for:		
Depreciation (note 10)	10,024	14,836
Amortisation (note 12)	8,857	12,468
Share of results of associate (note 13)	(3,479)	(6,190)
Interest income (note 6)	(21,758)	(20,488)
Interest expense	2,095	-
Loss on disposal of asset	56	-
Working capital changes:		
(Increase)/decrease in trade and other receivables	(3,626)	505
Increase in trade and other payables	21,069	8,237
Cash generated from operations	140,625	114,392

24 EARNINGS PER SHARE

	2012	2011
Profit attributable to owners of the company (Sh'000)	84,781	85,623
Weighted average number of shares during the year	24,500,000	2,000
Basic earnings per share – Sh	3.46	-

The basic earnings per share is the same as the diluted earnings per share as there were no potentially dilutive shares as at 31 December 2012 and 31 December 2011.

At 31 December 2011, the company had not issued all shares to members and the capital was still held in members' funds. Earnings per share can therefore only be computed for the year ended 31 December 2012.

25 RELATED PARTY TRANSACTIONS

The company is related to various parties by virtue of common shareholding. The shareholders exercise significant influence over the operations of the exchange.

As at 31 December 2012, the company had 10 (2011:10) member stock brokers and 12 (2011:12) licensed investment banks. The following transactions were carried out with related parties:

	2012 Sh'000	2011 Sh'000
(a) Directors' emoluments		
Non – executive	4,896	5,702
As executives	12,246	10,665
(b) Key management compensation		
Salaries and other short-term employment benefits	19,440	22,610

(c) Transactions with shareholders

The company's shareholding is by the brokers and licensed investment banks.The following transactions were carried out during the year with the brokers who are related parties by virtue of common shareholding.

The company charges investors, through the brokers, a transaction levy of 0.12% (2011: 0.12%) of the value of equity securities traded at the Exchange. During the year, the total turnover was Sh 173,589 million (2011: Sh 156,107 million) resulting in a transaction levy of Sh 208 million (2011: Sh 187.3 million). NSE also charges investors through brokers a transaction levy of 0.0035% of the value of fixed income securities traded at the Exchange. In the current year, turnover for fixed income securities for 12 months is Sh 1,141,410 million (2011: Sh 974,026 million), resulting in transaction levy of Sh 39.949 million (2011: Sh 34.089 million).

25 RELATED PARTY TRANSACTIONS (Continued)

(c) Transactions with shareholders (Continued)

	2012 Sh'000	2011 Sh'000
Transaction levy on - equity securities	208,307	187,340
Transaction levy on - fixed income securities	39,949	34,089
Members subscription fees	1,800	1,800
Broker back office subscriptions	12,360	-
	262,416	223, 229

26 OPERATING LEASE COMMITMENTS

	2012 Sh'000	2011 Sh'000
Rental expense payable		
Payable within 1 year	6,042	17,846
Payable after 1 year but within 5 years	-	53,538
	6,042	71,384

Rental expense relates to the lease rentals payable for the offices where the Exchange is situated.

	2012 Sh'000	2011 Sh'000
Rental income receivable		
Receivable within 1 year	22,742	-
Receivable after 1 year but within 5 years	99,840	-
	122,582	-

Rental income receivable relates to the lease rent receivable on the leased areas on the investment property

27 CAPITAL COMMITMENTS

Commitments at the end of the reporting period for which no provision has been made in these financial statements:

	2012 Sh'000	2011 Sh'000
Authorised but not yet contracted for	141,790	-

The capital commitments relate to planned upgrades in respect of the broker back office software and the ATS upgrade as well as fit out of the office premises to be located at the investment property purchased in 2012.

