2011

Annual Report & Financial Statements

DEMUTUALIZATION

DEMUTUALIZATION

AUTOMATED TRADING

AUTOMATED TRADING

THREE NEW COMPANY LISTINGS

THREE NEW COMPANY LISTINGS

FTSE NSE KENYA INDEX SERIES

FTSE NSE KENYA INDEX SERIES

NAIROBI SECURITIES EXCHANGE LIMITED

DEMUTUALIZATION:

The separation of the ownership of the Exchange from the right to trade on such Exchange including the introduction of independent and transparent governance structures and includes all related processes to achieve this objective.

Contents

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the 58th Annual General Meeting of the Nairobi Securities Exchange Limited shall be held on Thursday July 5, 2012 at the Sarova Stanley Hotel, commencing at 4.00 p.m. to transact the following business:

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

2. To confirm the minutes of the following meetings:

    i. The Annual General Meeting held on October 27, 2011; and

    ii. The Extraordinary General Meeting held on March 15, 2012.

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

4. To receive and consider the audited accounts for the Financial Year ended December 31, 2011 and the reports of the Directors and Auditors thereon.

5. To approve the payment of a first and final dividend for the year ended December 31, 2011 of Kenya Shillings Twenty Two Million (Kshs. 22,000,000) representing a dividend per share of One Kenya Shilling (Kshs.1.00) for every share issued to the shareholders in the Register and which shall be:

    a) Subject to the amendment of the Capital Markets (Licensing Requirements) (General) Regulations 2002 to allow for distribution of profits by a securities exchange; and

    b) Preceded by the issuance of Twenty one million nine hundred and ninety seven thousand eight hundred (21,997,800) bonus shares approved by shareholders at the Extraordinary General Meeting held on March 15, 2012 after amendment of the Capital Markets (Licensing Requirements) (General) Regulations 2002 as indicated under Agenda 5 (a) above.

6. To elect directors:

    a) In accordance with Article 123 of the NSE Articles of Association, Mr. Bob Karina (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. Jonathan Ciano (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, Mr. Samuel Kimani (an Independent Director) retires by rotation and being eligible offers himself for re-election.

7. To approve the Directors' fees for the financial year ended December 31, 2011.

8. To re-appoint Deloitte & Touché as the auditors for the Financial Year ending December 31, 2012 and to authorize the directors to fix their remuneration.

9. To transact any other business that may legally be transacted at the meeting.

BY ORDER OF THE BOARD

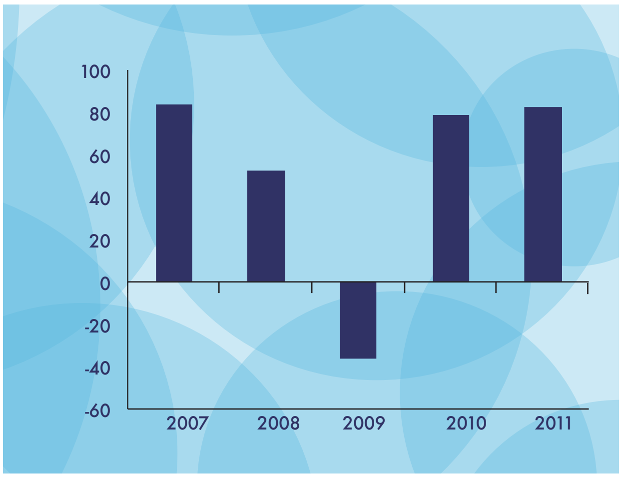
PETER MWANGI

SECRETARY

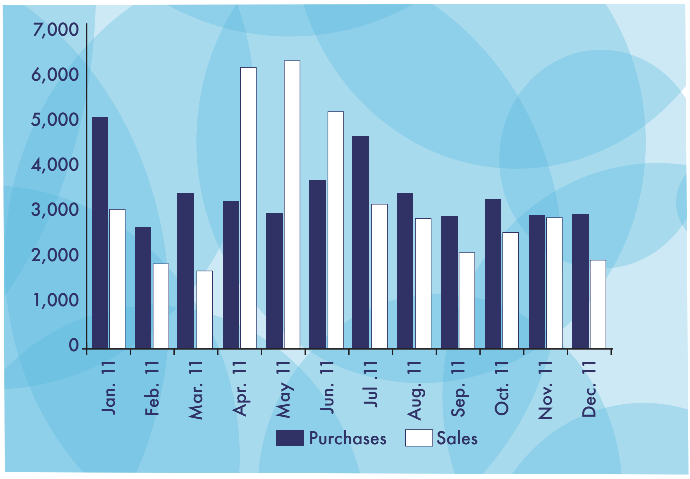
12 June 2012

Financial Highlights

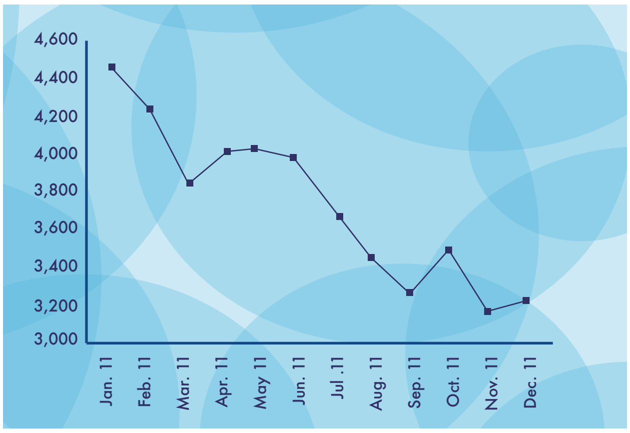
NET PROFIT ((Kshs. millions)



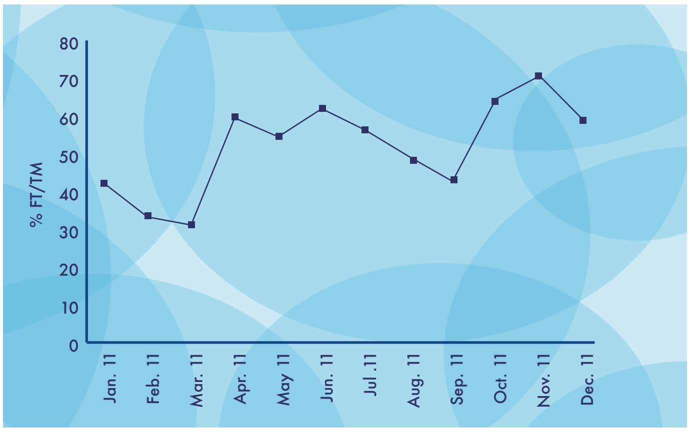
FOREIGN PURCHASES AND SALES (Kshs. millions)



