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# ANNUAL REPORT

2017

Crafting for the Future



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## **ABOUT THIS REPORT**

We are proud to present to you our first Integrated Report for the period 1 January 2017 to 31 December 2017. The Integrated Report is an instrument designed to illustrate the creation of corporate value in its various aspects and to highlight the use of different forms of capital and their related outcomes. It covers strategy, governance, performance and prospects in the context of our local, regional and global environments.

### **Purpose**

The aim of our Integrated Report is to enable our stakeholders, including investors; to make a highly informed assessment of The Nairobi Securities Exchange (NSE) and its forecasts. NSE has made a deliberate choice to communicate its company's story through an Integrated Report; as we appreciate that traditional standards for measuring value and financial growth no longer provide a comprehensive picture of the company. We believe that entrenching such practices into our business will help to drive improved governance practices through more inclusive identification and management of current and future opportunities and risks.

We use an integrated approach to reporting that examines our operational, financial and sustainability performance. We are always looking for ways of working with our stakeholders to create lasting value, while continuing our journey to deliver on our vision, "To be a leading securities exchange in Africa, with a global reach."

### **Preparation & Presentation**

This Integrated Report has been prepared taking into consideration the International Integrated Reporting Council Framework. The NSE Board of Directors and Management have considered the fundamental concepts and guiding principles recommended in the Framework and have undertaken to apply these recommendations in the report. This report is also aligned with the provisions of the Kenya Companies Act 2015 and guidelines issued by the Capital Markets Authority (CMA). The Group Annual Financial Statements have as usual been prepared in accordance with the International Financial Reporting Standards (IFRS).

### **Assurance**

The Group Annual Financial Statements were audited by PricewaterhouseCoopers (PwC).

GEOFFREY O. ODUNDO  
CHIEF EXECUTIVE

# NSE HISTORY

## 1920s – 1953:

Dealing in shares commenced with trading taking place on a gentleman's agreement. London Stock Exchange (LSE) officials accepted to recognize the setting up of the Nairobi Stock Exchange as an overseas stock exchange in 1953.

## 1954 – 1962:

The Nairobi Stock Exchange (NSE) was registered under the Societies Act in 1954 as a voluntary association of stockbrokers, charged with the responsibility of developing the stock market. Business was transacted by telephone and prices determined through negotiation.

## 1963 – 1970:

The Government adopted a new policy with the primary goal of transferring economic and social control to citizens. By 1968, the number of listed public sector securities was 66 of which 45% were for Government of Kenya, 23% Government of Tanzania and 11% Government of Uganda. During this period, the NSE operated as a regional market in East Africa where a number of the listed industrial shares and public sector securities included issues by the Governments of Tanzania and Uganda (the East African Community).

## 1988:

The first privatization through the Nairobi Stock Exchange (NSE), took place with the successful sale of a 20% Government stake in Kenya Commercial Bank (KCB).

## 1991:

NSE was registered as a private company limited by shares. Share trading moved from being conducted over a cup of tea (at the Exchange Bar) to the trading floor based open outcry system, located at IPS Building, Kimathi Street, Nairobi.

## 1993:

The African Stock Exchanges was established with NSE as a founder member and secretariat.

## 1994:

The NSE moves its offices and trading floor from the IPS Building to Nation Centre.

## 1996:

Privatization of Kenya Airways where more than 110,000 investors acquired a stake in the airline and the Government of Kenya reduced its stake from 74% to 26%.

The NSE 20 Share Index; a price weight index calculated as a mean of the top 20 best performing counters is incorporated.

## 1975:

When the EAC finally collapsed in 1975, the Government of Uganda compulsorily nationalized companies which were either quoted or subsidiaries of listed companies.

## 2004:

Following the successful signing of an MOU between the Dar-es-Salaam Stock Exchange, the Uganda Securities Exchange and the Nairobi Securities Exchange, the East African Securities Exchanges Association was formed.

## 2006:

The NSE implemented live trading on its own Automated Trading Systems (ATS), trading equities. The ATS also had the capability of trading immobilized corporate bonds and treasury bonds. The Exchange's trading hours were increased from two hours (10.00 am – 12.00 pm) to three hours (10.00 am – 1.00 pm).

## 2007:

The NSE implemented its Wide Area Network (WAN) platform. With the onset of remote trading, brokers and investment banks no longer required a physical presence on the trading floor since they would be able to trade through terminals in their offices linked to the NSE trading engine.

## February 2008:

The NSE announced the extension of trading hours at the bourse. Trading would commence from 9.00 a.m. and close at 3.00 p.m. each working day. NSE introduced the NSE All-Share Index (NASI) to provide investors with a comprehensive measure of the performance of the stock market.

## April 2008:

The NSE launched the first edition of the NSE Investment Challenge to promote stock market investments among Kenyan youth.

## June 2008:

The immobilized shares of Safaricom Ltd. commenced trading on the NSE. The Safaricom IPO increased the number of shares listed on the bourse to over 55 billion shares, from the previous 15 billion.

## 2009:

The NSE marked the first day of automated trading in Government bonds through the Automated Trading System (ATS) and uploaded all Government bonds on the System.

## July 2011:

The equity settlement cycle moved from the previous Trading T+4 settlement cycle to the T+3 settlement cycle. The Nairobi Stock Exchange Limited changed its name to the Nairobi Securities Exchange Limited. The change of name was a reflection of the 2010 – 2014 strategic plan of the NSE to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments.

## November 2011:

The NSE together with FTSE International launched the FTSE NSE Kenya 15 and FTSE NSE Kenya 25 Indices.

## 2012:

UMEME Holdings Limited cross listed its 1.6 Billion shares on the Main Investment Market Segment (MIMS) of the NSE. It was the first inward cross listing of an East African company on the NSE since the incorporation of the East African Securities Exchanges Association (EASEA).

## 2013:

NSE moves from Nation Centre to its new building; The Exchange on Westlands Road.

## NSE HISTORY (Continued)

### January 2013:

The Growth Enterprises Market Segment (GEMS) was launched giving small and medium enterprises a great opportunity to access the capital markets.

### February 2013:

Centum Investment Company became the first company in East Africa to list an equity linked note, when its Kshs. 4.19 Billion Note Issue commenced trading on NSE's Fixed Income Securities Market Segment (FISMS).

NSE was admitted as an associate member of the Association of Futures Market.

### July 2013:

Home Afrika, made history by being the first company to list by introduction on the Growth Enterprise Market Segment (GEMS).

### September 2013:

The NSE, named the winner of the Most Innovative African Stock Exchange at the 2013 Africa Investor Index Series Awards.

### April 2014:

The 60th Anniversary Celebrations of the NSE kicked off with the Launch of the new NSE Brand and official opening of its new residence the Exchange building.

### June 2014:

The NSE received formal approval from the Capital Markets Authority (CMA) to operate as a demutualized entity. The NSE also received formal approval from CMA to offer its shares to the public through an IPO and subsequently self-list its shares on the Main Investment Market Segment (MIMS) of the NSE.

### July 2014:

The NSE officially launched its Initial Public Offering (IPO) seeking to raise Kshs.627 million by selling up to 66 million new shares at a price of Ksh 9.50 per share.

### September 2014:

The NSE listed its 194,625,000 issued and fully paid up shares on the Main Investment Market Segment (MIMS) under a new sector - Investment Services of the bourse after a successful IPO. Following its self-listing the Exchange becomes the second African Exchange after the Johannesburg Stock Exchange to be listed.

The NSE launched a new system for trading corporate bonds and Government of Kenya Treasury Bonds allowing on-line trading of debt securities. The system was integrated with the settlement system at the Central Bank of Kenya.

NSE hosts the African Securities Exchanges Association (ASEA) conference.

### March 2015:

The NSE joined the United Nations Sustainable Stock Exchanges (SSE), becoming the eighteenth member of the SSE worldwide and the fourth in Africa alongside the Egyptian Exchange, the Nigerian Stock Exchange and the Johannesburg Stock Exchange.

### October 2015:

The NSE Board approved the launch of a new index dubbed NSE 25 Share Index. The move was informed by the need to have a reference benchmark that can be used by capital markets players, in preparation for the launch of the NSE Derivatives Market.

The NSE became the fourth African bourse to launch the Real Estate Investment Trust (REITs) market and consequently listed the first REIT the Stanlib Fahari I-REIT.

### 2016:

NSE becomes full member of the Association of Futures Market (AFM) an upgrade from an associate membership attained in February 2013.

### March 2016:

NSE signs up to the UN Women Empowerment Principles.

### May 2016:

NSE was admitted to the UN Global Compact and signed the "Code of Ethics for Business in Kenya" in an effort to promote corporate sustainability practices in NSE and the capital markets at large.

### July 2016:

NSE received formal recognition as a Self-Regulatory Organization (SRO).

### 2017:

NSE changes its name from Nairobi Securities Exchange Limited to Nairobi Securities Exchange PLC

### March 2017:

The NSE becomes the first exchange in the East African region to introduce Exchange Traded Funds and subsequently listed the Barclays Newgold ETF.

### June 2017:

The NSE in association with other partners launch the world's first government bond dubbed M-Akiba to be traded exclusively on a mobile phone. The first M-Akiba bond brought 300,000 new retail investors on to the bond market platform.

### January 2018:

NSE becomes the first Exchange in East and Central Africa to be admitted as a full member of the World Federation of Exchanges (WFE).

## **NSE PURPOSE & VALUES**

Nairobi Securities Exchange (NSE) is the principal bourse in Kenya, offering an automated platform for the listing and trading of multiple securities.

NSE has consistently offered a well regulated, robust and world class platform for the trading of equities and bonds.

NSE is the market of choice for local and international investors looking to gain exposure to the East African capital markets.

The NSE is publicly traded and is the second self-listed exchange in Africa.

### **Our Vision**

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To be a leading securities exchange in Africa, with a global reach

### **Our Mission**

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To provide a world class securities trading facility

### **Our Purpose**

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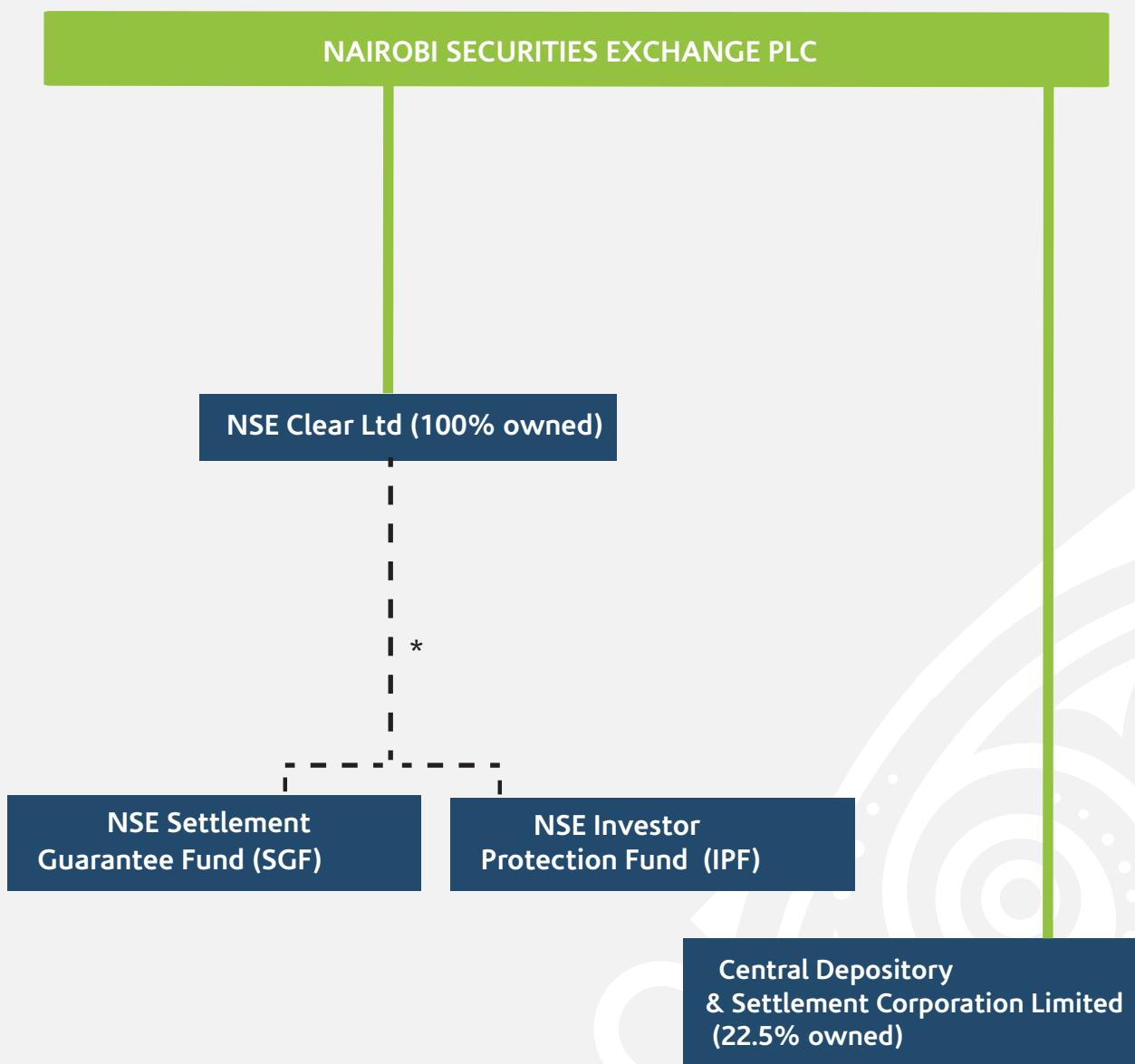
To help stimulate and support a vibrant and growing capital markets in Kenya

### **Our Core Values**

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Ethics. Integrity. Confidentiality. Excellence. Innovation.

## NSE STRUCTURE



- \* The Board of Directors of NSE Clear Limited appoints Trustees of the SGF and IPF who manage and administer the funds.

## CORPORATE INFORMATION

### DIRECTORS

Mr. Samuel Kimani  
Mr. Bob Karina  
Dr. Winnie Nyamute  
Ms. Sharon Maviala  
Mr. Hosea K. Kili  
Mr. Jimnah Mbaru  
Ms. Nasim Devji  
Mr. Michael Turner  
Mr. James Mworia  
Mr. Paul Vollant  
Mr. Geoffrey O. Oundo    Chief Executive

Chairman  
Vice Chairman

### SECRETARY

John Maonga  
Maonga Ndonye Associates  
Certified Public Secretaries (Kenya)  
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Nairobi, Kenya

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Nairobi, Kenya

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## 2017 HIGHLIGHTS

### 1. LAUNCH OF THE NSE - KENYA INSTITUTE OF MANAGEMENT BOARD DIVERSITY REPORT



EABL Chairman Charles Muchene, CMA Chief Executive, Paul Muthaura, New Faces New Voices Kenya Director, Andia Chakava and Kenya Institute of Management, Executive Director, Muriithi Ndegwa during the launch of the Board Diversity report.



New Faces New Voices Kenya Director, Andia Chakava and Nairobi Securities Exchange Chief Executive, Geoffrey Oundo pose for a photo with the HR - Business Partner - Uchumi Supermarket ,Elizabeth Oyombe, after the company was recognized as one of the most improved companies in Board Diversity.

The NSE in association with the Kenya Institute of Management (KIM) and New Faces New Voices (NFnV) launched a Board Leadership and Diversity report on July 18, 2017.

The report which sampled 52 listed companies in Kenya is in line with the NSE's leadership and Dialogue series; an NSE initiative aimed at promoting diversity among Boards of listed companies by leading conversation on how to enhance various aspects diversity such as age, professional mix, and gender.

The report indicated that women representation in Boardrooms of listed companies stood at 21% in 2017, up from 14% in 2012. The report also found the average age of Kenyan board members stands at 55.8 years with 52.5% being between 45 and 49 years old with the country scoring better than the global average of 60.6 years.

The report also revealed that over 48% of Board members have an undergraduate level of education with 54% of women on boards holding a master's degree and above compared to 43% of men who hold a masters degree and above.

The launch of the report culminated with recognizing and awarding companies that exhibited exceptional leadership in Board diversity.

### 2. RING THE BELL FOR GENDER EQUALITY



(From Left) NSE Chief Executive (CE) Geoffrey Oundo, KAM Chair Flora Mutai, UN-Women's Banu Khan and CMA (CE) Paul Muthaura at a panel discussion during the Ring the Bell for Gender Equality Ceremony

In celebration of 2017 International Women's Day, the NSE joined over 40 stock Exchanges around the globe to Ring the Bell for Gender Equality on March 8, 2017, with the aim of raising awareness of the importance of gender equality amongst businesses for sustainable development.

The ceremony which was preceded by a full day training on corporate governance for female executives is aimed at highlighting the business case for gender equality while encouraging the implementation of Women Empowerment Principles (WEPS).

As a member of the United Nation's Sustainable Stock Exchanges, the NSE is committed to realizing the UN Sustainable Development Goal (SDG) five of achieving gender equality by empowering all women and girls.

The annual event was held in partnership with UN - Global Compact Kenya, UN Women and the International Finance Corporation.

## 2017 HIGHLIGHTS (Continued)

### 1. LAUNCH OF KENYA'S GREEN BOND PROGRAMME



FSD Africa Director Mark Napier, Kenya Bankers Association (KBA) CEO, Habil Olaka and Nairobi Securities Exchange CE, Geoffrey Oundo pose for a photo after signing an MOU during the Launch of the Kenya Green Bond Programme

The Nairobi Securities Exchange, Kenya Bankers Association (KBA), Climate Bonds Initiative and Financial Sector Deepening (FSD) Africa, in association with the Dutch Development Bank (FMO) and International Finance Corporation (IFC) launched the Kenya Green Bond Programme on March 31, 2017.

Green Bonds are bonds whose proceeds are allocated exclusively to projects with environmental benefits mostly related to climate change mitigation. The programme aims to help build the Kenyan green bond market, by listing issues that promote environmental protection in energy, agriculture, waste management, water, transport and urban planning for green sustainable economy to take place.

The NSE is committed to developing a vibrant domestic green market that will offer investors access to asset classes that balance financial returns with environmental benefits while enabling them hedge against climate risk policy.

The green market will provide issuers with additional source of financing; improve investor diversification whilst enhancing issuer reputation.

The launch of the Kenya Green Bond Programme comes at a time when green finance products have been introduced in several markets and seen tremendous growth. Global Green Bond issuance rose by 78% to \$155.5 billion in 2017: This shows the great opportunity to not only raise long term capital for green projects in the country but to offer investors an opportunity to earn returns from climate aligned investment.

### 2. NSE LAUNCHES EXCHANGE TRADED FUNDS



Barclays Bank Kenya CEO Mr. Jeremy Awori, Principal Secretary National Treasury, Dr. Kamau Thugge and Nairobi Securities Exchange CE, Mr. Geoffrey Oundo ring the bell to mark the listing and commencement in trading of the Barclays NewGold ETF.

The Nairobi Securities Exchange became the 6th Exchange in Africa and first in the region to introduce Exchange Traded Funds (ETFs) to the market are listed investment products that track the performance of a basket of shares, Bonds or commodities.

The first ETF was listed by Barclays Bank, dubbed the Barclays NewGold ETF. The NewGold ETF will enable investors to invest in an instrument which tracks the price of a Gold Bullion. ETFs will enable investors diversify their investments as they can be able to hold hundreds of individual stocks and bonds, which helps spread out risk.

The NewGold ETF will further enhance liquidity in our market while providing investors with an opportunity to diversify their portfolios.

### 3. NSE LISTING FORUMS



Participants follow proceedings of the NSE listing forum in Kisumu

In an effort to increase listings in our market, NSE held listings forums in Mombasa and Kisumu in 2017. NSE listing forums aim at apprising key business people and industrialist in the regions on the available opportunities in the capital markets.

Participants were enlightened on available options of raising capital as well as benefits of listing their businesses on the Exchange.

## 2017 HIGHLIGHTS (Continued)

### 4. NAIROBI SECURITIES EXCHANGE SIGNS MEMORANDUM OF UNDERSTANDING (MOU) WITH QATAR STOCK EXCHANGE (QSE)



Nairobi Securities Exchange, CE Geoffrey Ondundo and Qatar Stock Exchange CEO Rashid Ali Al Mansoori pose for a photo after signing the MoU

The Nairobi Securities Exchange signed a Memorandum of Understanding (MoU) with the Qatar Stock Exchange on March 13, 2017. The MoU will enable the two exchanges to enhance cooperation in the areas of sharing knowledge and expertise in relation to the development of capital market infrastructure, products and services between the two exchanges.

### 5. LAUNCH OF M-AKIBA BOND



NSE Chairman, Samuel Kimani, Central Depository Settlement Corporation (CDSC) CE, Rose Mambo, CS National Treasury, Henry Rotich and Capital Markets Authority CE, Paul Muthaura ring the bell to mark commencement in trading of the M-Akiba Bond.

The NSE in partnership with the other stakeholders launched the world's first mobile traded government bond - the M-Akiba Bond. M-Akiba is a Government of Kenya retail bond that seeks to enhance financial inclusion for economic development by enabling retail investors to invest in government bonds with a minimum of Kshs. 3,000.

M-Akiba Bond commenced with a Special Limited Offer (SLO) of Kshs.150 million which attracted 102,632 investors; successfully achieving the issue target two days before the set deadline. Subsequent to this, a main offer was issued which at the close had attracted a total of 303,534 investors.

Money raised from the issuance of M-Akiba shall be dedicated to infrastructural development projects, both new and ongoing.

### 6. NSE'S CHARITY TRADING DAY



Celebrated media personalities Amina Abdi(Left) and Sheilah Mwanyigha (Right) pause for a photo with stock broker Tito Namu at the Charity Trading Day.



Celebrated TV journalist Larry Madowo (left) shares a light moment with entrepreneur Darshan Chandaria at the Charity Trading Day.