28 CONTINGENT LIABILITIES

During the year ended 31 December 2011, the Kenya Revenue Authority (KRA) carried out Corporation tax, Withholding tax, Value Added Tax (VAT) and Pay As You Earn (PAYE) tax audits covering the years 2008 to 2011 and issued a tax assessment for additional tax payable, penalties and interest. The principal tax balances were agreed with KRA at Sh 19,565,930 out of which Sh 15,400,955 was paid in 2012. The principal balance not paid of Sh 4,164,985 relates to VAT assessed by KRA on data vending income which is still in dispute.

The penalties and arrears of Sh 19,309,624 have been provided for at 50%. In the opinion of the directors, the company has good grounds for the waiver of the VAT on data vending and the 50% balance on penalties and interest and expect it be resolved and a waiver of the arrears given.

29 RISK MANAGEMENT OBJECTIVES AND POLICIES

The main business risks faced by the company in respect of its principal non-derivative financial instruments are market risk including interest rate risk and foreign currency risk, credit risk and liquidity risk. The directors review and determine policies for managing these risks.

(a) Market risk

The company maintains a conservative policy regarding currency and interest rate risks and does not engage in speculation in the markets. In addition, the company does not speculate or trade in derivative financial instruments.

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

The following table sets out the carrying amount, by maturity, of the company's financial instruments that are exposed to interest rate risk:

	1 month Sh '000	1-3 months Sh '000	3-12 months Sh '000	1-5 years Sh '000	5+ years Sh '000	Total Sh '000
31 December 2012						
Assets						
Bank deposits	35,026	-	-	-	-	35,026
Liabilities						
Bank borrowings	(1,091)	(2,221)	(10,707)	(112,072)	(173,909)	(300,000)
Net position	33,935	(2,221)	(10,707)	(112,072)	(173,909)	(264,974)
31 December 2011						
Term deposits	60,994	-	-	-	-	60,994

FINANCIAL STATEMENTS

29 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Market risk (Continued)

(i) Interest rate risk (Continued)

The company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 5 percentage points in all yield curves of financial assets.

A 5% increase/decrease in interest yields would result in additional profit/loss for the period of Sh 13,249000 (2011: Sh 3,050,000).

(ii) Foreign currency exchange risk

The company undertakes certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are however minimal as these only vendors which are marginal relate to income from data.

At 31 December, the carrying amounts of foreign currency denominated monetary assets and liabilities are as follows:

	2012 Sh'000	2011 Sh'000
Assets		
Cash and bank balances	515	-
Trade receivables	720	124
	1,235	124
Liabilities		
Trade payables	7,124	-
Net position	(5,889)	124

At 31 December 2012, if the Shilling had weakened/strengthened by 10% against the US Dollar with all other variables held constant, the impact on pretax profit for the period would have been Sh 588,900 (2011 – Sh 12,400) lower/higher, mainly as a result of translation of US dollar denominated balances.

(ii) Price risk

The company does not hold investments that would be subject to price risk; hence this risk not relevant.

(b) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the company. Credit risk arises from deposits with banks, as well as trade receivables. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by the banking regulatory authority.

29 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Credit risk (Continued)

The amount that best represents the company's maximum exposure to credit risk as at 31 December 2012 and 2011 is made up as follows:

31 December 2012	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
Treasury bonds	157,445	-	-	157,445
Corporate bonds	35,509	-	-	35,509
Trade receivables	30,974	-	16,174	47,148
Due from members of the exchange	-	-	49,867	49,867
Bank balances	44,546	-	-	44,546
Term Deposits	35,026	-	-	35,026
	303,500	-	66,041	369,541
31 December 2011				
Treasury bonds	157,537	-	-	157,537
Corporate bonds	35,507	-	-	35,507
Trade receivables	27,648	-	16,074	43,722
Due from members of the exchange	-	-	49,867	49,867
Bank balances	12,250	-	-	12,250
Term Deposits	60,994	-	-	60,994
	293,936	-	65,941	359,877

Bank balances, treasury bills and term deposits are fully performing. Trade receivables under the fully performing category are expected to be recovered in full as the debtors are paying their debts as they continue trading. Trade receivables in the past due category are partly impaired.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations. The company manages this risk by maintaining adequate cash balances in the bank, banking facilities and by continuously monitoring forecast and actual cash flows.