NSE 20 SHARE INDEX PERFORMANCE



PERCENTAGE OF FOREIGN TURNOVER TO TOTAL EQUITY TURNOVER



Board of Directors

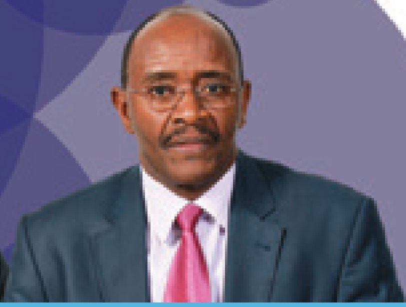
Edward Njoroge
Chairman

Bob Karina
Vice Chairman

Farhana Hassanali

Geoffrey Odundo

Hosea Kili



Jonathan Ciano

Samuel Kimani

Winnie Nyamute

Peter Mwangi
Chief Executive

Directors and Professional Advisors

DIRECTORS	Mr. Edward Njoroge	Chairman	Retired and Elected March 15th 2012
	Mr. Bob Karina	Vice Chairman	Elected March 15th 2012
	Ms. Farhana Hassanali		Elected March 15th 2012
	Mr. Geoffrey Odundo		Elected March 15th 2012
	Mr. Hosea Kili		Elected March 15th 2012
	Mr. Jonathan Ciano		Elected March 15th 2012
	Mr. Samuel Kimani		Elected March 15th 2012
	Ms. Winnie Nyamute		Retired and Elected March 15th 2012
	Mr. Peter Mwangi	Chief Executive	

SECRETARY

Peter Mwangi
Certified Public Secretary (Kenya)
P.O. Box 43633 - 00100
Nairobi

REGISTERED OFFICE

Nation Centre, 1st Floor
PO 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

Edward Njoroge
Chairman

Chairman's Statement

Dear Shareholders

On behalf of the Board of Directors of the Nairobi Securities Exchange (NSE), I am pleased to present to you a report on the performance of the NSE in 2011.

REVIEW OF MARKET PERFORMANCE IN 2011

Macroeconomic Review

In comparison to 2010, Capital Markets performance declined in 2011. Subdued economic growth contributed to lower turnovers in the equity and fixed income markets. The main factors that contributed to poor economic growth were the drought, rising inflation in the second half of the year, higher and volatile interest rates, volatility of the shilling against major currencies and Kenya's pursuit of Al-Shabaab terrorists based in Somalia.

Market Performance

Market capitalization fell 25.6 percent to Kshs.868.24 billion on December 30 2011. In US Dollars terms, market capitalization fell 29.4 percent. The NSE 20 Share Index reported a 27.7 percent decline, closing at 3,205.02 points at the end of 2011, down from 4,433 points reported at the end of December 2010. The All Share Index (NASI) reported a 30.6 percent decline closing at 68.03 points at the end of 2011 down from 98 points at the end of December 2010. The FTSE NSE Kenya 15 and the FTSE NSE Kenya 25 indices launched on November 8 2011, declined 3.15 percent to 90.31 points and 3.31 percent to 92.64 points respectively.

Despite the challenging operating environment, in keeping with our Vision "To be a leading securities exchange in Africa, with a global reach", 2011 saw us accomplish the following major milestones:-

FTSE NSE Kenya Index Series

On November 8, 2011 we successfully launched the FTSE NSE Kenya 15 and FTSE NSE Kenya 25 Indices. The launch of the indices was the result of an extensive market consultation process with local asset owners and fund managers and reflects the growing interest in new domestic investment and diversification opportunities in the East African region. Designed to enhance and capture the depth of information available on the Kenyan market, the indices are also suitable as the foundation for Exchange Traded Funds (ETFs) and other index-linked products which can also be utilized by global investors wishing to access this frontier market.

These indices are running concurrently with the NSE 20 Share and NSE All Share indices. The branded indices give the NSE the opportunity to use FTSE's expertise to design, manage and distribute branded indices and index-related products, domestically and internationally. Overall, the indices should improve capital flows into the domestic market and enhance liquidity and market capitalization.

New Listings

In 2011 we welcomed three new companies to trade on the Nairobi Securities Exchange and saw the reinstatement of one firm. The new companies included CFC Insurance Holdings which listed on the Main Investment Market Segment (MIMS) under the Insurance sub-sector. Transcentury Limited listed by way of introduction joining seven other companies listed on the Alternative Investment Market Segment (AIMS) under the Investment sub-sector, and finally British American Investments Company Limited (British Amercian) which was the third company to list on the Exchange, joining four other insurance companies on the Main Investment Market Segment (MIMS).

In 2011, we also witnessed the re-listing of Uchumi Supermarkets Ltd on the Main Investment Market after a five year suspension from trading. On the Debt market; Shelter Afrique listed Kshs 2.5 Billion, the first tranche of a Kshs.3.0 Billion Medium Term Note (MTN) Issue. This illustrates the confidence our corporates have placed in our market's ability to meet their ongoing needs.

MACROECONOMIC OUTLOOK FOR 2012

Provided that rainfall is satisfactory, growth in 2012 will be underpinned by a recovery in the agricultural sector and improved supplies of hydroelectricity. The Economist Intelligence Unit May 2012 Kenya Country Report, projects real GDP growth to rebound to 5.4 percent in 2012, from about 4.2 percent in 2011. Lower inflation in 2012 (following a spike in 2011) and the prospect of lower interest rates will facilitate consumer spending and credit allocation to households and firms. The economy will continue to benefit from a rapid take-up of banking services (including telebanking), the ongoing boom in telecommunications, and the expansion of the middle class, investment in infrastructure, increased regional trade and structural reforms.

The following risks may constraint growth. The entry into Somalia of Kenya's Defence Forces, while necessary has drawn reprisal terror attacks by Al-Shabaab, negatively impacting on the perception of Kenya as a secure tourism destination. We also believe that secondary market activity will be driven by the direction of short term interest rates, inflation and how fast we transit to the new political dispensation under Kenya's Constitution promulgated in 2010. Foreign investor sentiment will also be influenced by the direction of the Eurozone economies.

INITIATIVES FOR 2012

In 2012, the NSE plans to conclude a number of projects.

New Listings

On May 30 2012, Longhorn Kenya made history by becoming the first publishing company in East Africa to list on a stock exchange and the first company in 2012 to list on the NSE. On June 21 2012, we celebrated the listing and commencement in the trading of the new 1.03 billion shares of Kenya Airways (KQ). The listing is the largest rights issue in East Africa, to date. On July 19 2012, the CIC Insurance Group will list on MIMS. Two of our listed banks, Diamond Trust Bank and NIC Bank have confirmed their intention to raise capital through rights issues. Consolidated Bank which is currently not listed has received approval to list a Medium Term Note (MTN). Given the tough economic conditions, the number of corporate actions is commendable. In 2012, the NSE will be extending its product offering to mid cap companies.

Growth Enterprise Market Segment (GEMS)

Last year I mentioned that the NSE was working with the Capital Markets Authority (CMA) and the Central Depository and Settlement Corporation (CDSC) to set up the Growth Enterprise Market Segment (GEMS). This market segment will facilitate the listing of Small and Medium Sized Enterprises (SMEs). On June 14 2012, the establishment of GEMS received a major boost with the gazettement of the Capital Markets (Securities) (Public Offers, Listings and Disclosures) (Amendment) Regulations, 2012, to pave way for GEMS at the Exchange.