The Nairobi Securities Exchange (NSE) raised over Kshs. 10 million in cash and in kind in its third annual charity trading day held on November 10, 2017, bringing the NSE Charity Trading Day total amount over 3 years to Kshs. 23 million.

The Charity Trading Day is an annual event that brings together the capital markets fraternity and known personalities, to make calls to clients on behalf of brokers and encouraging them to make trades. The Charity Trading Day provides an opportunity for capital market players to come together and raise funds in support of various charitable causes in the country.

The 2017 beneficiaries included; The Borana Conservancy - a non-profit conservation organization dedicated to the sustainable conservation of critical habitat and wildlife; SOS Children's Village &, Joy Children's Home.

## 2017 HIGHLIGHTS (Continued)

### 9. NSE INVESTMENT CHALLENGE



Information secretary, Ministry of Information, Communication and Technology, Ms. Judy Murinyi-Mumo, awarding the overall winner of the 2017 Investment Challenge Mr. Joseph Munyau.

The NSE hosted the 2017 NSE Investment Challenge from May to August 2017. The NSE Investment challenge is NSE's flagship Corporate Social Responsibility initiative that the Exchange has been running for the past 10 years. The challenge has so far attracted over 9000 participants, enhancing financial literacy amongst our youth while inculcating a savings and investment culture.

The annual online competition is a simulation of the activities that happen around trading in stocks, Bonds, ETF's and REIT's listed on the NSE. It also aims at inculcating prudent financial management skills with the intention of molding a new crop of future investors.

It lays emphasis on the use of technology, information and research in making investment decisions to optimize returns. Each participant gets Ksh 3 million virtual startup capital to trade with using live data from NSE during the competition period. They are mentored & judged by selected stock brokers and investment advisors.

### 10. FINANCIAL REPORTING (FiRe) AWARDS



Sameer Africa Limited team showcases their awards after being named the winners of the 2017 Financial Reporting Awards.

The NSE in partnership with other stakeholders held the 16th Edition of the FiRe Awards on November 16 and 17, 2018.

The Financial Reporting (FiRe) Awards is a joint initiative of the Nairobi Securities Exchange (NSE), Institute of Certified Public Accountants (ICPAK) and the Capital Markets Authority (CMA) aimed at promoting financial reporting excellence, fostering sound corporate governance practices and enhancing corporate investment and environmental reporting.

Participants are evaluated, ranked and given feedback on how to improve on topline corporate governance and financial reporting parameters shared.

The NSE continues to promote corporate governance and improved financial reporting standards amongst listed entities through initiatives such as these.

### 11. NAIROBI SECURITIES EXCHANGE (NSE) AND NASDAQ DUBAI SIGN MOU TO SUPPORT CREATION OF SUKUK SECTOR IN KENYA



(From Left) Nairobi Securities Vice Chairman, Bob Karina, Nasdaq Dubai Chief Executive, Hamed Ali, Nairobi Securities Exchange CE Geoffrey Odundo and NSE Chairman Samuel Kimani pause for a photo after signing an MoU.

Nairobi Securities Exchange signed a Memorandum of Understanding (MoU) with Nasdaq Dubai on November 23, 2017 to facilitate the creation of a Sukuk Sector in Kenya. The MoU will enable the two exchanges collaborate on assisting on the issuance and listing of Sukuk by the Kenyan government, government-related agencies and private businesses.

The MoU is also aimed at promoting the development of Islamic capital markets products and solutions in Kenya. Sukuk are financial instruments (equivalent to bonds) that are structured in such a way as to generate returns in compliance with Islamic religious laws. The strategic signing of the MoU comes at a time when Sharia compliant investments products have gained traction globally.

The annual volume of Sukuk issuance reached USD 75 Billion, bringing the volume of unpaid Sukus close to USD 320 billion. This indicates the great opportunity for potential issuers and investors in Kenya.

## THE CHAIRMAN'S STATEMENT



Dear Shareholders,

As I review the past year, I am pleased to report that the Company continued to register growth, despite various macro and micro - economic challenges witnessed in 2017. I am glad to note that the Company's performance remained buoyant, achieving a net earnings growth of 20%. The overarching objective of the Board and Management is to ensure the company remains focused to delivering value to you, the shareholders.

As I appraise you on the developments of the company, we must first appreciate the business environment we operate in to contextualize the company's performance for the period under review.



2017  
**Global economic activity continues to firm up with Global output estimated to have grown by 3.7%**

### Global Economic Review

Global economic activity continues to strengthen with Global output estimated to have grown by 3.7% in 2017, which is 0.1% faster than projected in the fourth quarter of 2017 and 0.5% higher than in 2016. The pickup in growth has been broad based, with notable upside surprises in Europe and Asia.

Global growth forecasts for 2018 and 2019 have been revised upwards by 0.2% to 3.9%. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes.

### Africa's Economic Review

African economies have been resilient and are gaining momentum. Real output growth is estimated to have increased by 3.6% in 2017 and is expected to accelerate to 4.1% in 2018 and 2019, largely supported by good macroeconomic policies, progress in structural reforms and functional policy frameworks.

Overall, the recovery in growth has been faster than envisaged emphasizing Africa's resilience. The recovery in growth could mark a turning point in commodity exporting countries, which experienced a prolonged decline in export prices resulting in low export revenues and intensified macroeconomic imbalances.

Going forward, economic diversification will be fundamental to solving the continent's challenges especially in the context of a perplexing demographic structure, increased global competition and infrastructure challenges.

### Kenya's Economic Review

Africa must re-examine itself as it prepares for the 4th industrial revolution. Kenya's GDP growth slowed in 2017 due to a resurgence of; drought, weak credit growth, political environment concerns and rising oil prices.

Overall inflation declined to 7.5% in the third quarter of 2017, from 10.8% in the second quarter of 2017, on account of a decline in food inflation largely driven by lower cost of essential commodities following improved weather conditions and government interventions.

Monthly flows of credit to private sector showed recovery in the third quarter of 2017. The Monetary Policy Committee (MPC) retained the Central Bank Rate (CBR) at 10% in the months July and September 2017 anchored on easing demand pressures and inflation expectations.



2017  
**Africa's real output growth is estimated to have increased by 3.6%**

## THE CHAIRMAN'S STATEMENT (Continued)

The Lending, Savings and 91 day Treasury bill interest rates remained relatively stable during the third quarter of 2017 averaging 13.6%, 6.9% and 8% respectively, with Treasury Bill rates tending to decline. The economy recorded subdued growth of 4.4% in the third quarter of the year, largely on account of heightened election activity.

The foreign exchange market has remained stable largely on account of resilient inflows from diaspora remittances, tourism and horticulture exports. The Kenya shilling strengthened against the world's majors, exchanging at Kshs 103.23 to the Dollar, Kshs. 123.28 to the Euro and Kshs. 138.75 to the Sterling Pound at the close of the year.

The Kenya Ease of Doing Business Index rose from 58.3% in 2016 to 62.56% in 2017, reflecting a positive change of 4.26%.

The capital markets recorded gains across leading market indicators during the year with the NSE 20 and NSE All Share Index recording gains of 16.5% and 28.39% respectively by close of the year.

### Financial Performance

While appreciating the multifaceted local, regional and global environment that we operated under, we are pleased with the Group's overall financial performance. Total income increased by 6% from Kshs. 717.2 million in 2016 to Kshs. 757 million in 2017. Equity trading volumes, which contribute 54% to the Group's total revenue, increased by 22% from Kshs. 5.8 billion in 2016 to Kshs. 7.1 billion in 2017. Profit after tax increased by 19% from Kshs.183.8 million in 2016 to Kshs. 218.8 million in 2017 mainly due to the higher equity turnover.

A detailed account of the Group's operating and financial performance in 2017 is set out in the Chief Executive's Report.

Despite the challenging economic environment, the Company continued its strategic focus of delivering value to all our stakeholders through provision of innovative solutions, strong trading infrastructure and high level visibility.

### Strategic Partnerships

Strategic Partnerships, beyond the regular interaction with our shareholders and investors, is critical to our existence. In 2017 the Company purposed to enhance its value proposition through partnerships and in line with Sustainable Development Goal on implementation of sustainability through global partnership.

The NSE and Qatar Stock Exchange (QSE), signed a Memorandum of Understanding (MoU) to enhance co-operation between the

two Exchanges. The MoU is geared towards cooperation in the areas of exchange of information, knowledge and expertise in relation to the development of capital markets, market infrastructure, products and services. The MoU's objectives also include supporting, promoting and facilitating investments in each other's market.

We also signed an MOU with Nasdaq Dubai to facilitate the development of a Sukuk Sector in Kenya. A Sukuk is an Islamic financial certificate, an equivalent to a bond, structured to generate returns to investors in compliance with Sharia - Islamic Religious Laws. The MoU will pave way for the two exchanges to collaborate on supporting the issuance and listing of Sukus by the Kenya Government, Government agencies and private businesses.

The company in partnership with the Kenya Bankers Association (KBA), the Climate Bonds Initiative (CBI), Financial Sector Deepening Africa (FSD) Africa in conjunction with the FMO – Dutch Development Bank and the International Finance Corporation (IFC) launched the Kenya Green Bond Programme in 2017. The Exchange is committed to developing a vibrant Green market in the region, with the aim of supporting interventions that will enable the achievement of the Sustainable Development Goals. Through the NSE, issuers and investors will have a medium that will facilitate the issuance and investment in Green Bonds.

Kenya made history by becoming the first country in the world to offer a Government bond traded exclusively through a mobile handset. The bond named *M-Akiba (mobile savings)* is a retail infrastructure bond issued by the Government of Kenya that seeks to enhance financial inclusion for economic development. It is a product in partnership with the Government of Kenya, the Nairobi Securities Exchange and the Central Depository and Settlement Corporation (CDSC).

The NSE in association with the Kenya Institute of Management (KIM) and New Faces New Voices published a Board Leadership and Diversity Report. The report which sampled 52 listed companies in Kenya gave critical insights on the state of diversity among boards of listed companies. The research focused on age, gender and professional background and gives key recommendations on ways of improving diversity among our boards.

We shall continue to seek out corporate partnership that helps us deliver on our strategic agenda.



## THE CHAIRMAN'S STATEMENT (Continued)

### Dividend

In line with our progressive dividend policy and improved financial performance, the Board of Directors is pleased to propose a dividend of Kshs. 0.30 per ordinary share, representing an increase of 11% compared to the dividend of Kshs 0.27 per ordinary share declared in 2016.

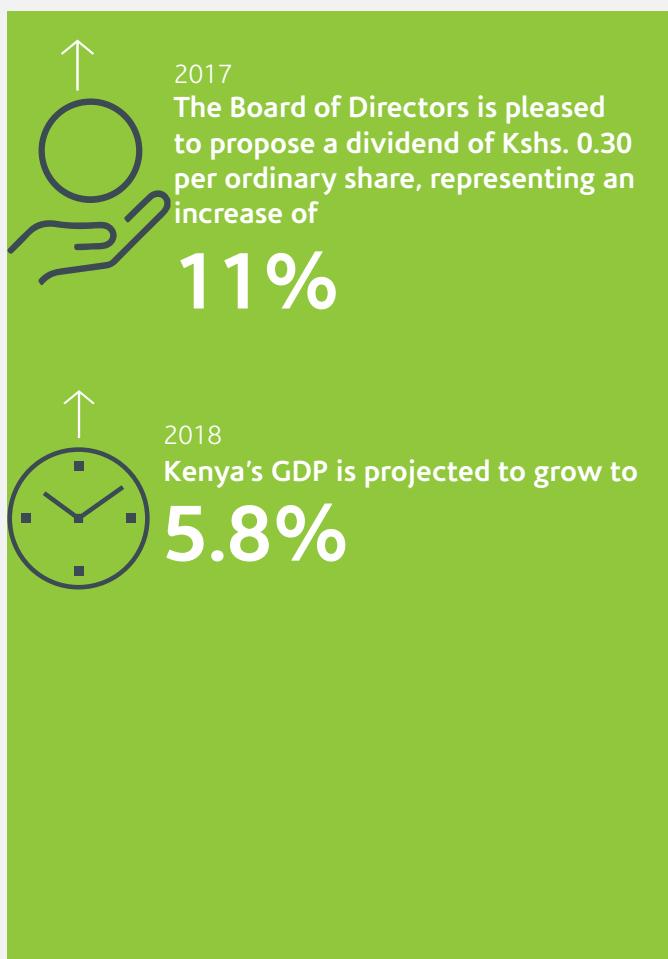
### Future Outlook

Kenya's GDP is projected to grow to 5.8% in 2018 and 6.1% in 2019 respectively on the back of improved tourism, ongoing investment in infrastructure projects, expected resolution of growth in credit and the strengthening of the global economy. We believe this will be a good baseline for our business growth.

The NSE will continue to diversify revenue streams through introduction of new product offerings such as Derivatives, Islamic Finance Products and Green Bonds.

The Exchange will also continue to promote some of its product offerings which include the Growth Enterprise Market Segment (GEMs) listings, the Real Estate Investment Trust (REITs), the M-Akiba bond and Exchange Traded Funds (ETFs). We will also continue in our pursuit of enhancing mechanisms aimed at deepening liquidity of the market through supporting introduction of the Securities Lending and Borrowing framework.

In the near term, our focus will be on cost and our operational efficiency. We will continue to set new heights for ourselves in the areas of governance processes, organizational effectiveness and strategy execution.



### Appreciation

Our successes in 2017 would not have been possible without the strategic guidance of the Board. I want to take this opportunity to express my appreciation to my colleagues on the Board for your unwavering support accorded to me and the company during the year.

Our continued ability to meet our strategic goals and commitments depends essentially on our people. I extend my sincere gratitude to the staff of the NSE for their dedication and hard work. We will continue to strengthen the performance culture at NSE to make us an attractive employer.

I would also like to thank our shareholders for your trust and choosing to invest in us. We will continue to focus our business on delivering value to your investment. We are investing in innovation, and building new capabilities and platforms to secure our long-term prospects while at the same time delivering the sustainable, profitable growth you expect from us.

I would also like to thank the Government of Kenya, for providing a conducive investment environment that has enabled our business to thrive.

Finally, on behalf of the Board, I wish to thank our issuers, trading participants and domestic and international investors for supporting the market during the year and assure you of continued impeccable service in 2018.

SAMUEL KIMANI  
CHAIRMAN

## THE CHIEF EXECUTIVE'S STATEMENT



Dear Shareholders,

The year 2017 tested the resilience of the Kenyan people, its economy and businesses alike. The company recorded strong performance despite a politically charged year and a myriad of macro-economic challenges. The company introduced a number of new products and services demonstrating its commitment to the growth strategy and expectation of its shareholders.



2017  
**Operating income increased by 10% from Kshs. 527 million to Kshs. 582 million.**

**10%**

### Trading Performance

During the year, the company registered overall good performance across the equity, bond and ETFs markets, a sign of our continued leadership among premier markets in Africa.

During the year, equity trading accounted for 54% of the Group's revenue. Turnover increased by 17% from Kshs.147 billion in 2016 to Ksh.171.6 billion in 2017.

Foreign investor participation averaged 65% over the same period, a 1% increase from the 2016 average of 64%. During the same period, secondary trading activity in the Fixed Income Securities Market rose by 0.82% from Kshs. 432 billion in 2016 to Kshs. 435 billion in 2017.

The Exchange's bench mark index, the NSE 20 recorded a gain of 17% from 3,186 points at the close of December 2016 to close at 3,712 points at the close of trading in December 2017. The NSE All Share Index (NASI) rose 28% from 133 points in 2016 to close at 171 points in 2017 while Market capitalization surged by 31% from Kshs.1.9 trillion in 2016 to Kshs. 2.5 trillion in 2017.

### Group Performance

Positive sentiments permeated the market during the year and this led to a growth in revenues in 2017 compared to 2016.

We are pleased to report that our profit after tax grew by 19% mainly due to increased equity levies occasioned by improved equity trading turnover. This resulted in an increase in operating income by 10% from Kshs. 527 million to Kshs. 582 million while interest income increased by 4% from Kshs. 95 million to Kshs. 99 million due to prudent management of funds. Other income decreased by 10% from Kshs. 95 million to Kshs. 76 million. Administrative expenses increased marginally by 3% from Kshs. 487 million to Kshs. 500 million owing to our effective cost management strategy resulting in an improvement in our cost income ratio from 68% in 2016 to 66% in 2017.

Total assets increased nominally by 5% from Kshs. 2,014 million in 2016 to Kshs. 2,108 million in 2017.

Return on equity increased to 10.75% from 9.87% in 2016, while the return on assets increased to 10.26% compared to 9.14% in 2016.

We are confident that the Group remains well positioned to continue to delivering superior returns to its shareholders.



2017  
**Total assets increased nominally by 5% from Kshs. 2,014 million in 2016 to Kshs. 2,108 million in 2017.**

**5%**

## THE CHIEF EXECUTIVE'S STATEMENT (Continued)

### Delivering on the Group's Strategy

As we strive to be a great Kenyan business, NSE is committed to creating value for our stakeholders and the communities we serve. We remain steadfast to delivering value to our shareholders through a very focused strategy which is broadly founded on three pillars: Revenue, Brand Reputation and People.

During the year we launched the Exchange Traded Funds (ETFs) market and listed the first ETF (the Barclays NewGold ETF). Globally, assets continue to flow into exchange traded funds which is an attractive investment channel for investors owing to their tax efficiency, liquidity, modest fees and ease of trading purchase and exit. The Exchange will continue to support the growth of the ETF market through our dedicated business development and public awareness campaign with the aim of increasing the number of issuers and investors participation.

Mobile technology and the increase of mobile financial services in particular have generated considerable attention as a means of expanding financial inclusion in Kenya. The NSE in partnership with the National Treasury (and other stakeholders) launched M-Akiba - a Government infrastructure retail bond that is issued and traded via the mobile phone. Among the key features of the bond is the low entry level of Kshs.3,000 and the ability to buy and sell the bond real-time, at any time. We believe that M-Akiba will promote a savings and investment culture among our populace and enhance financial inclusion in the capital markets.

In line with our sustainable finance agenda, the NSE in partnership with other stakeholders launched Kenya's Green Bond Programme. The programme is a partnership with the Kenya Bankers Association. The initiative is supported by the Central Bank of Kenya (CBK), Capital Markets Authority (CMA) and the National Treasury. Through the partnership, we aim to explore the potential of the Green Bond Market, list Green Bonds on the Exchange and build capacity of Investment Banks to support the growth of this asset class in Kenya. We believe that this will bring a new pool of social impact investors and position Kenya as a leading financial hub. In addition, it will enable the development of a community of Kenyan-based licensed verifiers and support efforts in building capacity locally to catalyze similar programmes across East Africa. Green bonds can mobilize resources from domestic and international capital markets for climate change adaptation, renewables and other environment-friendly projects.

### Our People

Since our restructuring process in 2015, our slightly larger, yet more skilled workforce has ensured that NSE works more efficiently to improve productivity. The key to this is that employees are incentivized to deliver against clearly defined performance targets that directly support the achievement of business objectives.

Our remuneration strategy is continuously evolving to attract and retain these skills, and our people development approach is to ensure that we build a robust internal skills pipeline that can supply the skills that the company needs, now and in the future. In 2017, we welcomed seven new employees, among them, an addition to our Executive Committee. We continue to hire personnel with good technical and leadership skills.

In 2017, we invested Kshs. 11.6 million in training and professional development for our people to help deepen skills and drive innovation.

### Future Outlook

In 2018 the Exchange shall continue to focus on overall delivery against the 2015 - 2019 strategy and in line with our purpose, 'To help stimulate and support a vibrant and growing capital market in Kenya.'

Product development remains a key strategic objective and our key focus this year will be to launch the Derivatives Market. This market will facilitate the trading of futures contracts across a variety of asset classes in the Kenyan market and act as an attractive hedging instrument for the various asset classes.

The Exchange shall also continue to pursue new listing opportunities as well as strengthen the trading of equities and fixed securities with a view of encouraging capital raising in the debt and equity market. We shall also conduct financial awareness and promotional campaigns for all our existing products.

Technology is very central to our business; this year we will commission our upgraded trading platform. The upgraded platform will facilitate the trading of new products and enhance surveillance. We will continue to offer technology driven solutions to maximize returns.

2017

Global economic activity continues to firm up with Global output estimated to have grown by

**3.7%**



2017

Africa's real output growth is estimated to have increased by

**3.6%**



## THE CHIEF EXECUTIVE'S STATEMENT (Continued)

### Appreciation

I would like to thank all our stakeholders for their unwavering support in 2017 as we continue to work hard to build a more resilient and prosperous company. As we embark on 2018, I would like to thank my team at NSE for making 2017 a success and look forward to the next phase of our journey.

I would like to thank all our shareholders for their support and confidence in the management, I wish to sincerely thank the Chairman and Board of Directors for their steadfast leadership and guidance. I look forward to your wise counsel in this next phase of our growth.

The NSE has established a solid base and structure aimed at attracting investors seeking value. shareholders and attract long-term investors seeking substantive value. I am very confident of our ability to grow our pan African market share and sustain the growth of the Company.



GEOFFREY O. ODUNDO  
CHIEF EXECUTIVE



2017

Total income increased by 6% from  
Kshs. 717.2 million in 2016 to  
Kshs. 757 million in 2017.

6%

## BOARD OF DIRECTORS

### MR. SAMUEL KIMANI, CHAIRMAN



Mr. Kimani is the Managing Director and Chief Executive Officer of Jamii Bora Bank Ltd. He has a wealth of experience in the banking industry having served as the Deputy CEO and Finance Director of the Kenya Commercial Bank (KCB) Group.

Prior to this, he served at the Central Bank of Kenya (CBK) as Deputy Chief Banking Manager, Deputy Director Financial Markets, Principle Financial Accountant, and the Chief Internal Auditor. He also headed the Surveillance Division of the Deposit Protection Fund and served as a Senior Auditor at PriceWaterhouseCoopers.

Mr. Kimani is a Certified Public Accountant of Kenya (CPA-K) and a graduate of the Advanced Management Program (AMP 177) from Harvard University. He holds an MBA in Strategic Management and a BSc. in Civil Engineering, both from the University of Nairobi.