The table below analyses the company's financial liabilities that will be settled on a net basis into relevant maturity grouping's based on the remaining period at the reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

29 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Liquidity risk (Continued)

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Total Sh'000
At 31 December 2012					
Trade payables	8,394	-	-	-	8,394
Borrowings	4,840	9,680	43,560	522,725	580,805
	13,234	9,680	43,560	522,725	589,199
At 31 December 2011					
Trade payables	6,425	-	-	-	6,425

30 CAPITAL RISK MANAGEMENT

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of debt, which includes bank borrowings and equity attributable to equity holders, comprising issued capital and retained earnings.

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

Information on the company`s capital and borrowings as at 31 December 2012 and 2011 is provided below;

	2012 Shs'000	2011 Shs'000
Share capital	24,500	2
Members' funds	-	22,240
Retained earnings	468,018	407,495
Equity	492,518	429,737
Borrowings	301,521	-
Less: Cash and cash equivalents	(79,572)	(73,477)
	221,949	(73,477)
Gearing	45%	-

31 EVENTS SUBSEQUENT TO YEAR END

The Nairobi Securities Exchange Limited is undertaking a Self-Listing by Introduction process to be completed in 2013.

32 COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Companies Act and is domiciled in Kenya.

33 CURRENCY

These financial statements are presented in Kenya Shillings thousands (Sh'000).