The NSE is working with the Capital Markets Authority to publish the rules for Nominated Advisors (NOMADS). The NOMAD will assist companies to list on GEMS and to comply with good corporate governance practices. We will be training prospective NOMADS on their role and their responsibilities to their clients. In addition, we shall also offer a Directors' course on corporate governance to the Directors of the mid-cap companies. This will assure investors who are looking to invest, in fast-growing, well-run, smaller companies. Without the support of the Minister for Finance, the gazettement of the regulations would not have been expedited.

More Efficient Clearing and Settlement Infrastructure

The NSE would also like to applaud the Minister for Finance for his proposal to amend the Central Depositories Act to facilitate a single Central Depository in Kenya. As you are aware the current situation of two different securities settlement infrastructures is inefficient, one for equity at the CDSC and the other for fixed income at the Central Bank of Kenya (CBK). A more efficient securities settlement infrastructure will also support - Treasury Mobile Direct – the project started by the Government, through the CBK in partnership with the World Bank, that will enable Kenyans buy government debt securities including treasury bills and bonds using their mobile phones. Mobile and internet solutions are already available for equity securities. The NSE looks forward to working with the CDSC and the Central Bank to make it easier for investors to access the debt securities market using their mobile phones.

NSE Broker Backoffice

I am pleased to report that the majority of the Trading Participants of the NSE have now migrated to the NSE Broker Backoffice. The system is tightly coupled and interfaced with the Automated Trading System (ATS) and Central Depository System (CDS).

The BBO system has the following benefits:-

1. It automates the back office and enables senior management to monitor and audit activities through suitable alerts and exception reports;

2. Permits internet access to the system, helping Trading Participants expand their services across all forty seven counties of the Country;
3. Supports Initial Public Offers (IPOs), portfolio management and complaints processing and;
4. Supports internet and mobile phone trading.

Overall, the system will bolster existing security measures and reduce the risk of trading in securities listed on the Nairobi Securities Exchange. Facilitating internet trading, will allow Kenyan investors in the diaspora to access the local stock market.

Dematerialization

According to the CDSC, in 2011, the number of central depository accounts rose to 1,943,771 with 17,863 new accounts opened during the year. The number of shares deposited increased to 25.1 Billion at the end of 2011 from 21.5 Billion at the end of 2010. Total immobilization as at the end of December 2011 was Kshs.400.7 Billion; 46.16 percent of total market capitalization from 36 percent in 2010. Most counters have achieved immobilization of between 70-99 percent of their free float. We are confident that this will pave the way to full dematerialization of the market in 2012 when all securities will be held in electronic form. We look forward to working with the CDSC to achieve this market milestone.

FTSE NSE Treasury Bond Index

Together with FTSE International, we shall be introducing the FTSE NSE Treasury Bond Index in Q3 of 2012. The launch of the Treasury Bond Index will allow Kenyan investors to use an independent benchmark to measure the performance of their bond portfolios.

DEMUTUALIZATION

The NSE Corporate Plan for the period 2010 – 2014 sets out the Company's vision for change in status from a mutual organization to a corporate entity as one of the strategic objectives for the period. This involves two main processes – demutualization and self listing. In this regard, I am very pleased to report on the substantial progress made to date.

Settlement of Legal Dispute with Francis Thuo & Partners

You will recall that on February 3, 2012, the Courts ruled in the favour of the NSE in a matter against Francis Thuo & Partners. The ruling marked the end of a five-month legal process that had halted the demutualization process. The NSE has entered into a Settlement Agreement with the firm and remains committed to settling any outstanding issues with Francis Thuo & Partners Ltd.

Re-election of Directors

Mr. Bob Karina, Mr. Jonathan Ciano and Mr. Samuel Kimani, retired by rotation and being eligible for re-election, they were all re-elected as Directors of the Nairobi Securities Exchange Limited.

You are aware, that in line with the new Articles of Association of the Company, your Board is now made up of six independent and non-executive directors and two directors representing our trading participants. The Chief Executive continues to be an executive director. As I have repeatedly stated, the demutualization of the NSE is a statement of our commitment to transparency and good corporate governance and that this improved governance is critical in attracting investors and increasing opportunities to raise debt and equity through the capital markets.

Dividend

Each of our 22 shareholders has been allotted one hundred shares. At the Extraordinary General Meeting held on March 15 2012, the shareholders approved the issuance of 21,997,800 bonus shares. The approval of a bonus share issue is subject to the amendment of the Capital Markets (Licensing Requirements) (General) Regulations 2002.

During the AGM, the Directors will recommend that the shareholders approve the payment of a first and final dividend for the year ended December 31 2011 of Kshs.22,000,000. After the bonus issue, it represents a dividend of Kshs.1.00 per share. The payment of the dividend is also subject to the amendment of the Capital Markets (Licensing Requirements) (General) Regulations 2002.

New Shareholders

Under the existing regulations, the shareholders of the NSE can only be the Trading Participants. Once the amendments to the Capital Markets (Licensing Requirements) (General) Regulations 2002 are effected, the Exchange can invite non Trading Participants to take up shares. It will also pave the way for the listing of the NSE.

Self Listing

In a letter dated June 18 2012, I informed you that on June 7 2012, the Board approved the listing by introduction of the Nairobi Securities Exchange on AIMS by mid 2013. As with any other company that seeks to list, your Company will be required to meet the eligibility and disclosure requirements of a public listed company.

The NSE is also working towards obtaining recognition as a Self Regulatory Organization (SRO) from the CMA. With the continued support of our shareholders, we expect to complete the process of demutualization which will culminate in the listing of the NSE in 2013.

APPRECIATION

On behalf of the Board of the Directors, I wish to express our unreserved appreciation to all the retail and institutional investors in our capital markets, and our listed companies.

We would also like to single out our shareholders for your support during the ongoing process of transforming the Nairobi Securities Exchange from a mutual to a corporate institution.

I would like to acknowledge the Board of Directors for their guidance in steering the Exchange in 2011. We commend the Staff and Management of the Nairobi Securities Exchange for making commendable progress in the execution of the 2010 – 2014 Corporate Plan.

We also reiterate our appreciation to the Government of Kenya for showing commitment to supporting small and medium sized companies through the capital markets, by gazetting the regulations to facilitate the Growth Enterprise Market Segment (GEMS) on June 14 2012.

EDWARD NJOROGE
CHAIRMAN
12 June 2012

Operations and Technology Team

1. Leah Mumbi 2. Joseph Gichuru 3. Jane Nyansiri
4. Timothy Kamau 5. Patrick Omondi 6. Sammy Mutua
7. David Waggema 8. David Wainaina

Peter Mwangi
Chief Executive

DEAR SHAREHOLDERS

On behalf of the management and staff of the Nairobi Securities Exchange (NSE), I would like to share highlights on the operational and financial performance of the Exchange for the year ended December 31 2011.