He sits on the boards of the Central Depository and Settlement Corporation (CDSC) and is a member of the University of Stellenbosch Executive Education Advisory Board (USB-AB).

### MR. BOB KARINA, VICE CHAIRMAN



Mr. Karina is the Founder and Chairman of Faida Investment Bank. He is an accomplished Stockbroker, Corporate Finance Specialist and Research Analyst having served as the Chairman of Association of Kenya Stockbrokers (AKS) Nominees Ltd and Founder Member of the Institute of Certified Investment and Financial Analysts (ICIFA).

He holds an MSc. in Corporate Finance from the University of Liverpool, in the UK in addition to key technical professional qualifications.

As the Chair of the Implementation Committee that spearheaded developments in Kenya's Capital Market, Mr. Karina played a critical role in the establishment of the Central Depository and Settlement Corporation (CDSC), the NSE Automated Trading System (ATS), the Wide Area Network (WAN) and the Broker Back Office (BBO).

He serves as the Chairman of Norwich Union Properties Ltd, Vice Chairman of the Rwanda Stock Exchange (RSE), A Board Member of the Central Depository and Settlement Corporation (CDSC) and A Director of Kenya Industrial Estates (KIE). He has served as Director of Kenya Private Sector Alliance (KEPSA) and Director at the Kenya National Chamber of Commerce and Industry (KNCCI).

### MS. SHARON MAVIALA



Ms. Maviala is the General Manager of Horizons Group Limited, an indigenous serviced office business with footprints in Kenya, Ghana and Nigeria. She has extensive experience in business law having practiced in leading law firms in Kenya including Company Secretary for Sanlam Group of Companies.

She holds a Bachelor Degree in Law from the University of Reading and Masters in Business Administration (Strategic Management) from USIU-Africa. She is a qualified Advocate and a Certified Public Secretary.

She has experience as an in-house general counsel and business executive across a diverse range of industry sectors ranging from legal services to financial services, insurance and real estate. She is a member of the Law Society of Kenya (LSK), Institute of Certified Public Secretaries (ICPSK), the Institute of Directors and Women on Board Networks.

## BOARD OF DIRECTORS (Continued)

### MR. HOSEA KILI



Mr. Kili is the Group Managing Director and CEO of CPF Financial Services Ltd. Mr. Kili has considerable experience in legal matters, corporate governance, management and investment of pension schemes having served as the Chairperson of the East & Central Social Security Association (ECASSA), a regional social security body.

He holds an MBA in Strategic Management from the Management College of Southern Africa (MANCOSA) and a Bachelors of Law (LLB) from the University of Nairobi (UoN).

He serves as the Chairman of Association of Pension Administrators of Kenya (APAK) and Chairman of ICL, a subsidiary company of ICPSK. In 2011, Mr. Kili was conferred the Order of the Grand Warrior (O.G.W), a Head of State award for his exemplary service by H.E the President of Kenya.

He is an Advocate of the High Court of Kenya, Fellow of the Institute of Certified Public Secretaries of Kenya F (CPS-K) and Fellow of the Kenya Institute of Management.

### DR. WINNIE NYAMUTE



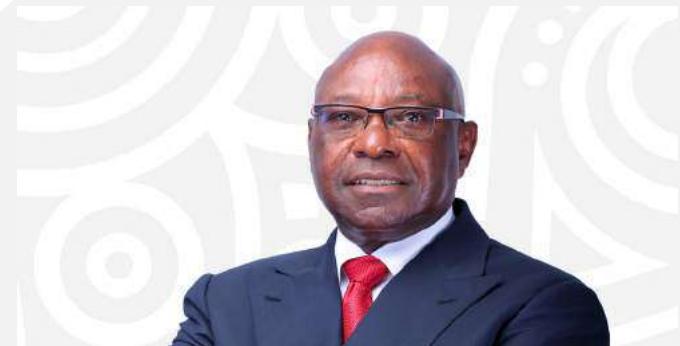
Dr. Nyamute is a lecturer in Finance and Accounting at the University of Nairobi (UoN).

She holds a PhD in Business Administration - Finance, an MBA - Finance and a Bachelor of Commerce in Accounting. She is a Certified Public Accountant (CPA), a Member of Kenya Institute of Management (KIM), the Association of Women Accountants of Kenya and the Institute of Directors (IOD).

She serves on the Research and Education Committee of the Institute of Certified Public Accountants of Kenya (ICPAK). She is also a faculty advisor for the Chartered Financial Analyst (CFA) Challenge, UoN as well as a Board Advisor for the Finance Students Association (FISA) of UoN. She is the coordinator for partnerships and linkages for the UoN School of Business (UoN).

Dr. Nyamute is a panel judge of the Excellency in Financial Reporting (FiRe) Awards Scheme. Dr. Nyamute previously served as a member of the ICPAK's Audit Quality Assurance and the Special Interest Group Committees.

### MR. JIMNAH MBARU



Mr. Mbaru is the Chairman of Dyer & Blair Investment Bank. Mr. Mbaru has over 30 years' experience in the financial services sector. He served as the founding Chairman of the African Securities Exchanges Association (ASEA) and former Chairman of the Nairobi Securities Exchange.

Mr. Mbaru is an advocate of the High Court of Kenya and holds a Bachelors of Commerce degree from University of Nairobi, a Masters of Business Administration degree from IMD, Lausanne, Switzerland and a Bachelor of Laws (LLB) degree from University of Nairobi.

Mr. Mbaru serves as a member of the Investment Committee for the International Finance Corporation's Africa Capitalization Fund, which focuses on funding financial institutions in Africa. He also serves as a Director of Britam Investments Company Limited; Occidental Insurance Company; Jitegemee Trust (Kenya); Pinebridge Investments East Africa Limited; and Sanlam Africa Core Real Estate Investments Limited (SACREIL), listed on the Mauritius Stock Exchange.

## BOARD OF DIRECTORS (Continued)

### MRS. NASSIM DEVJI



Mrs. Devji is the Managing Director and Group Chief Executive of Diamond Trust Bank (DTB) Group, a position she has held since 1996. She has since been appointed Group Chief Executive Officer of Diamond Trust Bank - East Africa.

She is a Fellow of the Institute of Chartered Accountants of England and Wales, an Associate of the Institute of Taxation (United Kingdom) and a Fellow of the Kenya Institute of Bankers.

Mrs. Devji serves as a Director of DTB Tanzania, DTB Uganda, DTB Burundi, Jubilee Insurance Burundi and Diamond Trust Insurance Agency Limited. She is also a member of Kenya Deposit Insurance Corporation.

### MR. PAUL VOLLANT



Mr. Vollant is the General Manager for business development at TNG Limited, an Australian listed company focused on developing the world class Mount Peake project. Paul is responsible for the company's commercial developments and trading.

He holds a Master of Science (MSc) in Business Administration from the ESDES Business School at the Catholic University of Lyon (France) and is a Graduate of the Australian Institute of Company Directors.

Prior to joining TNG, Mr. Vollant was the Managing Director of Element Commodities where he spearheaded the company's European Middle East and African (EMEA) trading and investments in the mining assets in French Speaking Africa. He began his career with the Noble Group in Hong Kong and London.

### MR. MICHAEL TURNER



Mr. Turner is the Managing Director of Actis Limited in East Africa and is responsible for Actis's USD 300m Private Equity Fund, with investment in Energy and Real Estate in East Africa.

He is a Fellow of the Institute of Chartered Accountants in England and Wales and holds a First Class degree in Civil Engineering.

He has extensive experience in private equity having served as the manager of the Actis Africa Agribusiness Fund and the founder manager of the first Small and Medium Sized Enterprises (SME) Private Equity fund in East Africa – the Acacia Fund.

Mr. Turner has deep understanding of Private Equity investment in agribusiness, financial services, real estate and infrastructure throughout Sub Saharan Africa. Prior to joining Actis, Michael worked in investment banking in London, for Lehman Brothers and Kleinwort Benson, having started his career with Price Waterhouse.

### MR. JAMES MWORIA



Mr. Mworia is the Group Chief Executive Officer and Managing Director of Centum Investment Company Limited (Centum) a position he has held since 2008. He holds a Bachelor of Law (LLB) degree from the University of Nairobi (UoN).

He is a Chartered Financial Analyst Charter Holder, a Chartered Global Management Accountant (CGMA), a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and is a Fellow of the Kenyan Institute of Management (KIM).

Mr. Mworia serves as the Chairman of Sidian Bank and Almasi Beverages. He has been a recipient of various national and international leadership awards including: The East Africa Business Leader of the year (2015) by All Africa Business Leaders Awards (AABLA) and The Africa CEO of the year award (2016) by the Wharton Club for Africa.

Mr. Mworia is also an Archbishop Tutu Fellow 2012, and an Advocate of the High Court of Kenya.

## BOARD OF DIRECTORS (Continued)

### MR. GEOFFREY ODUNDO



Mr. Oundo is the Chief Executive of the Nairobi Securities Exchange PLC. He is an accomplished Investment Banker having been in the financial services sector for the last 26 years, 20 of which have been in the Capital Markets.

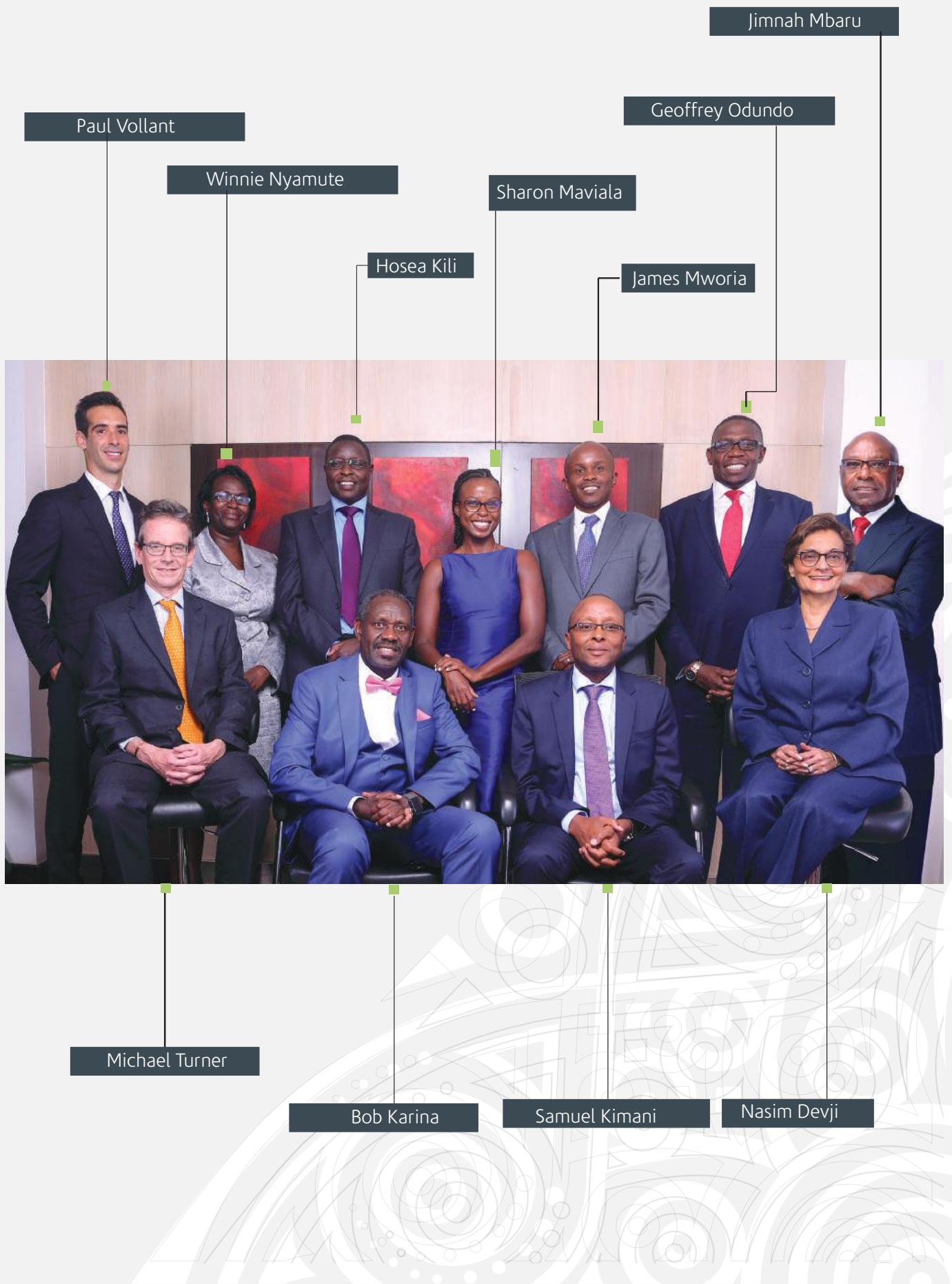
He is an Advanced Management Program (AMP) graduate from Strathmore Business School and holds a Master's degree in Strategic Management and an undergraduate degree in Mathematics and Economics.

Prior to his appointment, Mr. Oundo was the Managing Director and Chief Executive Officer of Kingdom Securities Limited. He was instrumental in the setting up of Co-op Trust Investment Services, Co-op Consultancy Services Limited and Kingdom Securities Limited.

Mr. Oundo has advised on a number of corporate finance mandates in both the public and private sectors; he has also managed key mandates in the asset management industry. He has contributed to the growth of the Capital Markets in his previous role as a Director/Board Secretary - Kenya Association of Stock Brokers and Investment Banks, Chairman of the Financial Standards Committee - Kenya Bureau of Standards as well as the Board Director of the Nairobi Securities Exchange Limited. Mr. Oundo serves as a Director of the Central Depository and Settlement Corporation (CDSC) Limited, Director of the NSE Clear Limited; and a trustee of the NSE Fidelity Funds. He is a member of the Central Bank Consolidative Forum for Domestic Debt Market (CFDDM) and a Council Member of the Institute of Certified Investment Financial Analysts (ICIFA).

Mr. Oundo is also a board member of the African Securities Exchanges Association (ASEA), a Director of the East African Securities Exchanges Association and a Member of the Thomson Reuters Africa Customer Advisory Network.

## BOARD OF DIRECTORS (Continued)



## EXECUTIVE COMMITTEE



**Geoffrey O. Oundo**  
Chief Executive



**Jane Kiarie**  
Finance and Administration Director



**Terrence Adembesa**  
Derivatives Market Director



**Bahati Mora**  
Business Development &  
Commercial Director



**Kuria Waithaka**  
Legal & Corporate Affairs Director



**Tom Kimaru**  
Regulatory Affairs Director



**Lucy Kamar**  
Head of Human Capital



**Caleb Kivuva**  
Operations & Technology Director



**Paul Ngaragari**  
Internal Audit Director

# CORPORATE GOVERNANCE STATEMENT

## Overview

Corporate governance refers to the structures and processes guiding the leadership of the Group. The Group 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 Markets Authority rules, regulations and guidelines on Corporate Governance and the Nairobi Securities Exchange Management & Membership rules and policies and procedure.

## The Role of the Board

The Board is collectively responsible to the Group's shareholders for the long-term success of the Group and 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 Group's obligations to its shareholders.

## The Key Responsibilities of the Board include:

- a) To define and chart out the Group's vision and mission. The Board has ultimate responsibility for the attainment of the Group's vision;
- b) To set the strategy, approve business plans and annual budgets and of 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 Group is managed with a view to ensuring that the Group is ethical in all its dealings and exercises corporate social responsibility;
- f) To ensure that procedures and processes are in place to protect the Group's assets and reputation;
- g) To ensure compliance by the Group with all relevant laws and regulations, audit and accounting principles, and such other principles as may be 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 Group;
- j) To set policies on internal controls and obtain regular assurance that the system is functioning effectively and is effective in managing risks;
- k) To appoint the Chief Executive, senior staff, the external auditor and other consultants; and
- l) To exercise such other powers as are necessary to enforce the requirements of the Capital Markets Authority Act, Articles of Association and the Rules governing the Group.

## Division of Responsibilities

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

The Chief Executive has overall responsibility for the business of the Group. The Chief Executive enforces the provisions of the Capital Markets Authority Act (the "Act") and the rules of the Group and immediately reports any violations to the Board and the Capital Markets Authority (CMA/the "Authority") and ensures compliance with the requirements of the Act, and rules in operations, transactions and all affairs of the Group including listings and continuous reporting obligations of listed companies.

The Chief Executive is also responsible for the supervision of the trading activities of the Group and takes all necessary steps to maintain orderly and efficient trading and functioning of facilities, in accordance with the Group's rules and as prescribed by the Act.

The Chief Executive reports periodically to the Board on all matters concerning the operation and affairs of the Group, attends all meetings of the committees and provides technical input where necessary, promotes the objectives and functions of the Group and liaises with the Authority and its representatives in respect of administrative and technical matters of the Group. The Chief Executive is also responsible for the stewardship of the Group's assets and, jointly with the Chairman, for representation of the Group externally.

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Board Composition

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

- a. Four (4) Independent and Non-Executive Directors;
- b. Two (2) Non-Executive Directors ;
- c. Two (2) Directors appointed to represent Trading Participants;
- d. Two (2) Directors appointed to represent Listed Companies; and
- e. One (1) Executive Director.

Below is the current composition of the Board :

Mr. Samuel Kimani	Chairman/Independent Non-Executive Director
Mr. Bob Karina	Vice Chairman/Trading Participant/Non-Executive Director
Ms. Sharon Maviala	Independent Non-Executive Director
Mr. Hosea K. Kili	Independent Non-Executive Director
Dr. Winnie Nyamute	Independent Non-Executive Director
Ms. Nasim Devji	Listed Companies/Non-Executive Director
Mr. Michael Turner	Non-Executive Director
Mr. James Mworia	Listed Companies/Non-Executive Director
Mr. Jimnah Mbaru	Trading Participant/Non-Executive Director
Mr. Paul Vollant	Non-Executive Director
Mr. Geoffrey O. Ondundo	Chief Executive

Mr Michael Turner was initially appointed as an Independent Non - Executive Director of NSE PLC and since he was subsequently appointed as a director of a listed company, he ceased to be an Independent Director and became a Non - Executive Director.

The Directors' abridged profiles appear on pages 21 - 24 of this Annual Report.

### Board Committees

The Board established seven (7) Board Committees with delegated authority to assist the Board effectively carry out its obligations. These Board Committees are:

- a) Business, Strategy, Finance & Human Capital Committee
- b) Trading & Technology Committee
- c) Listing and Admissions Committee
- d) Derivatives Market Oversight Committee
- e) Self-Regulatory Organization (SRO) Committee
- f) Audit, Risk & Compliance Committee
- g) Remuneration & Nominating Committee

Other than the Derivatives Market Oversight Committee which has external resource persons, all other Committees are now composed of Board members only.

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) Business Strategy, Finance & Human Capital Committee

The mandate of the Business Strategy, Finance & Human Capital Committee is to oversee the strategic and tactical business development opportunities of the Group and to evaluate and advise on potential investment opportunities. The Committee also monitors the Group's financial performance and treasury management, advises on human capital matters and oversees procurement and administration issues including property investments.

## **CORPORATE GOVERNANCE STATEMENT (Continued)**

### **b) Trading & Technology Committee**

The Trading & Technology Committee is mandated to assist the Board in effective discharge of its responsibilities in aspects of trading on the listed securities, information technology and enhancement of information on the securities exchange to the listed companies and the general public.

### **c) Listing and Admissions Committee**

The Listing 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 segments, to recommend approval of applications for admission of new Trading Participants, new listing of securities 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.

### **d) Derivatives Market Oversight Committee**

The Derivatives Market Oversight Committee is mandated to deal with strategic issues and oversight roles relating to the NSE's Derivatives Market (NEXT). The Committee has key mandate to advise on the NSE Derivatives market, address conflict of interest matters regarding futures brokers, address issues regarding design of derivatives contracts and undertaking Derivatives Market trading and surveillance functions.

### **e) Self-Regulatory Organization (SRO) Committee**

The general mandate of the Self-Regulatory Organization Committee is to protect investors by monitoring and enforcing the NSE Market Participants Business Conduct and Enforcement Rules, the NSE Listing Rules, the Derivatives Rules and any other Rules of the NSE as may be necessary for the maintenance of a fair and orderly market, and any other laws and the enforcement powers of which have been delegated to the SRO function of the NSE, enforce compliance of Capital Market Laws, Regulations, Rules, Guidelines and Directives by all Trading Participants and Issuers of Securities, 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.

### **f) Audit, Risk & Compliance Committee**

The mandate of the Audit, Risk & Compliance Committee is to review the adequacy of internal and external audit programmes for the year and to monitor, review and make recommendations to Management on the adequacy of the Group'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 Group's legal counsel if appropriate, any legal matters that could have a significant impact on the Group's financial statements.

The members of the Audit, Risk & Compliance Committee are as outlined on pages 30 - 31 and their qualifications under the Board of Directors profiles on pages 21 - 23 of this Annual Report.

### **g) Remuneration & Nominating Committee**

The mandate of the Remuneration & Nominating Committee is to advise, implement and assist the Board in effective discharge of its responsibilities in relation to remunerations and the composition of the Board of the NSE and its subsidiary, structured entities and associate company and to establish a plan of continuity for executive officers and other members of senior management including the Chief Executive.

Members and attendance of these Committees are provided on pages 30 - 32.