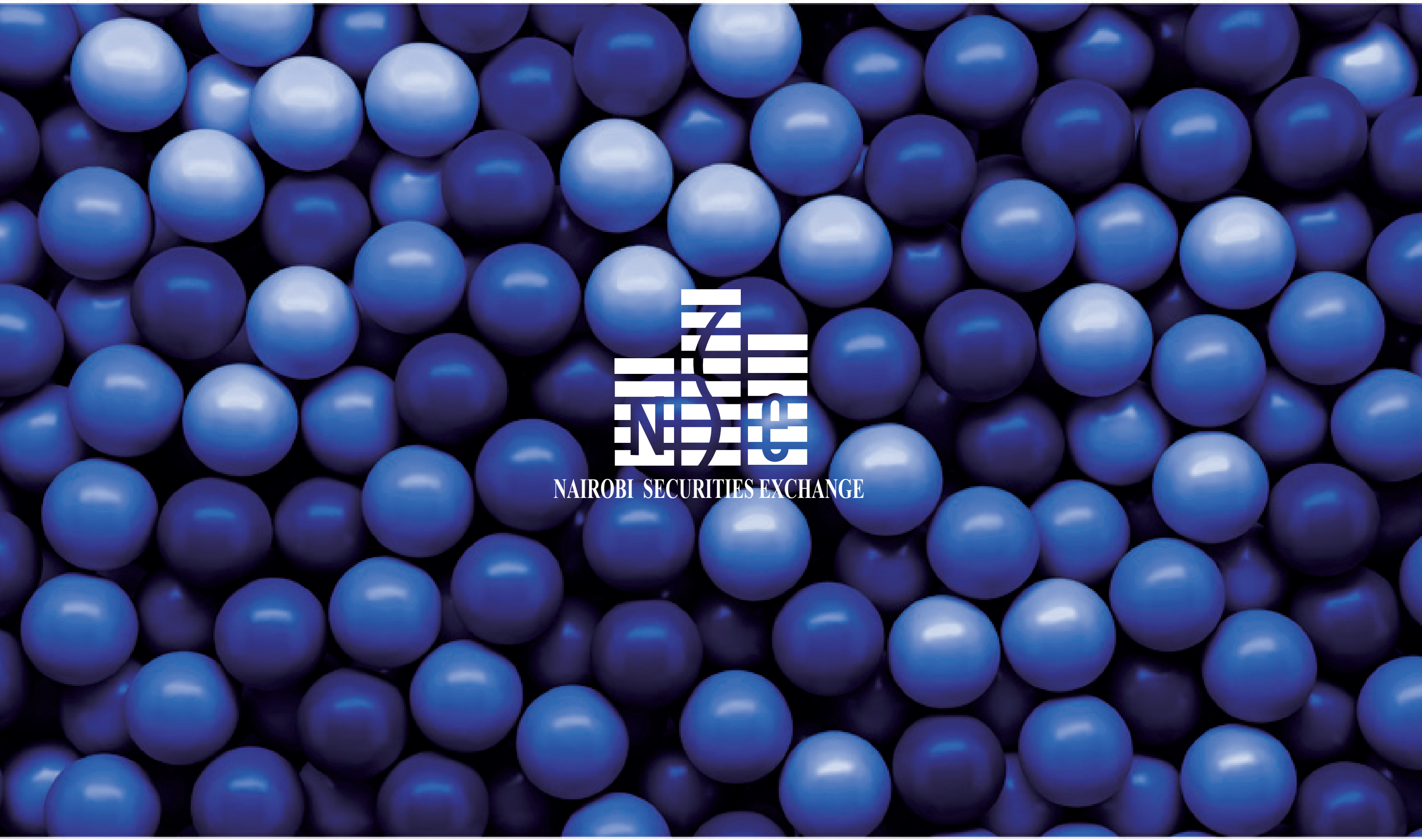
Notes

Notes

Notes

NSE LISTING ON THE SECURITIES EXCHANGE

Limuru Tea Co. Ltd.
Kakuzi Ltd.
Eaagads Ltd.
Kenya Orchards Ltd.
AccessKenya Group Ltd.
Safaricom Ltd.
Mumias Sugar Co. Ltd.
REA Vipingo Plantations Ltd.
Kapchorua Tea Co. Ltd.
Unga Group Ltd.
CIC Insurance Group Ltd.
Eveready East Africa Ltd.
Housing Finance Co. of Kenya Ltd.
Trans-Century Ltd.
Hutchings Biemer Ltd.
British-American Investments Co. (Kenya) Ltd.
Sasini Ltd.
Kenya Commercial Bank Ltd.
Car & General Kenya Ltd.
Equity Bank Ltd.
British American Tobacco Kenya Ltd.
Diamond Trust Bank Kenya Ltd.
Olympia Capital Holdings Ltd.
NIC Bank Ltd.
I&M Holdings Ltd.
Carbacid Investments Ltd.
Umeme Ltd.
B.O.C Kenya Ltd.
CMC Holdings Ltd.
Marshalls (East Africa) Ltd.
CfC Stanbic Holdings Ltd.
National Bank Ltd.
Standard Chartered Bank Kenya Ltd.
Centum Investment Co. Ltd.
A. Baumann & Co. Ltd.
Barclays Bank of Kenya Ltd.
East African Breweries Ltd.
KenolKobil Ltd.
Williamson Tea Kenya Ltd.
Sameer Africa Ltd.
The Co-operative Bank of Kenya Ltd.
Kenya Power Ltd.
Jubilee Holdings Ltd.
Total Kenya Ltd.
Kenya Airways Ltd.
Kenya Reinsurance Corporation Ltd.
East African Portland Cement Ltd.
ARM Cement Ltd.
Crown Paints Kenya Ltd.
Bamburi Cement Ltd.
Nation Media Group Ltd.
The Standard Group Ltd.
East African Cables Ltd.
Scangroup Ltd.
Longhorn Kenya Ltd.
Pan African Insurance Holdings Ltd.
Express Kenya Ltd.
Liberty Kenya Holdings Ltd.
TPS Eastern Africa Ltd.
Uchumi Supermarkets Ltd.
Kenya Electricity Generating Co. Ltd.


NAIROBI SECURITIES EXCHANGE