TRADING PERFORMANCE

Due to the challenging conditions in 2011, equity turnover dropped 13 percent from 2010's Kshs. 179.5 Billion to Kshs. 156.1 Billion. In 2011, the proportion of equity transactions by foreign investors was 50.5 percent. Similarly, in 2011, secondary bond market activity slid 7.8 percent to Kshs.890.9 Billion from Kshs. 966.3 Billion recorded the previous year.

FINANCIAL PERFORMANCE

I am pleased to report that despite the challenging environment, the Exchange made a net profit of Kshs. 85.6 Million, an 8.1 percent increase over 2010's Kshs. 79.2 Million. The Exchange's total income was Kshs. 338.9 Million, a 6.2 percent increase when compared to the previous year's Kshs. 319.1 Million.

The Exchange charges a transaction levy of 0.12 percent of the value of equity securities traded on our platform and 0.0035 percent of the value of fixed income securities traded at the Exchange (on both the buy and sell side). Total transaction levies increased 2.1 percent to Kshs.221.4 Million from Kshs.216.8 Million in 2010. In 2011, the Exchange was able to charge a levy on fixed income securities for the entire year as opposed to previous year when the levy was introduced on December 9 2010. Annual listing fees increased 9.3 percent to Kshs. 70 Million from Kshs. 64.1 Million in 2010.

The Exchange is keen to diversify income from transaction levies and listing fees. Fees for initial and additional listings, fell 10.9 percent to Kshs. 10.5 Million from Kshs. 11.9 Million in 2010.

Total income got a significant boost from alternative revenue sources. Interest income increased 61.6 percent to Kshs. 20.5 Million, data vending fees grew 25.2 percent to Kshs 9.4 Million from Kshs 7.5 Million recorded in 2010. Sales of publications while miniscule grew 208 percent to Kshs. 754,000 from Kshs. 245,000 in 2010. Going forward, we remain optimistic about the future.

Components of Income	2011 (Kshs. Millions)	2010 (Kshs. Millions)	Percentage Change
Transaction Levy	221.4	216.8	2.1%
Annual Listing Fees	70.0	64.1	9.2%
Initial, Application and Additional	10.5	11.9	-11.8%
Interest	20.5	12.6	61.6%
Data Vending	9.4	7.5	25.2%
Sales of publications	0.754	0.245	208.0%

MID TERM REVIEW OF THE NSE CORPORATE STRATEGY

In February 2012, the Board of Directors revised the 5-year Corporate Plan 2010 – 2014. At the beginning of the strategy period, the Plan centred around five (5) strategic objectives. The first objective is the conversion of the Exchange from a mutual organization to a corporate for profit entity. The Chairman has already provided a comprehensive brief on the progress so far.

The second is the growth of existing business lines by boosting liquidity in listed securities and positioning the Exchange to enable more companies raise capital on the existing market segments.

The third objective is diversifying revenue streams through the introduction of new products and services such as the Growth Enterprise Market Segment (GEMS), information products and services and the acquisition of a property so the Exchange can earn rental income.

The fourth objective of the corporate plan focuses on enhancing investors' and issuers' trust in the NSE brand through building and managing a world class market infrastructure, supported by a robust regulatory framework. The fifth objective focuses on building the institutional and human capacity of the NSE to deliver the first four (4) objectives.

Following the midterm review, a sixth objective of regionalization was added. The Exchange is positioning itself to partner with governments and private institutions in the region to offer its expertise in running an efficient securities market infrastructure.

Our Chairman has spoken at length of the progress made thus far. The midterm review of the Corporate Plan confirmed that commendable progress had been made on all five objectives. The Strategy was also found to be fundamentally sound. Management remains focused on execution.

We are confident that as we continue to strengthen our human capital, and implement our performance management systems we shall have the team in place to deliver the Plan and with it, sustainable value to all our stakeholders.

APPRECIATION

On behalf of the Management 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 and service providers for their unwavering support.

MR. PETER MWANGI
CHIEF EXECUTIVE
12 June 2012

Directors and Attendance Schedule

NAME	DESIGNATION	
Mr. Edward Njoroge	Chairman	Retired and Elected on March 15 2012
Mr. Lutaf Kassam	1st Vice Chairman	Retired on March 15 2012
Mr. Job Kihumba	2nd Vice Chairman	Retired on March 15 2012
Mr. Stanley Ngaine	Director	Retired on March 15 2012
Mr. George Maina	Director	Retired on March 15 2012
Mr. Andre DeSimone	Director	Retired on March 15 2012
Mr. Lucas Otieno	Director	Retired on March 15 2012
Ms. Winnie Nyamute	Director	Retired and elected on March 15 2012
Ms. Catherine Musakali	Director	Retired on March 15 2012
Mr. David Njoroge	Director	Retired on March 15 2012

BOARD MEETING ATTENDANCE SCHEDULE

There were eight (8) meetings held during the 2011 financial year. Below are the details of attendance.

	Mar 31st	Jun 23rd	Jul 6th	Aug 30th	Sep 16th	Sep 29th	Oct 27th	Dec 8th
Edward Njoroge	√	√	√	√	√	√	√	√
Lutaf Kassam	√	√		√	√	√		√
Job Kihumba	√	√	√	√	√	√	√	√
Stanley Ngaine	√	√	√	√	√	√	√	√
George Maina	√	√	√	√	√	√		√
Andre DeSimone	√	√		√	√	√	√	
Lucas Otieno	√	√	√	√	√	√	√	√
Winnie Nyamute	√	√	√	√	√	√	√	√
Catherine Musakali	√	√	√	√		√	√	√
David Njoroge		√	√	√			√	√

Committees

DISCIPLINARY & COMPLIANCE
Hosea Kili -Chairman
Winnie Nyamute
Rose Mambo
Karim Anjarwalla
Peter Mwangi

AUDIT, RISK & CORPORATE GOVERNANCE
Winnie Nyamute – Chairperson
Hosea Kili
Lucas Otieno
Isaac Onyango

TRADING AND SURVEILLANCE
Bob Karina – Chairman
Samuel Kimani
Joseph Kahenya
Fred Murimi
John Kirimi
Job Kihumba
Rose Mambo
John Odhiambo
Peter Mwangi

FINANCE AND MANPOWER
Jonathan Ciano- Chairman
Farhana Hassanali
Geoffrey Odundo
Samuel Kimani
Andre DeSimone
Peter Mwangi

BUSINESS DEVELOPMENT AND PUBLIC EDUCATION
Samuel Kimani – Chaiman
Farhana Hassanali
Jonathan Ciano
Job Kihumba
Ewart Salins
Christine Mweti
Edward Burbidge
Peter Mwangi