## CORPORATE GOVERNANCE STATEMENT (Continued)

### BOARD & BOARD COMMITTEES' MEMBERSHIP AND NUMBER OF MEETINGS HELD AND ATTENDED IN 2017

Classification	Designation	Board	Business, Strategy & Human Capital Committee	Trading & Technology Committee	Audit, Risk & Corporate Governance Committee	Listing & Admissions Committee	Self-Regulatory Organization Committee	Remuneration & Nominating Committee	Derivatives Market Oversight Committee
Director	Chairman - Board	Membership	✓			✓			
	Chairman - Listings & Admission Committee.	Attendance	7/7			1/1			
	Vice Chairman - Board	Membership	✓	✓	✓		✓		
B Karina	Non-executive	Chairman - Trading & Technology Committee	Attendance	7/7	5/5	4/4		1/1	
	Non-executive		Membership	✓			✓	✓	✓
S Maviala	Non-executive		Attendance	4/7			1/1	3/3	3/4
	Non-executive	Chairman - Self-Regulatory Organization (SRO) Committee	Membership	✓	✓	✓	✓	✓	✓ ***
H Kili	Non-executive		Attendance	5/7	4/5		7/7	1/1	3/3
Dr. W Nyamute	Non-executive	Chairperson - Audit, Risk & Compliance Committee	Membership	✓			✓	✓	
		Attendance	7/7			7/7	1/1	3/3	

\*Stepped down as Chairman of the Committee on 6th June 2017

\*\* Appointed to the Committee on 6th June 2017

## CORPORATE GOVERNANCE STATEMENT (Continued)

### BOARD & BOARD COMMITTEES' MEMBERSHIP AND NUMBER OF MEETINGS HELD AND ATTENDED IN 2017

Director	Classification	Designation	Board	Business, Strategy, Finance & Human Capital Committee	Trading & Technology Committee	Audit, Risk & Corporate Governance Committee	Listing & Admissions Committee	Self-Regulatory Organization Committee	Remuneration & Nominating Committee	Derivatives Market Oversight Committee
M Turner	Non-executive	Chairman - Business Strategy, Finance, & Human Capital Committee	Membership	✓	✓	***	✓	✓		✓ ****
J Mbaru	Non-executive		Attendance	7/7	5/5	1/4	1/1	2/3		2/4
J Mworia	Non-executive		Attendance	4/7	1/5	0/4	0/1			✓
N Devji	Non-executive		Attendance	2/7	2/5	3/4				0/4
P Vollant	Non-executive	Chairperson - Remuneration & Nominating Committee	Membership	✓			✓	✓		✓ ****
G Oundo	Chief Executive		Attendance	7/7	5/5	4/4	7/7	1/1	3/3	4/4

\*\*\* Stepped down from the Committee on 6th June 2017

\*\*\*\* Appointed to the Committee on 6th June 2017

\*\*\*\*\* Appointed as Chairperson of the Committee on 6th June 2017

The Chief Executive is not a member of the Board Committees and attends by invitation

## CORPORATE GOVERNANCE STATEMENT (Continued)

### BOARD COMMITTEES' MEMBERSHIP AND NUMBER OF MEETINGS HELD AND ATTENDED IN THE YEAR 2017

Name		Derivatives Market Oversight Committee Attendance
S Mwangi	Chairperson - Derivatives Market Oversight Committee	1/4
E Kigen	Member	4/4
H Muga	Member	3/4
A Mulisa	Member	4/4
J Swai	Member	3/4

### NAIROBI SECURITIES EXCHANGE CORPORATE GOVERNANCE FACT SHEET

Number of Board Members	11
Number of Independent Non-Executive Directors	4
Number of Non-Executive Directors	2
Number of Trading Participant Non-Executive Directors	2
Number of Non-Executive Directors representing Listed Companies	2
Number of Executive Directors	1
Number of women on the Board	3
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 2017	7
Number of Annual General Meetings in 2017	1
Re-election of Directors in accordance with Articles of Association	Yes
Board Induction Programs conducted	None required

## CORPORATE GOVERNANCE STATEMENT (Continued)

### CAPITAL STRUCTURE

#### a) Share capital

The authorized and issued share capital of Nairobi Securities Exchange PLC consists of only ordinary shares as disclosed in note 23 to the financial statements.

#### b) Top 20 Shareholders at 31 December 2017

No	Shareholder	Number of shares	%
1	Standard Chartered Kenya Nominees Ltd A/C KE002374	41,764,400	16.094%
2	Standard Chartered Kenya Nominees Ltd A/C KE22446	22,876,288	6.407%
3	Stanbic Nominees Ltd A/C NR1030823	12,523,399	3.940%
4	Stanbic Nominees Ltd A/C NR1030824	9,236,167	3.559%
5	Investor Compensation Fund Board	8,750,000	3.372%
6	The Permanent Secretary to the Treasury	8,750,000	3.372%
7	Standard Chartered Kenya Nominees Ltd A/C KE002012	7,535,067	2.904%
8	Nyaga Stockbrokers Limited	7,000,000	2.697%
9	Discount Securities Limited	7,000,000	2.697%
10	Francis Thuo & Partners Limited	7,000,000	2.697%
11	Sterling Capital Limited	7,000,000	2.697%
12	ABC Capital Limited	7,000,000	2.697%
13	Old Mutual Securities Limited	7,000,000	2.697%
14	Kingdom Securities Limited	7,000,000	2.697%
15	Renaissance Capital (Kenya) Limited	7,000,000	2.697%
16	Dyer & Blair Investment Bank Limited	6,000,000	2.312%
17	Standard Chartered Nominees Non-resident A/C 9661	4,536,800	1.748%
18	Faida Investment Bank Limited	4,000,000	1.541%
19	Standard Chartered Kenya Nominees Ltd A/C KE002373	4,000,000	1.541%
20	NIC Securities Limited	3,500,000	1.349%
Top 20 shareholders		189,472,121	73.014%
Others		70,028,670	26.986%
<b>Total issued shares</b>		<b>259,500,791</b>	<b>100.000%</b>

#### c) Distribution of Shareholders at 31 December 2017

	Number of Shareholders	Number of shares	%
Less than 500	1,762	350,486	0.14%
501 – 5,000	10,160	13,350,589	5.14%
5,001 – 10,000	634	4,498,897	1.73%
10,001 – 100,000	562	14,445,748	5.57%
100,001 – 1,000,000	34	11,041,065	4.25%
Above 1,000,000	44	215,814,006	83.17%
<b>Total</b>	<b>13,196</b>	<b>259,500,791</b>	<b>100.000%</b>

## CORPORATE GOVERNANCE STATEMENT (Continued)

### CAPITAL STRUCTURE (Continued)

#### d) Shareholder Analysis by Domicile at 31 December 2017

	Number of Shareholders	Number of shares	%
<i>Individual investors</i>			
Local	12,351	32,056,508	12.35%
East African	91	263,504	0.10%
Foreign	111	3,264,070	1.26%
	-----	-----	-----
	12,553	35,584,082	13.71%
	-----	-----	-----
<i>Institutional investors</i>			
Local	610	102,436,702	39.47%
East African	11	264,466	0.10%
Foreign	22	121,215,541	46.71%
	-----	-----	-----
	643	223,916,709	86.29%
	-----	-----	-----
Total	13,196	259,500,791	100.000%
	=====	=====	=====

#### e) Directors Holding Shares at 31 December 2017

	Number of shares	%
Mr. Geoffrey Oundo	49,000	0.019%
Mrs. Nasim Devji	45,600	0.018%
Mr. Samuel Kimani	8,000	0.003%
Mr. Hosea Kili	4,400	0.002%
Dr. Winnie Nyamute	2,000	0.001%
	-----	-----
<b>Total</b>	<b>109,000</b>	<b>0.043%</b>
	=====	=====

## CORPORATE GOVERNANCE STATEMENT (Continued)

### CORPORATE GOVERNANCE POLICY STATEMENTS

#### Code of Corporate Governance Principles

The Board and Management of the NSE have put in place deliberate effort towards full compliance with the Capital Markets Code of Corporate Governance Practice for Issuers of Securities to the Public 2015 (the "Code").

In order to ensure full compliance, the Company conducted a Regulatory and Compliance Assessment which included:

- a) Comprehensive analysis of legislation applicable to NSE as a Company, as an issuer and as a market intermediary;
- b) Analysis of the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015;
- c) Analysis of legislation prescribing compliance requirements to the various functions of NSE;
- d) Development of a comprehensive Compliance Matrix based on the review of the foregoing legislations;
- e) Drafting of various types of Policy Documents and mandates required by the Capital Markets Authority Code of Corporate Governance Practice for Issuers of Securities to the Public 2015 (the "Code"); and
- f) Completing the NSE Corporate Governance Reporting Matrix as required by the Capital Markets Authority.

The Company continues to address the notable areas of improvement as follows:

- a) Engaging an external legal counsel in good standing with the Law Society of Kenya to undertake the bi-annual Legal and Compliance Audit.
- b) Engaging an external governance auditor, accredited by the Institute of Certified Public Secretaries of Kenya to undertake the annual Governance Audit.

These audits are expected to be completed in the first half of 2018.

#### Board Charter

The Board of Directors of the NSE regard corporate governance as key to the achievement of NSE's mission and vision, and is committed to applying the core governance principles.

The NSE Board Charter outlines the;

- a) Roles, functions, responsibilities and powers of the Board, individual directors and the officials and executives of the NSE;
- b) Powers delegated to various Board Committees of the NSE; and

- c) Policies and practices of the Board in respect of matters such as corporate governance, trading by directors, declarations and conflicts of interest, Board meeting documentation and procedures and the nomination of directors, training and evaluation of directors and members of Board committees.

Whilst the Board Charter includes references to minimum acceptable standards of conduct, the Board embraces global best practices in this regard.

#### Board Diversity

The NSE Board has put in place a policy to ensure the achievement of diversity in its composition. The Remuneration and Nominating Committee assesses the required skills mix and expertise for the executive directors as well as Independent and Non Executive Directors. The Board considers factors such as: size, qualifications, technical expertise, relevant industry knowledge, experience, nationality, age, gender and other demographics with a view to enhancing effectiveness.

NSE promotes diversity by championing Gender Equality, along side other exchanges, investors, private sector and regulators.

#### Board Induction and Training

The NSE Board has established a formal induction program for the Board. All Board members receive induction on joining the Board and are updated on the various skills and knowledge at regular intervals.

Board members are provided with necessary orientation in the areas of the Company's business (the Company's operations, product offerings, regulatory framework and the business environment) in order to enhance their effectiveness. They are also introduced to their fiduciary duties and responsibilities.

The Board has also put in place training programs for the members.

#### Board Remuneration

The NSE Board has established formal and transparent remuneration policies to attract and retain both Executive and Non-Executive Board members. These policies clearly state remuneration elements such as Directors' fees and attendance allowances that are competitive and in line with the industry practice. Non-Executive Directors are paid a sitting allowance for every meeting attended.

The Company does not grant any personal loans, guarantees, share options or long term incentives to its Non-Executive Directors. Neither are the Non-Executive Directors eligible for provident fund. The company has taken out insurance covers for the non-executive Directors covering Directors and Officers liability insurance cover and group personal accident covering death, permanent total disability and medical expenses.

The Chief Executive is the only Executive Director on the Board and the company has in place a remuneration policy which is aimed at ensuring compensation is competitive and aligned to the company's strategic objectives.

## CORPORATE GOVERNANCE STATEMENT (Continued)

### Corporate Governance Policy Statements (Continued)

#### Code of Ethics and Conduct

The Company has a Code of Ethics and Conduct Policy. All Board members and NSE employees are required to uphold the highest standards of integrity, morality, ethical standards and confidentiality in line with NSE's core values of ethics, integrity, confidentiality, innovation and excellence. All staff and Board members are appraised on the policy requirements through targeted awareness programs such as e-Learning modules and are required to complete the same to ensure compliance.

NSE recognizes that ethical business brings good business. We are committed to playing a proactive role in a globally competitive and prosperous nation operating on ethical business standards.

NSE joined the UN Global Compact and signed the Code of Ethics for Business in Kenya. This "Code of Ethics" was developed on behalf of the private sector by Kenya Private Sector Alliance (KEPSA), Global Compact Network Kenya, and the Kenya Association of Manufacturers (KAM).

#### Whistleblowing

The NSE Board has put in place a Whistleblowing Policy that recognizes the difficulty its stakeholders may face in raising their concerns with regards to the Company operations. The Policy protects every employee and business partner who raises a concern in good faith. The Company will treat every concern raised by an employee in good faith seriously and in a confidential manner and does not retaliate or allow any retaliation or discrimination by its employees of any kind against any employee who raises a concern in good faith.

Stakeholders can raise their concerns with the relevant Company officials and/or through the available reporting channels. Staff and other stakeholders are regularly sensitized on the need to report any suspected unethical business practices and procedure to make such reports. The summary of this policy is available in our website.

#### Insider Dealing

The NSE has an insider trading policy guided by Sections 32A – 33 of Part VI of the Capital Markets Act (Cap 485A) which prohibits insider trading. The policy provides procedures and guidelines with respect to transactions in the NSE securities, the protection of Insider Information and the standard of conduct expected of the NSE directors, officers and employees. NSE has annual awareness programs to staff on the policy and its procedures.

Investors are made aware that they ought not to trade in the Company's shares while in possession of any insider information that is not available to the public or during a closed period. NSE's closed period covers between 1st January until publication of full year results and 1st July until publication of half year results.

#### Conflict of Interest

The Board has put in place a policy to manage conflict of interest. As a procedure, Directors declare any real or perceived conflict of interest with the Company and such disclosures are reflected in

the Minutes of the Board and Committee's meeting. The Company Secretary maintains and updates the register of declared conflict of interest. The Board is appraised on the statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company.

All business transactions with Board members or their related parties are carried out at arms' length. In practice, there is an acknowledgement that if it comes to the attention of a Board member that a matter concerning the Company may result in a conflict of interest, the Board member is obligated to declare and exclude himself/herself from any deliberations, voting or decision over the matter in conflict.

#### Enterprise Risk Management

The objective of the NSE's Enterprise Risk Management (ERM) framework is to protect shareholders' value in order to enhance NSE's competitive advantage, improve business performance and optimize risk management and compliance value. The framework is aligned to ISO 31000:2018 Risk Management Guidelines, COSO Enterprise Risk Management 2017 as well the applicable laws, regulations and guidelines.

*(More notes on page 38 - 40)*

#### Board Evaluation

The Board undertakes an annual evaluation of its effectiveness in guiding the company toward achievement of its strategy and specific objectives in a given year. In January 2018, the Company engaged the Institute of Directors (Kenya) to perform an evaluation of the performance of the Chairman, the Board Committees, individual Directors, the Chief Executive and the Company Secretary collectively, and individually, through peer evaluations, for the year 2017.

The results of the evaluation were discussed with the Board during their Board meeting on 19th March 2018; and, as the responsibility for Board effectiveness ultimately lies with the Chairman of the Board, he provided further constructive feedback separately to each Director from the results of the peer evaluations.

#### Information and Communication Technology

The NSE leverages heavily on technology to deliver its core mandate of delivering a world class trading platform.

The NSE Board has prioritized cyber security and related Information Technology risks. To ensure confidentiality, integrity and availability of the various platforms, the Exchange has adopted the National Institute of Standards and Technology Cyber Security Framework as the back bone of its Information and Communication Technology (ICT) and Cyber Security policies. Being a full member of the World Federation of Exchange (WFE), the NSE is constantly benchmarking with international best practices as well and has tailored the policy framework relevant to securities trading.

The Exchange has in place relevant ICT policies, procedures as well as enforcing the practices that are congruent to these policies.

## **CORPORATE GOVERNANCE STATEMENT (Continued)**

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### **Corporate Governance Policy Statements (Continued)**

#### **Information and Communication Technology (continued)**

The Management and staff are actively driving a cyber security conscious culture within the organization. There is commensurate investment in setting up controls and monitoring tools to assure the various stakeholders of security in access and use of the ICT assets of the organization.

#### **Procurement**

We have in place a robust Procurement Policy that ensures appropriate risk assurance, integrity in all procurement activities, consistency across the organizations purchasing practices and openness and transparency of decision making when dealings with suppliers/service providers.

The policy is based on notable principles: namely, value for money, open and fair competition, risk management, accountability and building mutually beneficial relationships with our suppliers. A Management Tender Committee oversees the award of tenders and reports to the Business, Strategy, Finance and Human Capital Committee of the Board based on the limits as set out in the Procurement Policy.

# ENTERPRISE RISK MANAGEMENT (ERM) FRAMEWORK

Enterprise Risk Management (ERM) remains integral to generating sustainable stakeholder value. The NSE continues to implement the principles of sound Corporate Governance to the extent that risk management is not only a reporting and oversight obligation, but management culture. In support of this, NSE Departmental risk champions have been appointed to further support the formal risk reporting structures and to embed risk management practices. The objective of the NSE ERM framework is to protect and enhance NSE value in order to enhance competitive advantage, improve business performance, increase operational efficiency, optimize risk management and enhance compliance value.

## ROLES AND RESPONSIBILITIES

NSE Board and the Audit, Risk & Compliance Committee

The NSE Board has constituted the Audit, Risk & Compliance Committee to help it to discharge its duties and responsibilities with regard to risk management. The Committee provides ERM oversight by monitoring the implementation of the NSE enterprise risk framework and driving corrective actions based on the risk reports provided at least on a quarterly basis.

NSE Executive Committee

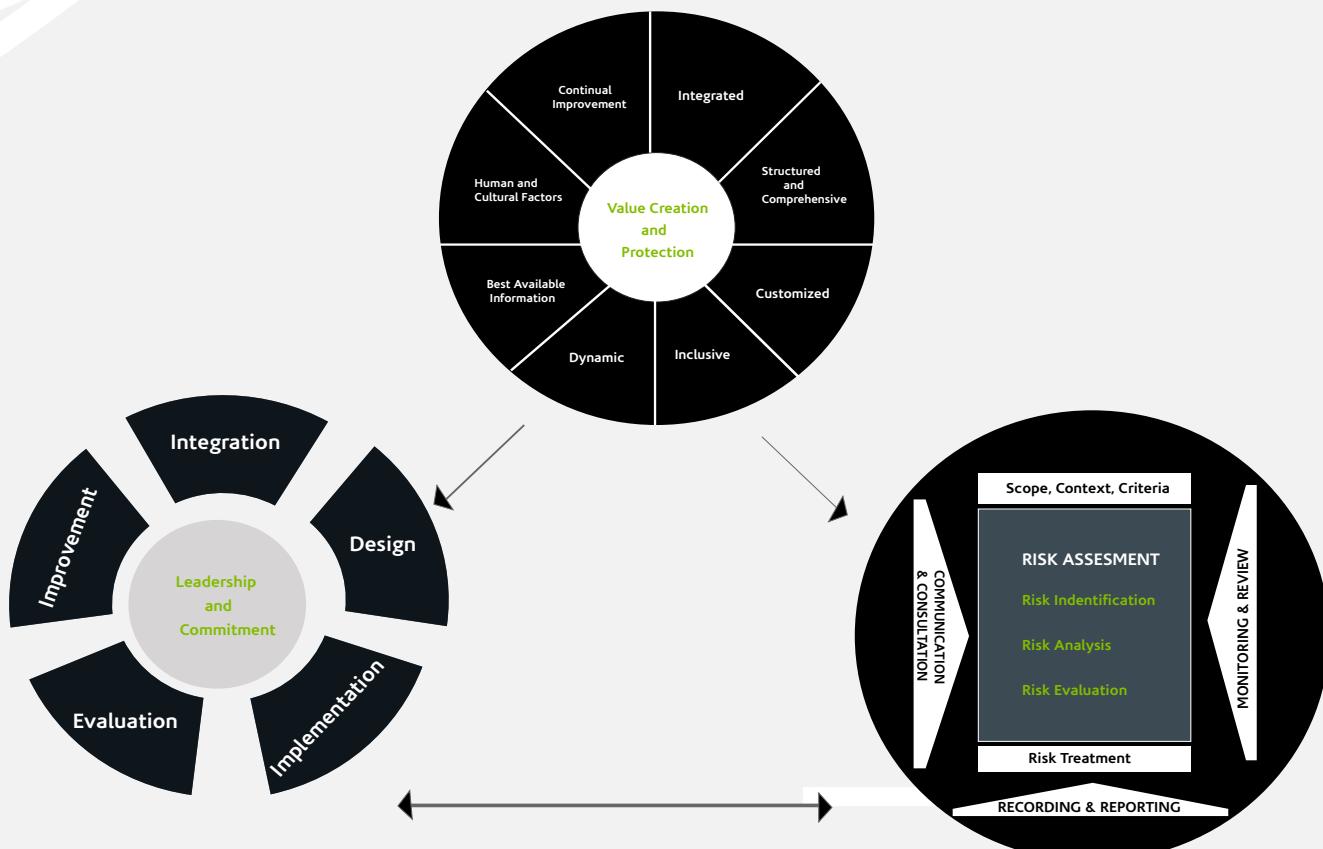
The NSE Executive Committee is responsible for driving the defined risk management process across the organization. This is done to enable Management identify inherent risks that, if they occur, will affect the NSE in achieving its strategic objectives. These risks must be managed within the approved risk appetite.

Legal and Corporate Affairs Division

The Legal and Corporate Affairs division, specifically the Risk and Compliance Department, is the coordinator of the NSE ERM process and spearheads its implementation and reporting.

## THE ERM APPROACH

NSE Enterprise Risk Management framework is aligned to the Committee of Sponsoring Organizations (COSO) of the Treadway Commission framework 2017 Guidelines and the principles defined in International Organization of Standards (ISO) 31000:2018 as depicted below:



## ENTERPRISE RISK MANAGEMENT (ERM) FRAMEWORK (Continued)

### NSE RISK UNIVERSE

Some of the key risk areas that NSE is exposed to include:

<b>Market Risk</b>	Risk as a result of market movements. NSE may be exposed to the fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. Sources of general market risk include movements in interest rates, equities, exchange rates and adverse market volatility, etc.	
<b>Operational Risk</b>	This is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. The NSE's risk of losses, whether financial or otherwise, resulting from fraud, errors, omissions and other operational and compliance matters, are adequately managed.	
<b>Legal Risk</b>	Legal risk is the potential loss that can occur arising from legal disputes that could lead to litigation or settlement, instituted by customers, counter parties, employees, shareholders, the authorities or third parties against the NSE.	
<b>Regulatory Risk</b>	This is the risk of non-compliance with regulatory requirements. This is a prospective risk to earnings or capital arising (due to fines) from violations or non-compliance with laws and regulations including standards issued by the regulator from time to time. Also the risk that unanticipated new laws or regulations will result in the need to change business practices that may lead to financial loss.	
<b>Counterparty Risk</b>	This is the risk that a counterparty ("obligor") will fail to meet its obligations in accordance with the agreed terms. e.g. when a creditor fails or delays to perform its contractual obligations thereby affecting NSE's ability to meet its fiduciary as they fall due.	
<b>Credit Risk</b>	Credit risk may arise from underlying causes that impact upon the credit worthiness of the parties. It calls for monitoring the credit exposure in relation to clients, including: pre-settlement credit exposures (for example marking to market of outstanding trades) and related settlement risk.	
<b>Liquidity Risk</b>	This is the risk that the NSE may fail to meet its liabilities as and when they fall due.	
<b>Strategic Risk</b>	This is the risk arising from business decisions that are not aligned to the NSE Strategy, improper implementation of decisions or lack of responsiveness to industry changes.	
<b>Reputational Risk</b>	This is the potential that negative publicity regarding the business practices of NSE whether true or not will cause a decline in the investor base, revenue reduction or could lead to costly litigation. This may result from NSE's inability to effectively manage any or all of the other risks.	

### HIGH-LEVEL RISK MITIGATION

NSE continues to proactively monitor its risk, implement measures to mitigate their effects and cushion the Exchange from adverse effects. We continue to monitor the environment, actively engaging with stakeholders, performing regular Risk and Control Self Assessments and improving the controls, where necessary.

As we continuously strengthen the NSE ERM framework, we will include the adoption of Key Risk Indicators (KRIs). The KRIs measure the level of risk or the effectiveness of a control. The KRIs trends are tracked over a period of time and their aggregate averages are adopted as the risk tolerance limits for the particular residual risks.

## ENTERPRISE RISK MANAGEMENT (ERM) FRAMEWORK (Continued)

The NSE ERM framework has adopted three lines of defence operating model which is illustrated below :



Note : For further information on Financial Risk Management Objectives and Policies, refer to pages 97-103 of this Annual Report.

# Bring your aspiration to life



Watch your property achieve its full potential and be part of Kenya's success through the support of like-minded investors with **NSE Reits**.

**Call us today to realize your ambitions.**

## NSE STAKEHOLDERS

- Shareholders
- Investors (Individual, Corporate, Local, Foreign)
- Employees
- Tenants
- Suppliers
- Trading Participants and KASIB
- Advisors  
(Nominated Advisors (NOMADs) and ASDs)
- Intermediaries  
(Fund Managers, Pension Funds)
- Regulators, Government, Strategic Partners  
(National Treasury, Capital Markets Authority (CMA), Retirement Benefits Authority (RBA), Insurance Regulatory Authority (IRA), Central Bank of Kenya(CBK), United Nations Sustainable Stock Exchanges (UN SSE),United Nations Global Compact, African Securities Exchanges Association (ASEA), East African Securities Exchanges Association (EASEA) and World Federation of Exchanges (WFE))
- Media
- Corporate Social Responsibility (CSR Partners)

# SUSTAINABILITY REVIEW

## Our Approach to Sustainability

Since its establishment in 1954, NSE has been a part of Kenya's success story, which continues to evolve. Every day, there are new challenges and ideas that lead to more achievements and milestones for the Group. As we continue to operate in a challenging economic environment, and competitive business environment, we need to differentiate our business and ensure that our stakeholders understand what we stand for as a business. We offer a world class trading facility for local and international investors looking to gain exposure to Kenya and Africa's economic growth, and optimise our capital to ensure a comprehensive, sustainable business.

We recognise the important role we play in the local and regional markets. This role encompasses not only operational and business targets but also environmental, social and governance (ESG) accountabilities.

## Commitment to Sustainability

Sustainability is based on NSE's mission, vision and values. Ethical business is ensured by adopting sustainability in our corporate strategy. Additionally, Policies and Codes of Conduct for employees and service providers guide our daily operations. Our commitment to sustainability underpins our business strategies and operating policies and is indicative of our commitment to shareholders, customers, employees, stakeholders and society. We believe that we have a responsibility to serve as a centre for best practices and innovation in order to move our markets forward.

We engage regularly with the regulators and contribute actively to the industry-led debates on ESG disclosure and Sustainable finance. These are consistent with our wider geographic presence and as an acknowledgement of the strategic role of corporate responsibility in ensuring we act as a good corporate citizen in the communities in which we operate.

## How we manage sustainability :

The NSE is a member of the United Nations Sustainable Stock Exchanges (SSE) Initiative, which aims at ensuring that Exchanges are well placed to have a measurable impact on four Sustainable Development Goals (SDGs) to which we have aligned our sustainability strategy as below:

SDG	TARGET	NSE'S COMMITMENT
Gender Equality (Goal 5) 	Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life.	Promote gender diversity among listed companies Ensure accessibility of capital market services to female entrepreneurs and female investors
Sustainability Information (Goal 12) 	Encourage companies, especially large and trans-national companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle	Provide guidance and training for companies on environmental, social and governance (ESG) reporting
Climate Change (Goal 13) 	Improve education, awareness raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction, and early warning	Create and promote financial products that stimulate awareness or mobilize finance towards 'green growth' sectors Provide guidance and training to both companies and investors on climate-related disclosure initiatives
Global Partnerships (Goal 17) 	Enhance the global partnership for sustainable development complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technologies and financial resources to support the achievement of sustainable development goals in all countries, particularly developing countries.	Enhance the dialogue by joining the SSE as a Partner Exchange participating in the SSE Global & Regional Dialogues. Educate our market, as a channel between investors and listed companies, to encourage collective action Engage our fellow exchanges; reach out to our peers for advice, practical examples and support.

## SUSTAINABILITY REVIEW (Continued)

### Striving for Fair, Transparent and Efficient Markets

NSE as a Self-Regulatory Organization (SRO) works closely with the Capital Markets Authority (CMA) to set and ensure compliance to high-quality regulatory and investment industry standards to protect investors and strengthen market integrity while maintaining efficient and competitive capital markets. Communication and consultation with the industry, investors and other stakeholders are core elements of the policy development process. We are committed to constructive engagement with stakeholders because it promotes fair, transparent and efficient markets for all, resulting in a more just, sustainable and inclusive market.

As the global network becomes more integrated and extends its coverage, implementing global best standards and practices and promoting cooperation becomes key to ensuring market integrity and investor confidence. Investors are progressively expressing their need for greater disclosure and transparency from companies and are hoping to see more in-depth information.

### Sustainability Performance

As a Partner Exchange in the United Nations SSE Initiative, a member of the UN Global Compact and a signatory to the Code of Ethics for Business in Kenya, our significant progress in sustainability efforts is in line with our commitment to actively contribute to the implementation of transparency on ESG matters in our markets. As we endeavour to champion the development of sustainable Capital Markets that will create long term value for all our stakeholders.

We owe our achievements to our human capital – our Board, Management and entire workforce. At NSE we recruit and continually develop diversified talent to fulfil their potential. Our track record is one of growth and innovation driven by highly capable and engaged teams.

In 2017, partnerships continued to be a key driver for our sustainability efforts. NSE has partnered with the Government, Private Sector and the Civil Society among others to progress its sustainability agenda.

In the year under review, we managed to make progress in our various sustainability efforts as here below;

#### 1. Capacity Building and Financial Inclusion

Investor education is at the heart of our strategy of expanding the market. We have a dedicated public education and training team which support various investor education programs.

We run a flagship program dubbed **The NSE Investment Challenge**. The challenge, now in its tenth year, aims at enhancing financial literacy amongst our youth while inculcating a saving and investment culture. The annual online trading competition is a simulation of the activities that happen around trading in securities at the NSE.

This initiative has so far impacted over 46,000 participants equipping them with fundamental financial and investment skills.

We also work closely with schools and tertiary institutions to impact financial skills to our youth. NSE also organizes sensitization visits throughout the year educating Kenyans on opportunities available at the market.

The Exchange also has an annual training calendar which focuses on ensuring that all NSE stakeholders and market participants are in a position to make well informed decisions relating to their respective areas of specialization and operation.



Nairobi Securities Exchange CE, Geoffrey Oundo awards Davis Gathinji, the 2nd runners' up in the NSE 2017 Investment Challenge.



Nairobi Securities Exchange Training & Public Education Manager, Jackson Kiminje leads a capacity building training for market participants on Exchange Traded Funds.

#### 2. Employee Development

In 2017, we continued to invest in our people, ensuring the highest level of ethics, a culture of innovation, and an engaged employee base that gives back to the communities in which we operate.

Our remuneration strategy is continuously evolving to attract and retain these skills, and our people development approach is to ensure that we build a robust internal skills pipeline that can supply the skills that the company needs, now and in the future. In fiscal year 2017, we invested Kshs. 11.5 million in training and professional development for our people to help deepen skills and drive innovation.

The Exchange signed a Memorandum of Understanding (MoU) with Qatar Stock Exchange (QSE) and Nasdaq Dubai to enhance cooperation in the areas of knowledge sharing and expertise in relation to the development of capital markets, infrastructure and products and services between the two exchanges.

## SUSTAINABILITY REVIEW (Continued)



NSE Staff pause for a photo during the 2017 team building excursion



Barclays Bank of Kenya team pose for a photo during the 2017 Financial Reporting (FiRe) Awards Gala Dinner

### 3. Corporate Governance

At the Exchange we believe that corporate governance is key to improving transparency, facilitating the mobilization of domestic and international investment, creating a sound investment environment, fostering investor confidence and promoting financial stability.

The NSE is committed to promoting just and equitable principles of trade and sound business practices in the Kenyan capital market in line with global best practices. Over the year, we continued to ensure that our Board's and management team's interests are aligned with the interests of our shareholders.

As a promoter of the Financial Reporting (FiRe) Award, Partner Exchange in the UN SSE, a member of the UN Global Compact and a signatory to the Code of Ethics for Business in Kenya, we remain committed to developing sustainable capital markets that will create long term value for all our stakeholders.



Auditor General of the Republic of Kenya, Edward Ouko shares his remarks during the Financial Reporting (FiRe) workshop on enhancing sound corporate governance practices.



Representatives from Sameer Africa Limited showcase their awards after the company was named the overall winner of the 2017 Financial Reporting (FiRe) Awards.

### 4. Diversity and Inclusion

A diverse and inclusive corporate climate has been linked to the success and long term sustainability of every business. Board diversity speaks to the gender, experience, expertise, education and age of the board of directors of a company while looking at ethnicity, disability and geography. A strong corporate culture that invests in diversity and inclusion is one of the greatest competitive advantages a company can maintain.

As part of the International Women's Day celebrations, the NSE joined over 40 stock Exchanges globally in the UN SSE Exchanges Ring the Bell for Gender Equality initiative. The Exchange held a full day diversity and inclusion training for female executives of listed companies in Kenya and 'rang the bell' to raise awareness of the importance of gender equality to both businesses and sustainable development.

In 2017, the NSE in association with the Kenya Institute of Management (KIM) and New Faces New Voices (NFFN) launched the Board Leadership and Diversity report. The report which sampled 52 listed companies in Kenya gave critical insights on the state of diversity among boards of listed companies. The research focused on age, gender and professional background, giving key recommendations on ways of improving diversity among our boards.

## SUSTAINABILITY REVIEW (Continued)



New Faces New Voices Kenya Director, Andia Chakava (left) joins Nairobi Securities Exchange (NSE) Vice Chairman Bob Karina (second from right) and Kenya Institute of Management Executive Director Murithi Ndegwa (right) in awarding Standard chartered's Ass. Co. Legal Counsel, Davidson Mwaisaka after the bank was named Best Overall – Leadership Diversity and Firm Performance



(From Left) NSE Chief Executive (CE) Geoffrey Ondundo, Kenya Association of Manufacturers ,Chair Flora Mutai, UN-Women's Banu Khan, International Finance Corporation (IFC) Rose Lumumba and CMA CE Paul Muthaura, ring the bell to commemorate the 2017 International Women's Day during the Ring the Bell for Gender Equality Ceremony.



L-R, New Faces New Voices Kenya Director Andia Chakava, joins Nairobi Securities Exchange CE, Geoffrey Ondundo in awarding Bamburi Limited Director Corporate Affairs, Communications & Sustainability, Susan Maingi ,during the Board Leadership and Diversity Report Launch.



NSE Chief Executive Geoffrey Ondundo (Right) joins New Faces New Voices Kenya Director (NFSV) Andia Chakava in awarding Total Kenya Ltd Corporate Affairs Manager; Michael O. K'Anjejo after the company was recognized for improvement in board and management gender diversity.

### 5. Environmental Impact and Community Investment

The NSE is committed to developing a vibrant green economy for the East African Region. In 2017 the NSE in partnership with other stakeholders launched the Kenya Green Bond Programme aimed at raising funds for green finance projects in the country. In 2017, NSE in partnership with other market players, developed the draft guidelines for the issuance of Green Bonds in Kenya.

In 2017, the NSE successfully raised Kshs.10 million during its annual NSE Charity Trading day event which was aligned to the UN Sustainable Development Goals (SDGs) (particularly no; 15, 4 and 5) which call for promoting life and land, quality education and gender equality. The beneficiaries of the event include; The Borana Conservancy - a non-profit conservation organization dedicated to the sustainable conservation of critical habitat and wildlife; SOS Children's Village & Joy Children's Home – committed to creating and maintaining a caring and protective environment for children; and the Genevieve Audrey Foundation - a foundation committed to rehabilitate and provide long term support to sexually abused children.



FSD Africa Director Mark Napier, Kenya Bankers Association (KBA) CEO, Habil Olaka and Nairobi Securities Exchange CE Geoffrey Ondundo pause for a photo after signing an MOU during the Launch of the Kenya Green Bond Programme

## SUSTAINABILITY REVIEW (Continued)



Television Anchor Betty Kyalo makes a call to an investor during the 2017 Charity Trading Day. Funds raised during the day are channelled towards various charitable causes in the country.

### 6. Cyber Security

As a barometer of the Kenyan economy and the sole securities exchange in Kenya, NSE considers security both physical and technological, as being of paramount importance to our business. We remain committed to protecting our issuers and shareholders in the face of growing cyber security risks.

Our cyber security practices, detail the best and most efficient ways to proactively identify and remediate security risks, improve threat detection across our organization, and expedite incident response. We continue to harden data security from top to bottom, with the aim of surpassing security requirements in line with our compliance standards.

The NSE has appropriate contingency plans to ensure that key operations are resilient. Its business continuity crisis management plan will be invoked should an unexpected event occur.



Media Personalities Julie Gichuru (Right) and Betty Kyalo (Left) with Apex Capital Dealer Sheema Shah during the 2017 Charity Trading Day



Kenyan celebrities and event sponsors pose for a photo with the Nairobi Securities Exchange CEO, Geoffrey Oundo (Centre) at the 2017 Charity Trading Day

## VALUE CREATION PROCESS

### Funding

NSE PLC's funding is sourced from shareholders and internally generated income. These funds are used to run NSE's operations with a view to generate profits and include Issued Share Capital : Sh 1,038 million, Share Premium : Sh 277 million and Retained Earnings : Sh 694 million.

### Technology

At the core of NSE's operations is a robust ICT foundation. This comprises two world class trading systems for current and proposed listed securities coupled with comprehensive software, hardware and disaster recovery resources.

### Stakeholder Relations

NSE actively engages with its key stakeholder groups. The NSE Investment Challenge and the annual Charity Trading Day are the flagship Community Social Investment projects.

### Innovation

Innovation is a core value of the bourse. The firm's innovative capacity is demonstrated by the design and launch of M-Akiba, the world's first mobile-based Treasury Instrument.

### People

NSE takes pride in its talented staff whose aggregated knowledge and experience enable the company to grow and achieve more.

**50**  
Average No.  
of Staff in the year

**52%**  
Male  
Employees

**48%**  
Female  
Employees

### Value Creation Schedule

	2017	2016	Variance
	Sh '000	Sh '000	%
Revenue	757,032	717,185	6%
<b>Stakeholder contribution</b>			
Taxes to Government	29,789	24,641	21%
Shareholders dividend paid	66,474	92,375	-28%
Payment to suppliers	250,701	209,248	20%
Human capital	201,889	209,975	-4%

Note : Taxes to Government exclude VAT and withholding tax paid for supplier invoices

## MATERIAL ISSUES

### Derivatives Market

The NSE's Strategic Plan for 2015 - 2019 sets forth an ambitious trajectory path, which seeks to enhance new listings and products in order to take advantage of new growth opportunities not only for itself, but to foster the economic growth and sustainable development of Kenya. The NSE has therefore been working on establishing a globally competitive derivatives exchange that will enable the trading, settlement and clearing of multi-asset classes including equities, interest rate products and currency derivatives as well as varied forms of agricultural commodities contracts.

Through a letter dated December 18, 2014; the Exchange received a provisional license and subsequent extension to a number of explicit preconditions to operate a Futures Exchange from the Capital Markets Authority (CMA). On October 19, 2015, the CMA pursuant to Regulation 10 (1) of the Futures Licensing Regulations approved the grant of a Futures Exchange license to the NSE subject to a number of conditions. The CMA had satisfied itself that the Exchange had met the minimum requirements under Section 36A of the Capital Markets Act and the further requirements imposed by itself in accordance with Part III of the Capital Markets Act as detailed in Part II of the Capital Markets (Futures Exchanges) (Licensing Requirements) Regulations, 2013. On December 11, 2017, the CMA approved the commencement of the pilot test phase by the Exchange and market participants. However, a key component towards launching the market remains the regulatory approval for clearing members. Towards achieving this, the Exchange has subsequently sought the support of the Central Bank of Kenya, cognizant of the banking regulator's jurisdiction as so far as is required to maintain the efficient and smooth functioning of financial markets.

Globally, Derivatives Markets have played an important role in the hedging and price discovery in markets with growing GDPs, instability in the pricing of underlying products and volatile rates of inflation. Suffice to say, these economies have enjoyed great benefits especially following the development of capital and cash markets. As at the end of the year 2016, the World Federation of Exchanges (WFE) noted that at the product level, derivatives remain the fastest growing, most dynamic and active exchange traded product, contributing slightly below 50% of total volumes traded. During the year 2016, 24.9 billion derivatives contracts were traded globally, representing an average annualized growth rate of 2.2% over the prior five years. Since the year 2005, equity derivatives have accounted for over 50% of total traded volumes while currency derivatives which are widely traded especially in the BRICS economies have experienced a Compounded Annual Growth Rate of 27%. Globally, a large composition of the top traded currency contracts are those that track local currency dollar exchange rates. It has further been widely noted that the introduction of derivatives, complements spot market instruments by improving the liquidity and informativeness of markets.

While project analysis on the establishment of the Derivatives Market returns a favorable Internal Rate of Return, the delayed receipt of the necessary regulatory approvals for launch have potentially exposed the Exchange to higher costs. The Exchange however remains fully aware that the most economic consideration in the development of new markets is that they must make business sense, there must be effective demand for its services (from a broad range of users) and that there must be the ability to supply the services in a cost effective manner and within the ambit of a market that has clarity of its rules and regulations.

## MATERIAL ISSUES (Continued)

### Cash Market

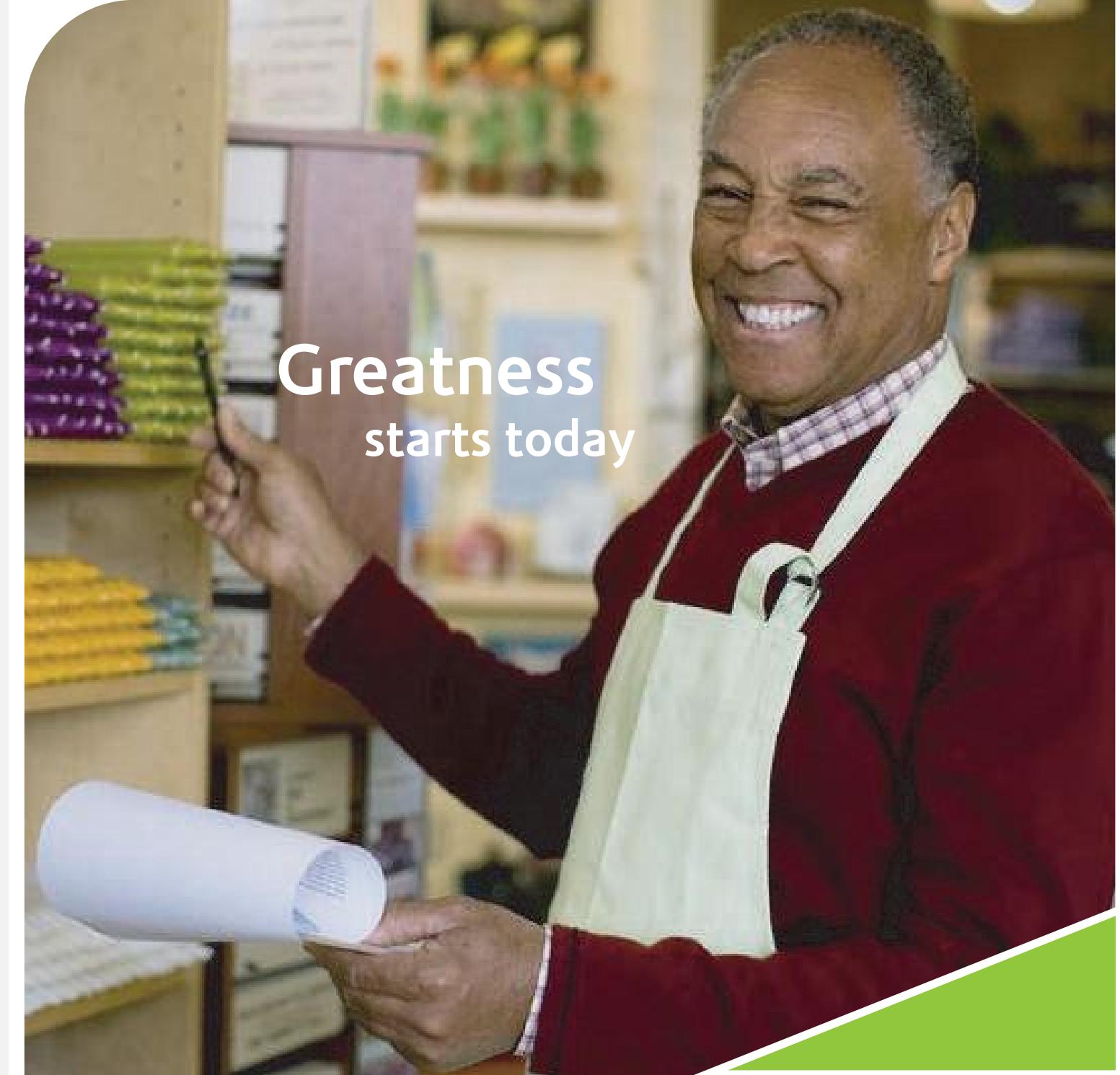
The first pillar of the NSE Strategic Plan seeks to drive revenue growth and diversification. The Cash Markets Section of the NSE is tasked with the responsibility of driving revenue growth of the Exchange through the cash markets products. Some of the responsibilities of the division include:

1. Enhancing existing and developing new cash products and markets in a sustainable and profitable way.
  2. Developing strategies that enhance the growth in new cash products which include REITs, ETFs and Asset Backed Securities.
  3. Growing the supply side through identifying potential issuers, selling the benefits of listing at the exchange and implementing new strategic initiatives targeting business growth including, new acquisitions, establishment of new trading platforms and products and increased number of listed companies.
  4. Continuous research in order to identify present and future infrastructure and market challenges as well as develop strategies to address the challenges.
  5. Developing and growing of the data vending concept with the aim of increasing data vending revenues.
  6. Formulation, production, and distribution of all information on products.
  7. Exploring, developing and maintaining strategic linkages with funding agencies and maintain and improve strategic relationships with other Securities Exchanges.
- a) In the year 2017, the Exchange Traded Funds (ETFs) market was launched in March 2017 with the listing of the Barclays NewGold ETF. There has been relatively low trading of the product. Currently, the Division is carrying out initiatives to increase activity in the trading of the listed ETF as well as increase the number of listings. Some of the initiatives among others include: targeted outreach to potential issuers, training and public education, lobbying for policy incentives to make the product even more attractive. ETFs are an attractive asset class for conservative investors owing to their limited risk profile and lower volatility.
  - b) The current listed REIT ; Stanlib Fahari I-REIT has performed well recording an annual net growth in earnings of 61% in 2017. During the year, dividend paid totaled to KShs. 135,729,225 of the net earnings above the required regulatory minimum of 80%. REITs remain an attractive channel for capital raising in the real estate sector.