LISTINGS AND ADMISSIONS
Edward Njoroge – Chairman
Bob Karina
Geoffrey Odundo
Jonathan Ciano
Winnie Nyamute
Peter Mwangi

TECHNOLOGY
Geoffrey Odundo – Chairman
Bob Karina
Rose Mambo
Joseph Kitamirike
Kris Senanu
Joseph Gikonyo
Peter Mwangi

NSE PROPERTY SUB-COMMITTEE
Farhana Hassanali – Chairperson
Lucas Otieno
Amish Gupta
Fred Murimi
Peter Mwangi

Market and Product Development Team

1. Godfrey Omilly 2. Silvana Wanjiru 3. Waithera Mwai
4. Jackson Kiminje 5. Terrence Adembesa
6. Carol Karugu 7. Donald Ouma

Corporate Social Responsibilty

The Nairobi Securities Exchange promotes its corporate social responsibility (CSR) activities based on the conviction that all Kenyans should have access to financial education. 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

The Securities Industry Training Institute (SITI)

Through the Securities Industry Training Institute (SITI) the NSE as a member of the East African Securities Exchanges Association (EASEA) has established a programme dedicated to improving the technical capacity of professionals in the region. The SITI Nairobi campus which is run by the NSE carried out six training sessions in 2011 in order to improve the technical and professional capability of our market participants, and develop both our local and regional markets. These courses are also open to interested members of the public and the media.

NSE Investment Challenge

The NSE Investment Challenge is an online simulation of the securities market. 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. Evaluation which is done on portfolio value and reasoning behind the investment decisions ensures that participants are focused more on learning as opposed to trying their luck. The competition runs for three (3) months and winners receive real cash prizes with which to invest with and paid internships to give them real work experience. In 2011 the NSE Investment challenge forums attracted 8506 individuals and registered 4064 participants from all over Kenya.

The NSE Wednesday Forums

Every week, Nairobi Securities Exchange hosts various groups predominantly from primary schools, high schools and universities on how the market works. With a dedicated department geared towards this public education, we see an average of 10,000 visitors on an annual basis. In 2011 we hosted 10,200 students through our forums which are vital to empowering the youth on the basic fundamentals of the capital markets and operations of the Nairobi Securities Exchange.

SOCIAL INVESTMENT

In the spirit of being our brother's keeper, Nairobi Securities Exchange supports Joy's Children's Home located in Ruiru. The children's home is the residence to several orphaned and disadvantaged children in our society. Nairobi Securities Exchange through the NSE welfare team made two visits to the children's home in 2011, where they spread love, laughter and contributions to the needy children. Nairobi Securities Exchange recognizes the value of life and strives to improve the livelihood of disadvantaged children by assisting them to the best of our efforts.

Nairobi Securities Exchange team visits Wema Centre in Mombasa and Joy's Children's home in Ruiru.

Compliance and Legal Team

1. Nelly Orwaya 2. Nicholas Gitonga 3. Dennis Katei
4. Andrew Wachira 5. Loise Wangui 6. Tom Kimaru

Report of the Directors

The directors have pleasure in presenting the audited financial statements for the year ended 31 December 2011 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 securites exchange.

CHANGE OF NAME

The company changed its name from Nairobi Stock Exchange Limited to Nairobi Securities Exchange Limited on 5 August 2011.

RE-REGISTRATION OF THE COMPANY

The company was re-registered by the Registrar of Companies from a company limited by the guarantee to a company limited by shares on September 21, 2011.

RESULTS FOR THE YEAR

	Sh'000
Profit for the year	105,024
Taxation charge	(19,401)
Profit for the year transferred to retained earnings	85,623

DIVIDENDS

The directors recommend the payment of a final dividend after the issuance of the bonus shares approved on March 15,2012 of Kshs.1.00 per share issues (2010: nil) amounting to sh 22,000,000 in respect of the year ended 31December 2011 (2010: nil)

DIRECTORS

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

Pursuant to Article 111 of the company's Articles of Association, the following persons retired from the company's Board of Directors on March 15, 2012:

Mr. Edward Njoroge
Mr. Lutaf Kassam
Mr. Job Kihumba
Mr. David Njoroge
Mr. Stanley Ngaine
Mr. George Maina

Mr. Andre DeSimone
Mr. Lucas Otieno
Ms. Winnie Nyamute
Ms. Catherine Musakali

Pursuant to Article 102 of the company's Articles of Association, the following persons were elected to the company's Board of Directors on March 15, 2012:

Mr. Edward Njoroge
Mr. Bob Karina
Ms. Farhana Hassanali
Mr. Geoffrey Odundo
Mr. Hosea Kimutai Kili
Mr. Jonathan Ciano
Mr. Samuel Kimani
Ms. Winnie Nyamute

AUDITORS

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

Peter Mwangi
Secretary
12 June 2012
Nairobi

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 the operating results of the company 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.

Edward Njoroge	Jonathan Ciano	Peter Mwangi
Chairman	Director	Chief Executive

12 June 2012

Audit Team

1

2

1. Felix Saina 2. Maryanne Muchui

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

REPORT OF THE INDEPENDENT AUDITORS

to the Members of 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 27 to 53 which comprise the statement of financial position as at 31 December 2011, 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 accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2011 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)
12 June 2012
Nairobi

Finance and Strategy Team

1. David Irungu 2. Caroline Gakinya 3. Titus Kiilu
4. Winnie Mwangi 5. Justine Busili 6. Charles Gitonga 7. Judy Nyachomba
8. Alex Githiaka 9. Lucy Kamar 10. Chrysantus Macheso

Statement of Comprehensive Income

for the year ended 31 December 2011

	Note	2011 Sh'000	2010 Sh'000
OPERATING INCOME	3	301,946	292,795
INTEREST INCOME	6	20,488	12,679
OTHER INCOME	7	16,540	13,655
		338,974	319,129
ADMINISTRATIVE EXPENSES		(239,465)	(207,562)
SHARE OF PROFIT OF ASSOCIATE COMPANY	11	6,190	3,019
PROVISIONS FOR DOUBTFUL DEBTS	15(b)	(675)	(300)
PROFIT BEFORE TAXATION	4	105,024	114,286
TAXATION CHARGE	8(a)	(19,401)	(35,081)
PROFIT FOR THE YEAR		85,623	79,205
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		85,623	79,205

Statement of Financial Position

as at 31 December 2011

	Note	2011	2010
ASSETS		Sh'000	Sh'000
Non current assets			
Equipment	9	26,597	18,210
Intangible assets	10	61,783	26,118
Investment in associate company	11	43,209	33,025
Corporate bonds held to maturity	12	35,507	35,276
Government securities held to maturity	13	157,537	157,208
Deferred taxation asset	14	19,573	4,142
		344,206	273,979
Current assets			
Trade and other receivables	15	45,658	48,261
Tax recoverable	8(c)	11,978	-
Term deposits	16	60,994	-
Bank and cash balances	16	12,483	80,813
		131,113	129,074
TOTAL ASSETS		475,319	403,053
MEMBERS' FUNDS AND LIABILITIES			
Members' funds and reserves			
Share capital	17	2	-
Members' fund		22,240	22,240
Retained earnings		407,495	321,872
		429,737	344,112
Current liabilities			
Trade and other payables	18	45,582	37,345
Tax payable	8(c)	-	21,596
		45,582	58,941
TOTAL MEMBERS' FUNDS AND LIABILITIES		475,319	403,053