Taxation of SPVs owned by REITs still remains unresolved. Under the current regulations, REITs registered are exempt from 30% income. The Law however does not mention the SPVs fully owned by REITs as being tax exempt. Engagements are ongoing with KRA on having that aspect clarified by the Tax Authority.

The NSE has joined hands with other 13 organizations drawn from the REITs industry to form the REITs Association of Kenya (RAK). The Association was formally registered on 30th November 2017. The Association will among other things be the voice of REITs in Kenya, lobby for policy incentives to promote REITs and carry out training and public education on REITs.

- c) The Securities, Lending and Borrowing regulations were issued in December 2017. Currently, engagements are ongoing on the operationalization of the SLB and short selling regulations. Once operational, we believe this will go a long way in enhancing liquidity in the market.



Greatness  
starts today

List on the GEMS Segment of  
the NSE and start taking your  
business to new heights.

**gems**  
Growth Enterprise  
Market Segment

## NSE STRATEGY 2015 -19

### Our Purpose

To help stimulate and support vibrant and growing capital markets in Kenya

### Our Goal

To be the leading securities exchange in Africa, with global reach.

### Our Strategy (2015-19)

To drive market growth and build our reputation as a leading exchange in Africa.

### Our Priorities (2015-17)

#### Pillar 1

##### Drive revenue growth and diversification

- Achieve 40% YoY revenue growth.
- Achieve 88 equity listings (69 on MMS and 19 on GEMS).
- Launch and scale new products including REITS, ETFs, derivatives (from 5% to 12% of total revenues by 2017).
- Achieve 40% and 25% CAGR in equities and bonds turnover between 2015 - 2019
- Launch Technological innovations for day, online and mobile trading.

#### Pillar 2

##### Build reputation as a trusted company and an investment destination of choice

- Successfully list the Exchange (60% float by 2019).
- Transform the relationship with the CMA and Treasury.
- Develop and execute strategic communication campaign on NSE transformation (Q1 2015).
- Expand regional and global engagement, including WFE member status, MSCI ranking by Q1 2016.

#### Pillar 3

##### Strengthen organizational capabilities & talent management

- Invest in key resource gaps.
- Strengthen governance and develop full SRO capability by Q3 2016.
- Strengthen our people value and proposition including remuneration and management review.
- Build a culture based on excellence, transparency and inclusivity.

### Our technology

A reliable and innovative technology platform that enables and drives growth.

### Our culture

A dynamic organization that attracts and retains top talent.

## FIVE YEAR FINANCIAL REVIEW

	2017 Sh '000	2016 Sh '000	2015 Sh '000	2014 Sh '000	2013 Sh '000
<b>Summary Consolidated Statement of Profit &amp; Loss</b>					
<b>&amp; Other Comprehensive Income</b>					
Operating income	582,338	527,164	663,903	641,736	488,766
Interest income	98,569	94,766	101,010	39,514	21,420
Other income	76,125	95,255	43,344	140,651	112,527
<b>Total Income</b>	<b>757,032</b>	<b>717,185</b>	<b>808,257</b>	<b>821,901</b>	<b>622,713</b>
Expenses	(500,170)	(487,291)	(448,323)	(403,831)	(257,625)
Share of profit of associate	12,324	3,221	21,560	23,741	14,407
<b>Profit before tax</b>	<b>269,186</b>	<b>233,115</b>	<b>381,494</b>	<b>441,811</b>	<b>379,495</b>
<b>Profit after tax &amp; Comprehensive income</b>	<b>218,806</b>	<b>183,754</b>	<b>305,653</b>	<b>320,067</b>	<b>262,792</b>
<b>Summary Consolidated Statement of Financial Position</b>					
<b>Total assets</b>					
Property, equipment & investment property	530,238	497,638	472,074	487,276	488,790
Intangible assets	152,729	168,084	157,048	135,216	106,904
Investment in associate company	111,374	99,134	100,703	82,457	60,940
Government securities & corporate bonds	330,619	214,730	125,076	192,088	192,398
Long-term restricted investments	148,391	143,204	135,921	-	-
Cash, cash equivalents and fixed deposits	418,073	479,359	444,035	640,655	170,048
Short-term restricted cash & investments	302,015	292,505	333,500	-	-
Other assets	114,781	119,091	149,878	147,412	130,044
<b>Total assets</b>	<b>2,108,220</b>	<b>2,013,745</b>	<b>1,918,235</b>	<b>1,685,104</b>	<b>1,149,124</b>
<b>Shareholders funds</b>					
Share capital	1,038,003	1,038,003	778,500	778,500	24,500
Share premium	277,185	277,185	277,185	277,185	-
Retained earnings	694,049	547,852	718,753	486,861	705,782
Revaluation & other reserves	2,649	105	319	516	528
<b>Shareholders funds</b>	<b>2,011,886</b>	<b>1,863,145</b>	<b>1,774,757</b>	<b>1,543,062</b>	<b>730,810</b>
Total liabilities	96,334	150,600	143,478	142,042	418,314
<b>Total shareholders funds &amp; liabilities</b>	<b>2,108,220</b>	<b>2,013,745</b>	<b>1,918,235</b>	<b>1,685,104</b>	<b>1,149,124</b>
<b>Key indicators</b>					
Total dividend declared and proposed (Kshs '000)	77,850	70,066	95,366	73,957	49,000
Basic Earnings Per Share - Sh.	0.83	0.71	1.18	2.13	2.04
Dividend Per Share - Sh.	0.30	0.27	0.49	0.38	2.00
Weighted average number of shares during the year	59,500,791	259,500,791	259,500,791	150,020,604	128,625,000
The current NSE dividend policy provides for a maximum dividend payout of 40% of eligible profit after tax as dividend					
<b>NSE share price</b>					
Annual High (Sh.)	25.00	30.25	27.50	28.00	-
Annual Low (Sh.)	11.00	12.85	18.00	17.00	-
Share price at year end (Sh.)	19.70	14.65	24.75	20.50	-

# Bring your ambitions to life



Watch your property achieve its full potential and be part of Kenya's success through the support of like-minded investors with **NSE Reits**.

**Call us today to realize your ambitions.**

## DIRECTORS REPORT

The directors present their annual report together with the audited financial statements of Nairobi Securities Exchange PLC (NSE/the "Company"/the "Exchange") and its subsidiary and structured entities (together, the "Group") for the year ended 31 December 2017, which show the state of affairs of the Company and the Group.

Further to Section 53 of the Kenyan Companies Act, 2015 and the related Special Resolution passed at the NSE's Annual General Meeting held on 31<sup>st</sup> May 2017, the name of the Company was changed from the "Nairobi Securities Exchange Limited" to the "Nairobi Securities Exchange PLC" and the change effected at the Companies Registry on 22<sup>nd</sup> June 2017.

### PRINCIPAL ACTIVITIES

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

NSE Clear Limited is a wholly owned subsidiary of the NSE. The principal objectives of NSE Clear Limited are to carry on the business of a clearing house and as such, to provide clearing and settlement services for transactions in derivative securities whether carried out on or off a securities exchange, to act as a central counterparty in derivative securities transactions and to carry out all activities that pertain to a clearing house. The license to operate a derivatives exchange was issued by the Capital Markets Authority to the NSE on 19 October 2015. No transactions in derivatives were carried out in the year ended 31 December 2017 as the market is expected to be launched in 2018.

The NSE Derivatives Settlement Guarantee Fund (SGF) and NSE Derivatives Investor Protection Fund (IPF) are trusts whose main purpose is to strengthen the financial integrity of the derivatives market, ensure settlement of transactions in derivatives securities in case of default by a clearing member and satisfy specified claims by the investing public arising out of non-settlement of obligations owed to them by trading members or losses incurred by reason of the default of the trading members. The Board of Directors of the NSE Clear Limited appoints Trustees of the SGF and IPF who manage and administer these funds.

### BUSINESS REVIEW

The Group delivered on a number of new products and services demonstrating that our growth strategy is resonating well with our stakeholders and that we continue to execute correctly. The new products launched in the year were the Exchange Traded Funds (ETFs) and the M-Akiba infrastructure bond (in partnership with the National Treasury and other stakeholders). In line with our sustainable finance agenda, the NSE in partnership with other stakeholders also launched Kenya's Green Bond Programme.

The Group's profit after tax grew by 18% from Kshs. 184 million to Kshs. 216 million due to higher operating income which increased by 10% from Kshs. 527 million to Kshs. 582 million mainly due to higher equity turnover. Interest income increased by 4% from Kshs. 95 million to Kshs. 99 million due to prudent management of funds and deposits, despite the prevailing lower interest rates.

Administrative expenses increased marginally by 3% from Kshs. 487 million to Kshs. 500 million mainly owing to product development and promotion.

Total assets increased nominally by 5% from Kshs. 2,014 million in 2016 to Kshs. 2,108 million in 2017. Shareholder funds grew by 8% from Kshs. 1,863 million to Kshs. 2,012 million.

Return on equity increased to 10.9% (2016 – 9.9%) and return on assets increased to 10.4% (2016 – 9.1%) while the cost income ratio improved from 68% in 2016 to 66% in 2017.

### DIVIDEND

The Group profit for the year of KShs. 216,250,000 (2016: KShs. 183,956,000) has been added to retained earnings. The directors recommend the approval of a first and final dividend of Kshs. 0.30 per share amounting to Kshs. 77,850,000 (2016: Kshs. 0.27 per share amounting to Kshs. 70,066,000).

### DIRECTORS

The current members of the Board of Directors are as shown on page 10.

## **DIRECTORS REPORT (Continued)**

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### **DISCLOSURES TO AUDITOR**

The directors confirm that with respect to each director at the time of approval of this report:

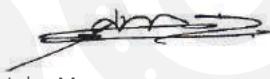
- a) there was, as far as each director is aware, no relevant audit information of which the Company's auditor is unaware; and
- b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### **TERMS OF APPOINTMENT OF AUDITORS**

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 721 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By order of the Board



John Maonga  
Secretary

19 March 2018

# DIRECTORS' REMUNERATION REPORT

## INFORMATION NOT SUBJECT TO AUDIT

### Statement of Group's policy on directors' remuneration

#### a) Nairobi Securities Exchange PLC

The Board establishes and approves formal and transparent remuneration policies to attract and retain both executive and non-executive Board members. These policies clearly state remuneration elements such as Directors' fees and attendance allowances that are competitive and in line with the industry. Non-Executive Directors are paid a sitting allowance for every meeting attended. They are not eligible for provident fund membership. The Company does not grant any personal loans, guarantees, share options or long term incentives to its non-executive Directors. The company has taken out insurance covers for the non-executive Directors covering Directors and Officers liability insurance cover and group personal accident covering death, permanent total disability and medical expenses.

The Chief Executive is the only executive director on the Board and the company has in place a remuneration policy which is aimed at ensuring compensation is competitive and aligned to the company's strategic objectives. The Executive Director's remuneration and benefits consists of:-

- A monthly salary determined on appointment
- An annual bonus based on the performance of the company, individual performance and general inflation considerations.
- Contributory staff provident scheme
- Non cash benefits relating to a company maintained vehicle and insurance cover.

There were no substantial changes to the Director's remuneration policy during the year 2017.

#### b) NSE Clear Limited

A managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another) as the directors may determine.

There were no substantial changes to the Director's remuneration policy during the year 2017.

#### c) The NSE Derivatives Settlement Guarantee Fund (SGF) and NSE Derivatives Investor Protection Fund (IPF)

In accordance with the Trust Deed of the Funds, the Board of Directors of NSE Clear Limited appoints the trustees of the Fund subject to approval by the CMA. The number of trustees is set at a minimum of Three (3). Any person, whether or not domiciled, resident or carrying on business or in the case of a body corporate carrying on business in Kenya may be appointed and hold office

as a trustee.

There were no substantial changes to the trustees' remuneration policy during the year 2017.

### Contract of service

#### a) Nairobi Securities Exchange PLC

In accordance with Article 93 of the Articles of Association of the Company, unless and until otherwise from time to time determined by an ordinary resolution of the Company, but always subject to the provisions of the Kenyan Companies Act (the Act) and the Capital Markets Act (CMA) regulations, the number of Directors (including the Chief Executive and excluding alternates) shall not be less than Seven (7) and not more than Eleven (11) in number and shall be elected in accordance with the Act, the Capital Markets Act and the Company's Articles of Association.

Two Directors are elected by the members from among or to represent the trading participants and a further two Directors are elected by the members from among nominees of companies listed on the Nairobi Securities Exchange to represent the said listed companies. Any other directors are elected by the members in accordance with the Companies Act provided that at all times at least one third of the Directors must be non-executive Directors.

If at any time the number of Directors falls below the minimum number fixed by or in accordance with the Company's Articles of Association, the remaining Directors may act for the purpose of convening a general meeting or for the purpose of bringing the number of Directors to such minimum, and for no other purpose

The Non-Executive Directors are not under contract but are subject to retirement by rotation at the Annual General Meeting (AGM). CMA regulations provide for fixed terms of office for the company's Chairman and Chief Executive, which shall include a maximum term of office of two consecutive years for the Chairman and four years renewable once for the Chief Executive.

The Chief Executive's current contract is for a Four (4) year period running from 1 March 2015. Under the terms of the contract, either party may, not less than six months to the expiry of this contract, notify the other of their intention not to extend the contract, otherwise the contract shall be automatically renewed for a further final period of four years. Either Party may also terminate the Agreement without assigning any reasons, at any time, by giving to the other not less than six months' notice in writing, or six months' salary in lieu of notice, at the end of which the Agreement shall determine.

#### b) NSE Clear Limited

In accordance with the Company's Articles of Association (the Articles), the directors have power at any time, and from time to time, to appoint any person to be a director, either to fill a casual vacancy, or as an addition to the existing directors, but so that the total number of directors shall not at any time exceed the number fixed in accordance with the Articles. Any director so appointed shall hold office until he is removed or his office is vacated, in each case in accordance with these Articles.

## DIRECTORS REMUNERATION REPORT (Continued)

### INFORMATION NOT SUBJECT TO AUDIT (Continued)

#### Contract of Service (continued)

##### b) NSE Clear Limited (continued)

The Directors may from time to time appoint one or more of their body to the office of managing director, or to any other executive office under the Company, for such period and on such terms as they think fit, and, subject to the terms of any agreement entered into in any particular case, may revoke such appointment. The appointment of such managing director or other executive officer shall be automatically determined if he ceases from any cause to be a director.

Other than the Managing Director, the Directors are subject to retirement by rotation at every Annual General Meeting (AGM).

##### c) The NSE Derivatives Settlement Guarantee Fund (SGF) and NSE Derivatives Investor Protection Fund (IPF)

The Trustees are not under contract. The office of a trustee becomes vacant if: the trustee resigns with a one month's notice; becomes mentally or physically incapacitated; or by removal by the Board of NSE Clear Limited by a resolution. A trustee can also retire at any time by giving a three (3) months written notice to the Board. In the event of the number of trustees falling below three, the Board shall, subject to the approval of the CMA, appoint such additional trustees as shall be necessary to make their number upto three, save where there is appointed a sole corporate trustee.

#### Statement of voting on the Directors' remuneration report at the Previous Annual General Meeting

##### a) Nairobi Securities Exchange PLC

During the Annual General Meeting held on 31<sup>st</sup> May 2017, the shareholders approved the fees paid to the Directors fees for the year ended 31<sup>st</sup> December 2016 by show of hands.

At the Annual General Meeting to be held on 30<sup>th</sup> May 2018, approval will be sought from shareholders for the fees paid to the Directors for the financial year ended 31<sup>st</sup> December 2017.

##### b) NSE Clear Limited

During the Annual General Meeting held on 23<sup>rd</sup> May 2017, the shareholders approved the fees paid to the Directors for the year ended 31<sup>st</sup> December 2016 by show of hands.

At the Annual General Meeting to be held on 17<sup>th</sup> May 2018, approval will be sought from shareholders for the fees paid to the Directors for the financial year ended 31<sup>st</sup> December 2017.

##### c) The NSE Derivatives Settlement Guarantee Fund (SGF) and NSE Derivatives Investor Protection Fund (IPF)

The Funds do not hold annual general meetings. The fees for the Trustees are approved by the NSE Clear Limited Board.

#### Directors'/Trustees remuneration

Below is a summary of entitlement per Board/Trustee member:

Type of payment	Chairman	Vice Chairman	Non-Executive Director/Trustee
<b>NSE</b>			
Director's fees per annum	Sh 714,286	Sh 571,429	Sh 428,571
Sitting allowance – per Board meeting	Sh 94,286	Sh 78,571	Sh 78,571
Sitting allowance - per Committee meeting	Sh 28,571	Sh 28,571	Sh 28,571
<b>NSE Clear Limited</b>			
Sitting allowance - per sitting	Sh 28,571	-	Sh 28,571
<b>NSE SGF/NSE IPF</b>			
Sitting allowance - per sitting	Sh 28,571	-	Sh 28,571

## DIRECTORS REMUNERATION REPORT (Continued)

### INFORMATION SUBJECT TO AUDIT

The following table shows a single figure remuneration for the Chairman, Non-Executive Directors and Executive Director in respect of qualifying services for the year ended 31<sup>st</sup> December 2017 together with the comparative figures for 2016. The aggregate Directors' emoluments are shown on note 29.

#### Year ended 31 December 2017

Name	Category	Fees	Sitting allowances	Gross pay plus other allowances	Provident scheme contribution	Total
		Sh	Sh	Sh	Sh	
Samuel Kimani*	Non-Executive	714,286	1,031,429	-	-	1,745,714
Bob Karina*	Non-Executive	571,429	1,092,857	-	-	1,664,286
Dr. Winnie Nyamute*	Non-Executive	428,571	1,235,714	-	-	1,664,286
Hosea Kili	Non-Executive	428,571	821,429	-	-	1,250,000
Sharon Maviala	Non-Executive	428,571	514,286	-	-	942,857
Jimnah Mbaru	Non-Executive	428,571	342,857	-	-	771,429
Nasim Devji	Non-Executive	428,571	485,714	-	-	914,286
Michael Turner	Non-Executive	428,571	864,286	-	-	1,292,857
James Mworia	Non-Executive	428,571	300,000	-	-	728,571
Paul Vollant*	Non-Executive	428,571	650,000	-	-	1,078,571
Geoffrey Oundo	Executive	-	-	16,537,500	1,632,960	18,170,460
		<b>4,714,286</b>	<b>7,338,571</b>	<b>16,537,500</b>	<b>1,632,960</b>	<b>30,223,317</b>

\*Included in the Director's fees for the year ended 31 December 2017 is amounts relating to fees earned for services rendered in other NSE Group Companies as tabulated below:

Name	Sitting allowances			
	NSE Clear	NSE IPF	NSE SGF	Total
	Sh	Sh	Sh	Sh
Samuel Kimani	114,286	114,286	114,286	342,858
Bob Karina	85,714	85,714	85,714	257,142
Dr. Winnie Nyamute	114,286	114,286	114,286	342,858
Paul Vollant	57,143	57,143	57,143	171,429
	<b>371,429</b>	<b>371,429</b>	<b>371,429</b>	<b>1,114,287</b>

Mr Geoffrey O. Oundo was provided with a company car during the year (non-cash benefit).

## DIRECTORS REMUNERATION REPORT (Continued)

### INFORMATION SUBJECT TO AUDIT (Continued)

Year ended 31 December 2016

Name	Category	Fees Sh	Sitting allowances Sh	Gross pay plus other allowances Sh	Provident scheme contribution Sh	Total Sh
Samuel Kimani*	Non-Executive	714,286	1,304,286	-	-	2,018,571
Bob Karina*	Non-Executive	571,429	1,600,000	-	-	2,171,428
Dr. Winnie Nyamute*	Non-Executive	428,571	1,400,000	-	-	1,828,571
Hosea Kili	Non-Executive	428,571	921,429	-	-	1,350,000
Sharon Maviala	Non-Executive	428,571	1,028,571	-	-	1,457,143
Jimnah Mbaru	Non-Executive	428,571	557,142	-	-	985,714
Nasim Devji	Non-Executive	428,571	764,286	-	-	1,192,857
Michael Turner	Non-Executive	428,571	642,857	-	-	1,071,429
James Mworia	Non-Executive	428,571	678,571	-	-	1,107,143
Paul Vollant	Non-Executive	428,571	200,785	-	-	629,357
Edward Njoroge*	Non-Executive	-	482,857	-	-	482,857
Geoffrey Oundo	Executive	-	-	16,537,500	1,632,960	18,170,460
		<b>4,714,286</b>	<b>9,580,784</b>	<b>16,537,500</b>	<b>1,632,960</b>	<b>32,465,530</b>

\*Included in the Director's fees for the year ended 31 December 2016 is amounts relating to fees earned for services rendered in other NSE Group Companies as tabulated below:

#### Sitting Allowances

Name	NSE Clear Sh	NSE IPF Sh	NSE SGF Sh	Total Sh
Samuel Kimani	114,286	114,286	114,286	342,858
Bob Karina	114,286	114,286	114,286	342,858
Dr. Winnie Nyamute	114,286	114,286	114,286	342,858
Edward Njoroge	28,571	28,571	28,571	85,713
	<b>371,429</b>	<b>371,429</b>	<b>371,429</b>	<b>1,114,287</b>

Mr Geoffrey O. Oundo was provided with a company car during the year (non-cash benefit).

On Behalf of the board

John Maonga  
Secretary

19 March 2018

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss for that year. The directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

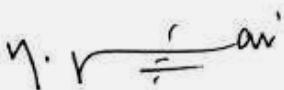
The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act 2015. They also accept responsibility for:

- i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii. Selecting suitable accounting policies and then apply them consistently; and
- iii. Making judgments and accounting estimates that are reasonable in the circumstances.

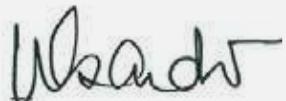
In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Directors on 19 March 2018 and signed on its behalf by:



Mr. Samuel Kimani  
Chairman



Dr. Winnie Nyamute  
Director



Mr. Geoffrey O. Oundo  
Chief Executive

## Report on the financial statements

### Our opinion

We have audited the accompanying financial statements of Nairobi Securities Exchange PLC (NSE/the "Company") and its subsidiary and structured entities (together, the "Group") set out on pages 65 to 104, which comprise the consolidated statement of financial position at 31 December 2017 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, together with the separate statement of financial position of the Company at 31 December 2017 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company at 31 December 2017 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

### Key audit matters

We have determined that there are no key audit matters to communicate in our report.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE NAIROBI SECURITIES EXCHANGE PLC (Continued)

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE NAIROBI SECURITIES EXCHANGE PLC (Continued)

### Report on other matters prescribed by the Kenyan Companies Act, 2015

#### Report of the Directors

In our opinion, the information given in the report of directors on page 55 to 56 is consistent with the financial statements.

#### Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 57 to 60 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Richard Njoroge – Practicing Certificate No. 1244.

Certified Public Accountants  
Nairobi

19 March 2018

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Group		Company	
		2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Revenue	6	582,338	527,164	582,338	527,164
Interest income	9	98,569	94,766	84,358	79,885
Other income	10	76,125	95,255	76,125	95,255
<b>Total income</b>		<b>757,032</b>	<b>717,185</b>	<b>742,821</b>	<b>702,304</b>
Administrative expenses		(500,170)	(487,291)	(495,633)	(483,438)
Share of profit of associate	15 (c)	12,324	3,221	12,324	3,221
<b>Profit before income tax</b>	7	<b>269,186</b>	<b>233,115</b>	<b>259,512</b>	<b>222,087</b>
Income tax expense	11 (a)	(52,936)	(49,159)	(50,470)	(46,111)
<b>Profit for the year</b>		<b>216,250</b>	<b>183,956</b>	<b>209,042</b>	<b>175,976</b>
<b>Other comprehensive income</b>					
<i>Items that will not be reclassified to profit or loss</i>					
Revaluation surplus on buildings		3,093	110	3,093	110
Deferred income tax on revaluation surplus	24	(453)	(22)	(453)	(22)
		———	———	———	———
		2,640	88	2,640	88
<i>Items that may be reclassified to profit or loss</i>					
Share of exchange differences from associate arising from translation of foreign operation	15 (c)	(84)	(290)	(84)	(290)
		———	———	———	———
<b>Other comprehensive income for the year</b>		<b>2,556</b>	<b>(202)</b>	<b>2,556</b>	<b>(202)</b>
<b>Total comprehensive income for the year</b>		<b>218,806</b>	<b>183,754</b>	<b>211,598</b>	<b>175,774</b>
Earnings per share		Sh	Sh		
- Basic and diluted	28	0.83	0.71		
		====	====		

# STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

	Notes	Group	Company	
			2017 Sh'000	2016 Sh'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property and equipment	12	229,635	184,164	229,635
Investment property	13	300,603	313,474	300,603
Intangible assets	14	152,729	168,084	152,729
Investment in associate	15 (b)	111,374	99,134	111,374
Investment in subsidiary and structured entities	16	-	-	130,000
Government securities	18	93,104	96,490	93,104
Long-term restricted investments	19	148,391	143,204	-
		1,035,836	1,004,550	1,017,445
		=====	=====	=====
<b>Current assets</b>				
Trade and other receivables	20 (a)	92,346	70,921	92,346
Due from related company	29 (f)(i)	-	-	622
Current income tax	11 (c)	22,435	48,170	19,695
Corporate bonds	17	-	15,281	-
Government securities	18	237,515	102,959	237,515
Fixed deposits	21	262,043	-	262,043
Short-term restricted cash and investments	21	302,015	292,505	302,015
Cash and cash equivalents	21	156,030	479,359	155,696
		1,072,384	1,009,195	1,069,932
		=====	=====	=====
<b>TOTAL ASSETS</b>		2,108,220	2,013,745	2,087,377
		=====	=====	=====
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	23	1,038,003	1,038,003	1,038,003
Share premium		277,185	277,185	277,185
Retained earnings		694,049	547,852	675,890
Other reserves		(559)	(475)	(559)
Revaluation reserve		3,208	580	3,208
Shareholders' funds		2,011,886	1,863,145	1,993,727
		=====	=====	=====
<b>Non-current liabilities</b>				
Deferred income tax	24	3,496	5,631	4,804
Tenant deposits	25 (a)	3,830	7,273	3,830
		7,326	12,904	8,634
		=====	=====	13,164
<b>Current liabilities</b>				
Trade and other payables	25 (b)	66,939	119,218	65,147
Dividends payable	26	19,869	16,278	19,869
Trading members' contributions		2,200	2,200	-
		89,008	137,696	85,016
		=====	=====	134,307
<b>TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES</b>		2,108,220	2,013,745	2,087,377
		=====	=====	=====

The financial statements on pages 65 to 104 were approved and authorised for issue by the Board of Directors on 19 March 2018 and were signed on its behalf by:

Mr. Samuel Kimani  
Chairman

Dr. Winnie Nyamute  
Director

Mr. Geoffrey O. Oundo  
Chief Executive

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital Sh'000	Share premium Sh'000	Retained earnings Sh'000	Other reserves Sh'000	Revaluation reserve Sh'000	Total Sh'000
<b>Year ended 31 December 2016</b>						
At start of the year	778,500	277,185	718,753	(185)	504	1,774,757
Profit for the year	-	-	183,956	-	-	183,956
Other comprehensive income, net of tax	-	-	-	(290)	88	(202)
<b>Total comprehensive income for the year</b>	-	-	183,956	(290)	88	183,754
Transfer of excess depreciation	-	-	17	-	(17)	-
Deferred tax on transfer of excess depreciation	-	-	(5)	-	5	-
<b>Transactions with owners:</b>						
Bonus issue	259,503	-	(259,503)	-	-	-
2015 dividend declared in the year	-	-	(95,366)	-	-	(95,366)
At end of year	1,038,003	277,185	547,852	(475)	580	1,863,145
	=====	=====	=====	=====	=====	=====
<b>Year ended 31 December 2017</b>						
At start of year	1,038,003	277,185	547,852	(475)	580	1,863,145
Profit for the year	-	-	216,250	-	-	216,250
Other comprehensive income, net of tax	-	-	-	(84)	2,640	2,556
<b>Total comprehensive income for the year</b>	-	-	216,250	(84)	2,640	218,806
Transfer of excess depreciation	-	-	17	-	(17)	-
Deferred tax on transfer of excess depreciation	-	-	(5)	-	5	-
<b>Transactions with owners:</b>						
2016 dividend declared in the year	-	-	(70,065)	-	-	(70,065)
At end of year	1,038,003	277,185	694,049	(559)	3,208	2,011,886
	=====	=====	=====	=====	=====	=====

The revaluation reserve relates to the valuation surplus on property.

Other reserves relates to the Group's share of the translation reserve of the associate.

# COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital Sh'000	Share premium Sh'000	Retained earnings Sh'000	Other reserves Sh'000	Revaluation reserve Sh'000	Total Sh'000
<b>Year ended 31 December 2016</b>						
At start of year	778,500	277,185	715,782	(185)	504	1,771,786
Profit for the year	-	-	175,976	-	-	175,976
Other comprehensive income, net of tax	-	-	-	(290)	88	(202)
<b>Total comprehensive income for the year</b>	-	-	175,976	(290)	88	175,774
Transfer of excess depreciation	-	-	17	-	(17)	-
Deferred tax on transfer of excess depreciation	-	-	(5)	-	5	-
<b>Transactions with owners:</b>						
Bonus issue	259,503	-	(259,503)	-	-	-
2015 dividend declared in the year	-	-	(95,366)	-	-	(95,366)
At end of year	1,038,003	277,185	536,901	(475)	580	1,852,194
<b>Year ended 31 December 2017</b>						
At start of year	1,038,003	277,185	536,901	(475)	580	1,852,194
Profit for the year	-	-	209,042	-	-	209,042
Other comprehensive income, net of tax	-	-	-	(84)	2,640	2,556
<b>Total comprehensive income for the year</b>	-	-	209,042	(84)	2,640	211,598
Transfer of excess depreciation	-	-	17	-	(17)	-
Deferred tax on transfer of excess depreciation	-	-	(5)	-	5	-
<b>Transactions with owners:</b>						
2016 dividend declared in the year	-	-	(70,065)	-	-	(70,065)
At end of year	1,038,003	277,185	675,890	(559)	3,208	1,993,727

The revaluation reserve relates to the valuation surplus on property.

Other reserves relates to the Company's share of the translation reserve of the associate.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	Group		Company	
		2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
<b>Cash flows from operating activities</b>					
Cash generated from operations	27	99,969	220,572	104,541	224,254
Tax paid	11 (c)	(29,789)	(24,641)	(24,485)	(19,616)
Net cash from operating activities		70,180	195,931	80,056	204,638
<b>Cash flows from investing activities</b>					
Purchase of property and equipment	12	(40,235)	(41,422)	(40,235)	(41,422)
Purchase of intangible assets	14	(2,283)	(29,389)	(2,283)	(29,389)
Interest received		98,569	92,825	84,358	77,944
Dividend received from associate	15 (b)	-	4,500	-	4,500
Proceeds on maturity of corporate and treasury bonds		15,281	12,911	15,281	12,911
Net (investment)/maturity in fixed deposits		(267,229)	415,323	(262,043)	415,323
Investment in restricted investments		-	(7,283)	-	-
Proceeds on disposal of equipment		32	246	32	246
Purchase of treasury bills		(131,170)	(100,620)	(131,170)	(100,620)
Net cash (used in)/from investing activities		(327,035)	347,091	(336,060)	339,493
<b>Cash flows from financing activities</b>					
Dividends paid	26	(66,474)	(92,375)	(66,474)	(92,375)
Net cash used in financing activities		(66,474)	(92,375)	(66,474)	(92,375)
(Decrease)/increase in cash and cash equivalents		(323,329)	450,647	(322,478)	451,756
<b>Cash and cash equivalents at the start of year</b>		479,359	28,712	478,174	26,418
<b>Cash and cash equivalents at the end of year</b>	21	156,030	479,359	155,696	478,174

# NOTES TO THE FINANCIAL STATEMENTS

## 1 REPORTING ENTITY

The Nairobi Securities Exchange Plc (NSE) ("the Company"/"the Exchange"), formerly known as the Nairobi Securities Exchange Limited, was incorporated in Kenya under the Companies Act and is domiciled in Kenya. The NSE is licensed as an exchange by the Capital Markets Authority (CMA) of Kenya and obtained a license on 19 October 2015 to operate a derivatives exchange. The NSE currently has the primary market services as a main line of business. The consolidated financial statements of the Group at and for the year ended 31 December 2017 comprise the Company and its subsidiary and controlled structured entities (collectively referred to as the "Group") and reflect the Company's interest in an associate company.

## 2 STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULT OR FINANCIAL POSITION

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS and the Kenyan Companies Act, 2015.

### b) Basis of preparation

#### i. Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Group using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset/liability that market participants would take into account.

Fair values are categorised into three levels of fair value hierarchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are derived from quoted

prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Group at the end of the reporting period during which the change occurred.

#### ii. Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgment in the process of applying the Group's and Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

#### iii. Adoption of new and revised International Financial Reporting Standards (IFRS)

##### New and amended standards adopted by the Group

The following amendments have been applied by the Group for the first time for the financial year beginning 1 January 2017:

**Amendment to IAS 12 – Income taxes:** The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets:

**Amendment to IAS 7 – Cash flow statements:** The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.

The above amendments did not have any effect on the Group's reported earnings or financial statement position and had no impact on the accounting policies.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULT OR FINANCIAL POSITION (Continued)

b) Basis of preparation (continued)

iii. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

#### New and revised standards and interpretations which have been issued but are not yet effective.

The Group has not applied the following revised standards and interpretations that have been published but are not yet effective for the year beginning after 1 January 2017:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

IFRS 16, 'Leases': This standard requires that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise

assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture). The standard is effective for annual periods beginning 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Nairobi Securities Exchange Plc and its subsidiary, controlled structured entities and interest in associate company made up to 31 December 2017. The subsidiary and structured entities undertakings have been fully consolidated.

##### i. Subsidiary

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.1 Basis of consolidation (continued)

##### i) Subsidiary (continued)

The Group financial statements incorporate the assets, liabilities and results of the operations of the NSE Clear Limited, a company formed to act as a central counterparty in all the derivative transactions. Investments in subsidiaries are carried at cost less accumulated impairment losses. Details of NSE's subsidiary are set out in Note 16.

The accounting policies of the subsidiary have been changed where necessary to align them with the policies adopted by the Group.

##### ii. Structured entities

The NSE Derivatives Settlement Guarantee Fund and the NSE Derivatives Investor Protection Fund are trusts established under the Trustee Act (Cap. 167) pursuant to the statutory obligations imposed on the NSE, as a licensed exchange, by the provisions of the Capital Markets (Derivatives Markets) Regulations, 2015 and clause 1.90 and 1.10 of the NSE Derivatives Rules. Clause 1.90 requires that the NSE, shall by itself or through a clearing house, establish and maintain a Settlement Guarantee Fund to strengthen the financial integrity of the derivatives market and ensure settlement of transactions in derivatives securities in case of default by a clearing member (CM). Clause 1.10 requires that the NSE shall establish and maintain an Investor Protection Fund to satisfy specified claims by the investing public arising out of non-settlement of obligations owed to them by trading members or losses incurred by reason of the default of the trading members up to an amount specified in the rules.

Management and administration of the assets and operations of these trusts is done by a management committee formed by the NSE Clear Board of Directors. The Trustees of the funds act as the custodians and trustees of the assets of these Funds as defined in the trust deeds and rules of these Funds. The Fund's assets are segregated from the assets of the NSE and the NSE Clear Limited but are effectively controlled by NSE Clear Limited. The NSE, by virtue of its role as the parent company of the clearing house, NSE Clear Limited, has to consolidate the results of these funds in its annual financial statements.

The subsidiary and structured entities are stated at cost in the separate financial statements of the Company. Separate financial statements are prepared for the subsidiary and the structured entities, and independent external audits performed.

##### iii. Investment in associate

Associates are those entities which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% to 50% of the voting power of another entity. 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 Group'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 Group's interest in that associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

#### 3.2 Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Groups' interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### 3.3 Foreign currencies

##### i. Functional and Presentation currency

The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The financial statements are presented in Kenya Shillings, which is the Group's and the Company's Functional and Presentation Currency. Except as indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand.

##### ii. Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the respective functional currencies of the operations using the exchange rates prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

#### 3.4 Revenue recognition

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

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.

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 and 30 November.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.4 Revenue recognition (continued)

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.

Rental income from investment property is recognised in profit or loss on a straight line basis over the term of the lease.

Management services income is charged to the NSE Clear Limited based on direct and indirect costs incurred on staff assigned to the NSE Clear Limited and a proportion of office and administration overhead expenses.

#### 3.5 Property and equipment

The building is carried at valuation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the year. The frequency of valuation is annual.

Motor vehicles and equipment are stated at cost less accumulated depreciation and any impairment losses.

Professional valuations on buildings are carried out in accordance with the Group policy. The fair value is determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. Increases in the carrying amounts of property resulting from revaluation is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in carrying amount arising on the revaluation of buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

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
Buildings	Over the remaining 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. Gains or losses arising from changes in fair value of the building are included in other comprehensive income in the period in which they arise net of deferred taxes.

#### 3.6 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.

#### 3.7 Impairment of tangible and intangible assets

At the end of each reporting period, the Group 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.

#### 3.8 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 on the basis of the highest and best use. Gains or losses arising from changes in fair value of the investment property are included in profit or loss in the year in which they arise net of deferred taxes.

#### 3.9 Restricted cash and investments

The Group classifies all cash, cash equivalents and investments that are not available for general use by the Group, either due to regulatory requirements or through restrictions in specific agreements, as restricted in the accompanying statement of financial position.

##### **Short-term restricted cash and investments**

As required by the Capital Markets (Derivatives Markets) Regulations, 2015, the Group is required to maintain a minimum liquid net-worth capital requirement equal to one half of the total estimated operating costs for the next twelve (12) months period. At 31 December 2017, this amount was Sh 302 million (2016: Sh 292.5 million). The amounts are reflected as short-term restricted investments (note 21).

##### **Long-term restricted cash and investments**

The NSE has contributed Sh 20 million, Sh 100 million and Sh 10 million as seed capital to the subsidiary, NSE Clear Limited, and the structured entities, NSE Derivatives Settlement Guarantee Fund and NSE Derivatives Investor Protection Fund respectively. These amounts could be used in the event of a clearing/trading member's default where the amount of the defaulting clearing/trading member's initial, variation and additional margins a guarantee fund deposits are insufficient (note 19). These amounts together with related earned interest are held in bank deposits that have been classified as restricted.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.10 Financial instruments

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

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

This category has two sub-categories: Financial assets classified as held for trading and those designated at fair value through profit or loss at inception.

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.

##### **Loans and receivables**

Loans and 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.

##### **Held to maturity Investments**

Held to maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Group 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.

##### **Derecognition of financial assets**

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

##### **Other financial liabilities**

Other financial liabilities (including borrowings and trade payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where applicable) a shorter period, to the net carrying amount on initial recognition.

##### **Classes of financial instruments**

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification

	Category (as defined by IAS 39)		Class and sub class (as determined by the Group)
Financial assets and liabilities	Financial assets	Financial assets at fair value through profit or loss	Financial assets designated at fair value through profit or loss: Quoted shares
		Loans and receivables	Long-term restricted investments Trade and other receivables Due from related company Short-term restricted cash and investments  Cash and cash equivalents Fixed deposits
		Held-to-maturity investments	Investment securities - debt securities: Government securities Corporate bonds
	Financial liabilities	Financial liabilities at amortised cost	Tenant deposits Trade and other payables Dividends payable Due to structured entity Trading members' contributions

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.11 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and demand deposits and other 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.

#### 3.12 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.

#### 3.13 Segmental reporting

The Group determines and presents operating segments based on the information that is internally provided to the chief operating decision maker (Group management). An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Costs in the NSE are managed holistically across the Exchange and variances against budget are closely monitored. Information technology and corporate overheads are not generally allocated to a particular segment.

#### 3.14 Taxation

Income tax expense represents the sum of the current income tax and deferred income tax.

##### **Current income tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### **Deferred income tax**

Deferred income 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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

##### **Current and deferred income 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.

#### 3.15 Retirement benefit obligations

The Group operates a defined contribution provident scheme for all its employees. The scheme is administered by Britam Life Assurance Company (Kenya) Limited and is funded by contributions from both the Group and employees.

The Group also contributes to a statutory contribution pension scheme, the National Social Security Fund (NSSF). The Group's obligations under the scheme are limited to specific contributions legislated from time to time. The Group's contributions to these schemes are charged to the profit or loss in the year in which they relate.

#### 3.16 Dividends payable

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Proposed dividends are not accrued for until ratified in an Annual General Meeting.

#### 3.17 Earnings per share

The Group presents earnings per share (EPS) data for its ordinary shareholders in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the NSE by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding adjusted for the effects of all potentially dilutive shares.