The financial statements on pages 27 to 53 were approved and authorised for issue by the board of directors on 12 June 2012 and were signed on its behalf by:

Edward Njoroge	Jonathan Ciano	Peter Mwangi
Chairman	Director	Chief Executive

Statement of Changes in Equity

for the year ended 31 December 2011

	Share capital Sh'000	Members' fund Sh'000	Retained earnings Sh'000	Total Sh'000
At 1 January 2010	-	22,240	242,667	264,907
Total comprehensive income for the year	-	-	79,205	79,205
At 31 December 2010	-	22,240	321,872	344,112
AAt 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

Members' fund relates to a pool of membership fees paid by members of the Nairobi Securities Exchange when joining the Exchange.

Statement of Cash Flows

for the year ended 31 December 2011

	Note	2011 Sh'000	2010 Sh'000
Cash flows from operating activities			
Cash generated from operations	19	114,392	117,477
Tax paid	8(c)	(68,399)	(1,766)
Net cash generated from operating activities		45,993	115,711
Cash flows from investing activities			
Purchase of equipment	9	(23,223)	(435)
Purchase of computer software	10	(48,133)	(278)
Interest received		18,027	10,229
Purchase of government securities	12	-	(155,034)
Purchase of corporate bonds	13	-	(35,000)
Net cash used in investing activities		(53,329)	(180,518)
Decrease in cash and cash equivalents		(7,336)	(64,807)
Cash and cash equivalents at the beginning of the year		80,813	145,620
Cash and cash equivalents at the end of the year	16	73,477	80,813

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) New standards and amendments to published standards effective for the year ended 31 December 2011

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.
AS 24 Related Party Disclosures (as revised in 2009)	IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities. The company is not a government-related entity. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous standard.
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendment had no effect on the company's financial statements.
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss. The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the company has not entered into any transactions of this nature.
Improvements to IFRSs issued in 2010	The application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the company's financial statements

1 ACCOUNTING POLICIES (continued)

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

(i) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2011 (Continued)

	Effective for annual periods beginning on or after
New and Amendments to standards	
IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation.	1 July 2011
IFRS 1, First-time Adoption of International Financial Reporting Standards – Additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets	1 January 2011
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 12, Income Taxes – limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 1, Presentation of Financial Statements – presentation of items of other comprehensive income	1 July 2012
IAS 19, Employee Benefits (2011)	1 January 2013
IAS 27, Separate Financial Statements (2011)	1 January 2013
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 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
Amendment to interpretations	
IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction; prepayments of a minimum funding requirement.	1 January 2013

1 ACCOUNTING POLICIES (continued)

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

(ii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 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 13, Fair Value Measurements

IFRS 13 replaces the guidance on fair value measurement 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).

1 ACCOUNTING POLICIES (continued)

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

(ii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods

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.

The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

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.

- 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 are generally effective for annual periods beginning on or after 1 January 2012. The directors anticipate no material impact to the company's financial statements.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

  These amend IAS 1 Presentation of Financial Statements to revise the way other comprehensive income is presented.

  The amendments:

  - Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate

1 ACCOUNTING POLICIES (continued)

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

(ii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods

'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft

- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

The above amendments are generally effective for annual periods beginning on or after 1 July 2012. The company will apply the amendments prospectively. The directors anticipate no material impact to the company's financial statements.

• IAS 19 (as revised in 2011)- Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that this standard will not have a material impact on the companys's financial statements.

(iii) Early adoption of standards

The company did not early-adopt new or amended standards in 2011.

1. ACCOUNTING POLICIES (continued)

Basis of preparation

The financial statements are prepared under the historical cost basis of accounting. 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.

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.

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

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.

1. ACCOUNTING POLICIES (continued)

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 – 5 years.

Impairment of tangible and intangible assets, excluding goodwill

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.

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.

(a) 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.

(b) 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.

(c) 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.

(d) 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

1. ACCOUNTING POLICIES (continued)

(d) Available for sale financial assets (continued)

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. 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.

(e) Derecognition of financial assets

Financial assets are derecognised when the right to receive cash flows from the financial assets have 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.

Taxation

Current taxation is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the date of reporting are used to determine deferred tax.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized, while deferred tax liabilities are recognized for all taxable temporary differences.

Retirement benefit obligations

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

1. ACCOUNTING POLICIES (continued)

Retirement benefit obligations (continued)

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 254.04 million (31 December 2010: Sh 192.4 million). Details of these assets are set out in note 12, 13 and 16.

(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.

Equipment and software

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

		2011 Sh'000	2010 Sh'000
3	OPERATING INCOME		
	Transactions levy	221,429	216,795
	Annual listing fees	70,039	64,103
	Initial listing fees	9,075	9,443
	Application and additional listing fees	1,403	2,454
		301,946	292,795
4	PROFIT BEFORE TAXATION		
	The profit before taxation is arrived at after charging:		
	Staff costs (note 5)	90,990	85,268
	Operating lease rentals	19,200	18,332
	Amortisation of intangible assets (note 10)	12,468	15,709
	Depreciation on equipment (note 9)	14,836	15,136
	Directors' emoluments:		
	- Executive	10,665	10,463
	- Non - executive	5,702	5,817
	Auditors' remuneration	1,200	1,100
	Provision for doubtful debts (note 15(b))	675	300
	Exchange loss	-	172
5	STAFF COSTS		
	Salaries and wages	69,905	56,764
	Staff structure reorganization costs	-	10,242
	Staff bonus	11,550	9,947
	Leave pay expense	1,469	1,538
	Provident fund contribution	7,985	6,695
	Social security costs (NSSF)	81	82
		90,990	85,268

In the first quarter of 2010, the exchange undertook an organization restructuring exercise which was completed at the end of April. The reorganization costs relate to final dues paid to staff who did not fit in the new structure and other costs related to the exercise.

		2011 Sh'000	2010 Sh'000
6	INTEREST INCOME		
	Held to maturity investments - interest on treasury bonds	12,433	7,362
	- interest on corporate bonds	2,885	324
	- interest on treasury bills	-	1,011
	- interest on term deposits	5,064	3,879
	Interest on staff loans and advances	106	103
		20,488	12,679

		2011 Sh'000	2010 Sh'000
7	OTHER INCOME		
	Data vending	9,394	7,504
	Members subscription fee	1,800	1,800
	Advertisement fee on NSE journal	1,023	1,067
	Sale of publications and merchandising items	754	245
	Sale of magazine	38	221
	Gain on CDSC shares acquired from DSE	1,494	-
	Provision write back	640	-
	Other income	1,397	2,818
		16,540	13,655

		2011 Sh'000	2010 Sh'000
8	TAXATION		
(a)	Taxation charge		
	Current taxation based on adjusted profit for the year at 30%	34,825	39,955
	Prior year current tax underprovision	7	-
	Deferred taxation credit (note 14)	(2,644)	(4,874)
	Prior year deferred tax overprovision	(12,787)	-
		19,401	35,081

((a) Reconciliation of taxation charge to the expected tax based on accounting profit

	2011 Sh'000	2010 Sh'000
Profit before tax	105,024	114,286
Tax calculated at a tax rate of 30%	31,507	34,286
Tax effects on expenses not deductible for tax	2,574	1,701
Tax effects on incomes not subject to tax	(1,893)	(906)
Prior year deferred tax overprovision	(12,787)	-
Taxation charge	19,401	35,081

		2011 Sh'000	2010 Sh'000
c)	Tax movement		
	Balance at 1 January	21,596	(16,593)
	Charge to profit or loss	34,825	39,955
	Tax paid	(68,399)	(1,766)
	Balance at 31 December	(11,978)	21,596

9. EQUIPMENT	Motor vehicles Sh'000	Furniture & fittings Sh'000	Office equipment Sh'000	Computer equipment Sh'000	Total Sh'000
COST					
At 1 January 2010	8,871	16,677	12,710	69,507	107,765
Additions	-	157	58	220	435
At 31 December 2010	8,871	16,834	12,768	69,727	108,200
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 31 December 2011	8,871	18,589	11,591	68,543	107,594
DEPRECIATION					
At 1 January 2010	3,561	7,939	11,397	51,957	74,854
Charge for the year	1,717	2,377	804	10,238	15,136
At 31 December 2010	5,278	10,316	12,201	62,195	89,990
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 31 December 2011	6,995	12,075	10,608	51,319	80,997
NET BOOK VALUE					
At 31 December 2011	1,876	6,514	983	17,224	26,597
At 31 December 2010	3,593	6,518	567	7,532	18,210

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 78.6 million (2010 - Sh 69.6 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 18.1 million (2010 – Sh 12.2 million).

*During the year a review of the fixed assets register was carried out, various assets that were being carried in the books but could not be physically verified were written off.

10 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 2010	59,702	17,854	-	77,556
Additions	-	278	-	278
At 31 December 2010	59,702	18,132	-	77,834
At 1 January 2011	59,702	18,132	-	77,834
Additions	-	1,762	46,371	48,133
At 31 December 2011	59,702	19,894	46,371	125,967
AMORTISATION				
At 1 January 2010	28,353	7,654	-	36,007
Amortisation for the year	12,563	3,146	-	15,709
At 31 December 2010	40,916	10,800	-	51,716
At 1 January 2011	40,916	10,800	-	51,716
Amortisation for the year	9,492	2,976	-	12,468
At 31 December 2011	50,408	13,776	-	64,184
NET BOOK VALUE				
At 31 December 2011	9,294	6,118	46,371	61,783
At 31 December 2010	18,786	7,332	-	26,118

Broker Back Office (BBO) software represents costs incurred towards the acquisition of a new operations software. The new software was rolled out in 2012.

11 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% (2010- 20%).

	2011 Sh'000	2010 Sh'000
(a) The movement in the balance is as follows;		
At 1 January	33,025	30,006
Share of profit for the year	6,190	3,019
Additional Shares acquired	3,994	-
At 31 December	43,209	33,025

(b) Summarised financial information in respect of the associate company is set out below;

	2011 Sh'000	2010 Sh'000
Total assets	213,214	191,219
Total liabilities	(21,170)	(26,093)
	192,044	165,126
Company's share of net assets of associate	43,209	33,025
Total revenue	190,311	154,663
Company's share of profit of the associate	6,271	3,019
Company's share of other comprehensive income	(81)	-
	6,190	3,019

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

Name of associate	Country of incorporation and operation	Number of shares held by the company @ Sh 100 per share		Proportion of ownership interest and voting power held by the company	
		2011	2010	2011	2010
Central Depository and Settlement Corporation (CDSC) Limited	Kenya	225,000	200,000	22.5%	20%

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

		2011 Sh'000	2010 Sh'000
12	CORPORATE BONDS – held to maturity		
	Safaricom Limited	20,233	20,043
	Housing Finance Company of Kenya Limited	15,274	15,233
		35,507	35,276
	Maturity analysis;		
	Maturing within 5 years	15,274	15,233
	Maturing after 5 years	20,233	20,043
		35,507	35,276

The effective interest rate of the corporate bonds as at 31 December 2011 was 8.1% p.a (2010: 8.1%).

		2011 Sh'000	2010 Sh'000
13	GOVERNMENT SECURITIES HELD TO MATURITY		
	Treasury bills and bonds maturing:		
	After 1 to 10 years	157,537	157,208

The weighted average interest rate of the treasury bonds was 8% p.a (2010: 3.7% p.a).

14 DEFERRED TAX

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. (2010: 30%). The net deferred tax (asset)/ liability is attributable to the following items;

	2011 Sh'000	2010 Sh'000
Excess depreciation over capital allowances	3,510	3,489
Leave provision	601	653
General bad debts provision	15,462	-
At 31 December	19,573	4,142
The movement in the deferred tax asset is as follows:		
At 1 January	4,142	(732)
Credit to profit (note 8(a))	2,644	4,874
Prior year under provision	12,787	-
At 31 December	19,573	4,142

15 a) TRADE AND OTHER RECEIVABLES

	2010 Sh'000	2009 Sh'000
Trade receivables	43,722	34,025
Prepayments and deposits	13,131	11,098
Other receivables	4,879	16,037
Receivable from Dar es Salaam Securities Exchange	-	2,500
Receivable from members of the Exchange	49,867	50,507
	111,599	114,167
Provision for doubtful debts (note 15b)	(65,941)	(65,906)
	45,658	48,261

Receivable from Dar-es-Salaam Securities Exchange (DSE) was an amount paid by the company on behalf of Dar-es-Salaam Securities Exchange for their proportionate called up shareholding in CDSC. The DSE, divested from the CDSC and Nairobi Securities Exchange has taken up these shares thereby increasing its shareholding with the same amount of shares, hence clearing the balance.

(b) PROVISION FOR DOUBTFUL DEBTS

	2011 Sh'000	2010 Sh'000
Movements in the provisions bad debts were as follows:		
At 1 January	65,906	65,606
Charge to profit or loss	675	300
Write back during the year	(640)	-
At 31 December (note 15a)	65,941	65,906

16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:-

	2011 Sh'000	2010 Sh'000
Bank and cash balances	12,483	80,813
Term deposits	60,994	-
	73,477	80,813

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

	2011 Sh'000	2010 Sh'000
Kenya Commercial Bank Limited	60,994	-

The effective interest rate on the term deposit as at 31 December 2011 was 20% p.a. (2010 Nil). The term deposit matured on 18 January 2012.

17 SHARE CAPITAL

	2011 Sh'000	2010 Sh'000
Authorised		
25,000,000 ordinary shares of Sh 1 each	25,000	-

Issued and fully paid:

The movement in share capital was as follows:

Number of shares	Value of shares Sh'000	
At 1 January 2011	-	-
Issued in the year	2,100	2
At 31 December 2011	2,100	2

On 21 September 2011 the company issued 2,100 shares of Sh 1 each and converted from a company limited by guarantee to a company limited by shares.

		2011 Sh'000	2010 Sh'000
18	TRADE AND OTHER PAYABLES		
	Trade payables	6,425	3,921
	Annual listing fees received in advance	11,521	24,900
	Accrued expenses	2,802	2,678
	Staff leave provision	2,002	2,177
	Capital Markets Authority	865	980
	Data vendors deposit	513	646
	Tax Penalties payable	10,839	-
	Other payables	10,615	2,043
		45,582	37,345
19	NOTE TO THE STATEMENT OF CASHFLOWS		
	Reconciliation of profit before tax to cash generated from operations:		
	Profit before tax	105,024	114,286
	Adjustments for:		
	Depreciation (note 9)	14,836	15,136
	Amortisation (note 10)	12,468	15,709
	Share of results of associate (note 11)	(6,190)	(3,019)
	Interest income (note 6)	(20,488)	(12,679)
	Working capital changes:		
	Decrease/(increase) in trade and other receivables	505	(11,969)
	Increase in trade and other payables	8,237	13
	Cash generated from operations	114,392	117,477

20 RELATED PARTY TRANSACTIONS

As at 31 December 2011, the company had 15 (2010:10) member stock brokers and 7 (2010:12) licensed investment banks. The following transactions were carried out with related parties:

	2011 Sh'000	2010 Sh'000
(a) Directors' emoluments		
Non - executive	5,702	5,817
As executives	10,665	10,463
(b) Key management compensation		
Salaries and other short-term employment benefits	33,275	29,580

20 RELATED PARTY TRANSACTIONS (Continued)

(c) Transactions with brokers

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% (2010: 0.12%), of the value of equity securities traded at the Exchange. During the year, the total turnover was Sh 156,107 million (2010: Sh 179,494 million) resulting in a transaction levy of Sh 187.3 million (2010: Sh 215.3 million). The approved fees chargeable on fixed income securities was gazetted on 3rd December 2010, NSE 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 Shs 974,026 million, resulting in transaction levy of Shs 34.089 million. In 2010 the levy was charged from 6th December 2010 to 31 December 2010. The turnover for that period was Sh 40,015 million resulting in a transactions levy of Shs 1.5 million.

	2011 Sh'000	2010 Sh'000
Transaction levy		
Transaction levy	187,340	215,295
Fixed income securities	34,089	1,500
	221,429	216,795

21 OPERATING LEASE COMMITMENTS

	2011 Sh'000	2010 Sh'000
One within 1 year	17,846	17,139
One after 1 year but within 5 years	53,538	43,187
	71,384	60,326

Operating lease commitments relate to the lease rentals payable for the offices where the Exchange is situated.

22 CAPITAL COMMITMENTS

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

	2010 Sh'000	2009 Sh'000
Authorised and contracted for	-	74,975

The capital commitments relate to purchase and installation costs of the broker back office hardware and software

23 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 of Sh 54,443,981 being Sh 10,539,177 relating to Corporation tax, Sh 30,726,515 relating to Withholding tax, Sh 8,244,292 relating to Value Added Tax (VAT) and Sh 4,933,997 relating to PAYE. Amounts of Sh 1,455,519, Sh 7,662,735, Sh 1,309,629 and Sh 410,790 were paid after year end being Corporation tax, Withholding tax, VAT and PAYE principal amounts, respectively that were not disputed.

The balance of Sh 43,605,308 has not been provided for as, in the opinion of the directors, the company has good grounds for the application lodged.

24 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	3-6 months Sh '000	1-5 years	5+ years	Total Sh '000
31 December 2011						
Government securities	-	-	-	-	157,537	157,537
Corporate bonds	-	-	-	15,274	20,233	35,507
Term deposits	60,994	-	-	-	-	60,994
31 December 2010						
Government securities	-	-	-	-	157,208	157,208
Corporate bonds	-	-	-	15,232	20,044	35,276

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 for the period of Shs 1,024,400 (2010: Shs 634,000).

24 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Market risk (Continued)

(ii) Foreign currency exchange risk

(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.

The amount that best represents the company's maximum exposure to credit risk as at 31 December 2011and 2010 is made up as follows:

31 December 2011	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
Treasury bonds	157,537	-	-	157,537
Corporate bonds	35,507	-	-	35,507
Trade receivables	27,648	-	16,074	43,772
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

31 December 2010	Fully performing Shs	Past due Shs	Impaired Shs	Total Sh'000
Treasury bills	157,208	-	-	157,208
Term deposits	35,276	-	-	35,276
Trade receivables	17,968	3,290	12,767	34,025
Due from members of the exchange			50,507	50,507
Bank balances	80,196	-	-	80,196
	290,648	3,290	63,274	357,212

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.

24 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(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.

	Up to 1month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Total Sh'000
At 30 September 2011					
Trade payables	6,425	-	-	-	6,425
At 30 September 2010					
Trade payables	3,921	-	-	-	3,921

25 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 equity balance.

The capital structure of the company consists of share capital, member's funds and accumulated profit.

The company is not subject to any externally imposed capital requirements.

26 EVENTS SUBSEQUENT TO YEAR END

Progress report on Demutualization

NSE held an Extraordinary General Meeting on 15th March 2012 where the shareholders elected a new Board of Directors conforming with the new Articles of Association. The new board of directors has 6 Independent and Non Executive directors, 2 Trading Participants and the Chief Executive.

The shareholders also approved the following at the EGM:

a) Allotment and issue of 100 shareholders of KShs. 1 each to Francis Thuo and Company Limited subject to the Company signing a settlement agreement with NSE for debts owed to NSE;

b) Capitalization of KShs. 21,997,800 out of the revenue reserves of the company and distribution of 9,999 shares of KShs. 1 each for each share held to the shareholders of the Company subject to the amendment of the Capital Markets (Licensing Requirements) (General) Regulations 2002 to allow for distribution of profits.

NSE is now working towards obtaining recognition as a Self Regulatory Organization (SRO) from the Capital Markets Authority (CMA).

27 COUNTRY OF INCORPORATION

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

28 CURRENCY

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

Notes

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NAIROBI SECURITIES EXCHANGE LIMITED

Nation Centre, 1st Floor, Kimathi Street
P.O Box 43633-00100 Nairobi Kenya
Tel: +254 20 283 1000 Fax: 254 20 222 42000
Email: info@nse.co.ke
Website: www.nse.co.ke