#### 3.18 Shares reserves and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.19 Minimum liquid net worth requirement

The Capital Markets (Derivatives Market) Regulations, 2015 clause 15 (1) and 15 (2) require that a futures exchange have and maintain a minimum liquid net-worth equal to one half of the estimated gross operating costs of the futures exchange for the next twelve (12) month period or such other liquid net-worth amount as may be prescribed by the Authority. The requirement is met as per Note 34.

#### 3.20 Comparatives

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

### 4 ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes 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 and estimation in applying the entities accounting policies are dealt with below:

#### Taxes

The Group is subjected to numerous taxes and levies by various government and quasi-government regulatory bodies. As a rule of thumb, the Group recognises liabilities for the anticipated tax/levies payable with utmost care and diligence. However, judgment is usually required in the interpretation and applicability of those taxes/levies. Should it come to the attention of management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

#### Valuation of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. The directors believe that the chosen valuation techniques and assumptions used in the valuation of its investments are appropriate in determining the fair value of financial instruments.

#### Valuation of land and building

The fair value model has been applied in accounting for land and building. The Group commissioned external, independent and professionally qualified real estate valuers that hold recognised relevant professional qualification and have recent experience

in the location and type of property valued to determine the fair value of the property as at 31 December 2017 and 2016 on the basis of open market value. The current use of the portion of the land and building accounted for as investment property equates to the highest and best use.

The valuation of the land and building is derived by making reference to recent comparable sales transactions in the relevant property market. The Group's land and building are valued by reference to a level 2 fair value measurement.

### 5 OPERATING SEGMENTS

The Group entities are all domiciled in Kenya. The Group has two main business segments:

- Cash equities and interest rate market segment comprises the equities and bond trading business. This includes *other income* comprising broker back office income, rental income, data fees and other incomes; and
- Derivatives market segment comprises of the futures trading business. No transactions in derivatives were carried out in the year ended 31 December 2017 (2016: Nil) as the market is expected to be launched in 2018.

Each business segment offers different products and services, and is managed separately because each requires different technology and a different marketing strategy.

The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information, which are regularly reviewed by Group management (the chief operating decision maker) and the Board. The segment results were as follows:

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 5 OPERATING SEGMENTS (Continued)

#### Statement of Financial Position

	Cash equities and interest rate market Sh'000	Derivatives market Sh'000	Total Sh'000
<b>2017</b>			
<b>ASSETS</b>			
Government securities	330,619	-	330,619
Long-term restricted investments	-	148,391	148,391
Short-term restricted cash and investments	302,015	-	302,015
Cash, cash equivalents and fixed deposits	418,073	334	418,407
Other assets	906,048	2,740	908,788
	-----	-----	-----
	1,956,755	151,465	2,108,220
	=====	=====	=====
<b>LIABILITIES</b>			
Trade and other payables	93,650	484	94,134
Trading member contributions	-	2,200	2,200
	-----	-----	-----
	93,650	2,684	96,334
	=====	=====	=====
<b>2016</b>			
<b>ASSETS</b>			
Government securities	199,449	-	199,449
Long-term restricted investments	-	143,204	143,204
Short-term restricted cash and investments	292,505	-	292,505
Cash, cash equivalents and fixed deposits	478,174	1,185	479,359
Other assets	898,279	949	899,228
	-----	-----	-----
	1,868,407	145,338	2,013,745
	=====	=====	=====
<b>LIABILITIES</b>			
Trade and other payables	147,211	1,189	148,400
Trading member contributions	-	2,200	2,200
	-----	-----	-----
	147,211	3,389	150,600
	=====	=====	=====
	Cash equities and interest rate market Sh'000	Derivatives market Sh'000	Total Sh'000
<b>2017</b>			
Additions to non-current assets	26,099	5,187	31,286
	=====	=====	=====
Non-current assets	887,445	148,391	1,035,836
	=====	=====	=====
<b>2016</b>			
Additions to non-current assets	6,445	7,283	13,728
	=====	=====	=====
Non-current assets	861,346	143,204	1,004,550
	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 5 OPERATING SEGMENTS (Continued)

#### Statement of Profit or Loss and Other Comprehensive Income

	Cash equities and interest rate market Sh'000	Derivatives market Sh'000	Total Sh'000
<b>2017</b>			
Revenue	582,338	-	582,338
Interest income	84,358	14,211	98,569
Other income	76,125	-	76,125
	_____	_____	_____
<b>Total income</b>	742,821	14,211	757,032
Administrative expenses	(495,633)	(4,537)	(500,170)
Share of profit of associate	12,324	-	12,324
	_____	_____	_____
Profit before income tax	259,512	9,674	269,186
	=====	=====	=====
<b>2016</b>			
Revenue	527,164	-	527,164
Interest income	79,885	14,881	94,766
Other income	95,255	-	95,255
	_____	_____	_____
<b>Total income</b>	702,304	14,881	717,185
Administrative expenses	(483,438)	(3,853)	(487,291)
Share of profit of associate	3,221	-	3,221
	_____	_____	_____
Profit before income tax	222,087	11,028	233,115
	=====	=====	=====

All revenues are earned in Kenya. There are no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

		Group		Company
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
<b>6 REVENUE</b>				
Transactions levy	442,342	383,572	442,342	383,572
Annual listing fees	84,168	85,120	84,168	85,120
Initial listing fees	3,300	7,430	3,300	7,430
Application and additional listing fees	1,332	1,809	1,332	1,809
Broker back office subscription	26,078	25,013	26,078	25,013
Data vending	25,118	24,220	25,118	24,220
	=====	=====	=====	=====
	582,338	527,164	582,338	527,164
	=====	=====	=====	=====
<b>7 PROFIT BEFORE INCOME TAX</b>				
The profit before income tax is arrived at after charging/ (crediting) :				
Employee benefits (note 8)	183,719	191,805	183,719	191,805
Depreciation of property and equipment (note 12)	23,925	21,595	23,925	21,595
Amortisation of intangible assets (note 14)	17,638	18,353	17,638	18,353
Directors' emoluments:				
- Executive (note 29(a))	18,170	18,170	18,170	18,170
- Non-executive (note 29(a))	12,053	14,295	10,939	13,182
Auditor's remuneration	4,110	4,088	3,001	2,857
Gain on disposal of equipment	(24)	(104)	(24)	(104)
	=====	=====	=====	=====
<b>8 EMPLOYEE BENEFITS</b>				
Salaries and wages	164,598	169,763	164,598	169,763
Leave pay expense	2,544	4,869	2,544	4,869
Provident fund contribution	15,869	16,481	15,869	16,481
Social security costs (NSSF)	708	692	708	692
	=====	=====	=====	=====
	183,719	191,805	183,719	191,805
	=====	=====	=====	=====
The staff numbers as at 31 December 2017 were 48 (2016: 53).				
<b>9 INTEREST INCOME</b>				
Interest on term deposits	75,255	82,522	61,044	67,641
Held to maturity investments:				
- interest on treasury bonds and bills	21,704	10,528	21,704	10,528
- interest on corporate bonds	994	1,279	994	1,279
Interest on staff loans and advances	616	437	616	437
	=====	=====	=====	=====
	98,569	94,766	84,358	79,885
	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group	Company		
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
<b>10 OTHER INCOME</b>				
Market access fee	25,100	25,000	25,100	25,000
Fair value gain on investment property (note 13)	13,205	5,769	13,205	5,769
Rental income	20,019	20,698	20,019	20,698
Miscellaneous income	5,328	4,642	5,328	4,642
Training fees	4,724	7,828	4,724	7,828
M-Akiba fees	3,063	-	3,063	-
Sale of publications and merchandising items	2,781	3,650	2,781	3,650
Private transfer fee	862	891	862	891
Nomad fees	575	575	575	575
Exchange gain/(loss)	444	(1,397)	444	(1,397)
Gain on disposal of equipment	24	104	24	104
Gain on disposal of investment in shares	-	27,495	-	27,495
	-----	-----	-----	-----
	76,125	95,255	76,125	95,255
	=====	=====	=====	=====
<b>11 TAXATION</b>				
<b>(a) Taxation charge</b>				
<b>Current income tax</b>				
Current year expense	55,524	48,914	52,010	45,606
	-----	-----	-----	-----
<b>Deferred income tax (note 24)</b>				
Current year (credit)/charge	(2,120)	245	(1,540)	505
Prior year under-provision on tax losses	(468)	-	-	-
	-----	-----	-----	-----
	(2,588)	245	(1,540)	505
	-----	-----	-----	-----
	52,936	49,159	50,470	46,111
	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

		Group		Company
		2017 Sh'000	2016 Sh'000	2017 Sh'000
<b>11 TAXATION (Continued)</b>				
<b>(b) Reconciliation of taxation charge to the expected tax based on accounting profit</b>				
Profit before income tax		269,186	233,115	259,512
		=====	=====	=====
Tax calculated at a tax rate of 20% (2016: 20%)		51,902	44,417	51,902
Tax calculated at a tax rate of 30% (2016: 30%)		2,934	3,308	-
Tax effects on expenses not deductible for tax		3,919	5,593	3,919
Tax effect on revenues not allowable for tax		(5,351)	(4,159)	(5,351)
Prior year under-provision on tax losses		(468)	-	(3,899)
		=====	=====	=====
Income tax expense		52,936	49,159	50,470
		=====	=====	=====
<b>(c) Current Income tax movements</b>				
At start of year		(48,170)	(72,443)	(47,220)
Charge to profit or loss		55,524	48,914	52,010
Tax paid		(29,789)	(24,641)	(24,485)
		=====	=====	=====
At end of year		(22,435)	(48,170)	(19,695)
		=====	=====	=====
Made up of:				
Current income tax recoverable		(22,435)	(48,170)	(19,695)
		=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 12 PROPERTY AND EQUIPMENT (GROUP AND COMPANY)

	<b>Building Sh'000</b>	<b>Motor Vehicles Sh'000</b>	<b>Furniture &amp; fittings Sh'000</b>	<b>Office equipment Sh'000</b>	<b>Computer equipment Sh'000</b>	<b>WIP Sh'000</b>	<b>Total Sh'000</b>
<b>COST OR VALUATION</b>							
At 1 January 2016	90,372	10,995	71,013	22,797	82,651	104	277,932
Additions	-	-	90	322	11,310	29,700	41,422
Disposals	-	-	(5)	(53)	(523)	-	(581)
Adjustment on revaluation	(3,846)	-	-	-	-	-	(3,846)
	_____	_____	_____	_____	_____	_____	_____
At 1 January 2017	86,526	10,995	71,098	23,066	93,438	29,804	314,927
Additions	-	4,620	18,579	4,939	4,048	8,049	40,235
Disposals	-	-	(3)	(3,525)	(11,331)	-	(14,859)
Transfer from investment property (note 13)	26,076	-	-	-	-	-	26,076
Revaluation surplus	3,093	-	-	-	-	-	3,093
	_____	_____	_____	_____	_____	_____	_____
At 31 December 2017	115,695	15,615	89,674	24,480	86,155	37,853	369,472
	_____	_____	_____	_____	_____	_____	_____
<b>Comprising:</b>							
At valuation	115,695	-	-	-	-	-	115,695
At cost	-	15,615	89,674	24,480	86,155	37,853	253,777
	_____	_____	_____	_____	_____	_____	_____
Cost or valuation	115,695	15,615	89,674	24,480	86,155	37,853	369,472
	_____	_____	_____	_____	_____	_____	_____
<b>DEPRECIATION</b>							
At 1 January 2016	3,956	5,562	20,520	14,627	68,898	-	113,563
Charge for the year	-	2,248	8,832	4,141	6,374	-	21,595
Eliminated on disposal	-	-	(5)	(53)	(381)	-	(439)
Adjustment on revaluation	(3,956)	-	-	-	-	-	(3,956)
	_____	_____	_____	_____	_____	_____	_____
At 1 January 2017	-	7,810	29,347	18,715	74,891	-	130,763
Charge for the year	-	2,344	9,562	3,735	8,284	-	23,925
Eliminated on disposal	-	-	(1)	(3,525)	(11,325)	-	(14,851)
	_____	_____	_____	_____	_____	_____	_____
At 31 December 2017	-	10,154	38,908	18,925	71,850	-	139,837
	_____	_____	_____	_____	_____	_____	_____
<b>NET BOOK VALUE</b>							
At 31 December 2017	115,695	5,461	50,766	5,555	14,305	37,853	229,635
	=====	=====	=====	=====	=====	=====	=====
At 31 December 2016	86,526	3,185	41,751	4,351	18,547	29,804	184,164
	=====	=====	=====	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 12 PROPERTY AND EQUIPMENT (GROUP AND COMPANY) (Continued)

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 79 million (2016: Sh 68.6 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 19.4 million (2016: Sh 17.1 million).

The building has been stated at its revalued amounts, being the fair value at 31 December 2017 less any subsequent depreciation. The revaluation was done on the basis of market comparable approach reflecting the highest and best use by Kenstate Valuers Limited, an independent registered valuer.

### 13 INVESTMENT PROPERTY (GROUP AND COMPANY)

	2017 Sh'000	2016 Sh'000
<b>VALUATION</b>		
At 1 January	313,474	307,705
Fair value gain	13,205	5,769
Transfer to building (note 12)	(26,076)	-
	=====	=====
At 31 December	300,603	313,474
	=====	=====

The fair value of the Group's investment property at 31 December 2017 and 31 December 2016 have been arrived at on the basis of a valuation carried out at 31 December 2017 and 31 December 2016 by Kenstate Valuers Limited, independent registered valuers, respectively. The fair value was adjusted for in the books of the Group and Company. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

The following table gives information about how the fair values of these non-financial assets are determined (in particular, the valuation technique(s) and inputs used).

	<b>Fair value as at</b>	<b>Fair value hierarchy</b>	<b>Valuation technique(s) and key inputs</b>	<b>Significant unobservable inputs</b>	<b>Relationship of unobservable inputs to fair value</b>
	<b>31/12/17 Sh'000</b>	<b>31/12/16 Sh'000</b>			
Buildings	129,397	86,526	Level 2	Market comparable approach - Highest and best use	N/A
Investment property	300,603	313,474	Level 2		
<b>Total</b>	<b>430,000</b>	<b>400,000</b>			N/A

Building valuation includes Sh 13,702,000 costs of the fire exit that is held under WIP.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 14 INTANGIBLE ASSETS (GROUP AND COMPANY)

	Automated trading system software Sh'000	Other software Sh'000	Broker back office software Sh'000	Bond software license Sh'000	WIP Sh'000	Total Sh'000
<b>COST</b>						
At 1 January 2016	61,169	31,038	67,931	38,191	74,712	273,041
Additions	-	87	-	-	29,302	29,389
At 1 January 2017	61,169	31,125	67,931	38,191	104,014	302,430
Additions	-	643	-	-	1,640	2,283
At 31 December 2017	61,169	31,768	67,931	38,191	105,654	304,713
<b>AMORTISATION</b>						
At 1 January 2016	57,636	25,118	23,859	9,380	-	115,993
Amortisation for the year	1,308	2,613	6,794	7,638	-	18,353
At 1 January 2017	58,944	27,731	30,653	17,018	-	134,346
Amortisation for the year	1,122	2,084	6,794	7,638	-	17,638
At 31 December 2017	60,066	29,815	37,447	24,656	-	151,984
<b>NET BOOK VALUE</b>						
At 31 December 2017	1,103	1,953	30,484	13,535	105,654	152,729
At 31 December 2016	2,225	3,394	37,278	21,173	104,014	168,084

The work in progress relates to costs incurred on futures software and costs incurred to date on the ATS upgrade.

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated intangible assets with a cost of Sh 86 million (2016: Sh 71 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 12.7 million (2016: Sh 10.5 million).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 15 INVESTMENT IN ASSOCIATE (GROUP AND COMPANY)

The investment in associate represents an investment in Central Depository and Settlement Corporation Limited (CDSC). The Company held an ownership percentage of 22.5% at 31 December 2017 (2016: 22.5%). The proportion of the voting rights in the associate held by the Company does not differ from the proportion of ordinary shares held.

#### (a) Details of the associate at the end of the reporting period are as follows:

Country of incorporation and operation	Number of shares held by NSE @Sh 100 per share		Proportion of ownership interest and voting power held by NSE	
	2017	2016	2017	2016
Kenya	393,750 =====	393,750 =====	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 PLC.

#### (b) The movement in the balance is as follows:

	2017 Sh'000	2016 Sh'000
At start of year	99,134	100,703
Share of profit for the year	12,324	3,221
Share of other comprehensive income for the year	(84)	(290)
Dividends received	-	(4,500)
	-----	-----
At end of year	111,374 =====	99,134 =====

#### (c) Summarised financial information in respect of the associate is set out below:

Total assets	531,180	457,610
Total liabilities	(36,184)	(17,014)
	-----	-----
<b>Net assets</b>	<b>494,996</b>	<b>440,596</b>
	-----	-----
Group's share of net assets of associate	111,374 =====	99,134 =====
	-----	-----
Total revenue for the year	335,552 =====	289,571 =====
	-----	-----
Total profit for the year	54,447 =====	13,027 =====
	-----	-----
Group's share of profit of associate	12,324	3,221
Group's share of other comprehensive income of associate	(84) -----	(290) -----
	-----	-----
	12,240 =====	2,931 =====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 16 INVESTMENT IN SUBSIDIARY AND STRUCTURED ENTITIES (COMPANY)

	Principal activity	Holding	2017 Sh'000	2016 Sh'000
<b>Investment in subsidiary (note 16 (a)):</b>				
Investment in NSE Clear Limited	Clearing house	100%	20,000	20,000
<b>Investment in structured entities (note 16 (b)):</b>				
NSE Derivatives Settlement Guarantee Fund	Settlement guarantee fund		100,000	100,000
NSE Derivatives Investor Protection Fund	Investor protection fund		10,0000	10,000
			110,000	110,000
			130,000	130,000
			=====	=====

#### a) Investment in subsidiary

NSE Clear Limited was incorporated as a limited liability company on 4 February 2014 under the Companies Act (Cap. 486) with a share capital of Kenya Shillings One Hundred Thousand (Sh 100,000) divided into One Hundred (100) ordinary shares of Kenya Shillings One Thousand (Sh 1,000) each. It is a wholly owned subsidiary of the Nairobi Securities Exchange PLC. The subsidiary is domiciled in Kenya.

The principal objectives of the subsidiary are to carry on the business of a clearing house and as such, to provide clearing and settlement services for transactions in derivative securities whether carried out on or off a securities exchange, to act as a central counterparty in derivative securities transactions and to carry out all activities that pertain to a clearing house.

The license to operate a Derivatives Exchange was granted to the Nairobi Securities Exchange Limited on 19 October 2015. No transactions in derivatives were carried out in the period ended 31 December 2017 as the market is expected to be launched in 2018.

#### b) Investment in structured entities

The NSE Derivatives Settlement Guarantee Fund (SGF) was established on 17 July 2015 as an irrevocable trust under the Trustee Act (Cap. 167) pursuant to the Capital Markets (Derivatives Markets) Regulations, 2015 and the Nairobi Securities Exchange (NSE) Derivatives Rules. The main purpose of the Settlement Guarantee Fund is to settle specified claims by derivatives members arising out of transactions in derivative securities.

The NSE Derivatives Investor Protection Fund (IPF) was established on 17 July 2015 as an irrevocable trust under the Trustee Act (Cap 167) pursuant to the Capital Markets (Derivatives Markets) Regulations, 2015, the NSE Investor Protection Fund Rules and the Nairobi Securities Exchange PLC (NSE) Compensation Rules and Procedures. The main purpose for the Investor Protection Fund is to satisfy specified claims by the investing public arising out of non-settlement of obligations owed to them by trading members or losses incurred by reason of the default of trading members.

The two structured entities, which are domiciled in Kenya, are managed by a management committee formed by the NSE Clear Board of Directors which is responsible for their affairs.

Investment in the subsidiary and the structured entities are all classified as non-current. None of these financial assets are impaired.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

		Group		Company	
		2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
<b>17</b>	<b>CORPORATE BONDS – HELD TO MATURITY</b>				
	Housing Finance Group of Kenya Limited	-	15,281	-	15,281
	<b>Maturity analysis:</b>	=====	=====	=====	=====
	Maturing within one year	-	15,281	-	15,281
		=====	=====	=====	=====

The weighted average effective interest rate on the corporate bonds as at 31 December 2017 was Nil (2016: 8.5%).

		Group		Company	
		2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
<b>18</b>	<b>GOVERNMENT SECURITIES HELD TO MATURITY</b>				
	<b>Treasury bills maturing:</b>				
	Within three months	176,896	-	176,896	-
	After three months to six months	60,619	102,959	60,619	102,959
		=====	=====	=====	=====
		237,515	102,959	237,515	102,959
	<b>Treasury bonds maturing:</b>				
	After 1 to 10 years	93,104	96,490	93,104	96,490
		=====	=====	=====	=====
		330,619	199,449	330,619	199,449
		=====	=====	=====	=====

The weighted average effective interest rate on the treasury bills and bonds for the year ended 31 December 2017 was 10.4 % and 7.9 % respectively (2016: 10.35% and 6.5% respectively).

		Group		Company	
		2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
<b>19</b>	<b>LONG-TERM RESTRICTED INVESTMENTS</b>				
	Fixed deposit and interest capitalized held with the Co-operative Bank of Kenya Limited and maturing within 180 days in the name of:				
	NSE Clear Limited	20,080	20,601	-	-
	NSE Derivatives Settlement Guarantee Fund	115,791	110,544	-	-
	NSE Derivatives Investor Protection Fund	12,520	12,059	-	-
		=====	=====	=====	=====
		148,391	143,204	-	-
		=====	=====	=====	=====

The restricted investments relate to the seed capital contributions by the NSE on 19 August 2015 to the NSE Clear Limited, the NSE Derivatives Settlement Guarantee Fund (SGF) and the NSE Derivatives Investor Protection Fund (IPF) of Sh 20 million, Sh 100 million and Sh 10 million respectively towards their operations.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group	2017 Sh'000	2016 Sh'000	Company	2016 Sh'000
<b>20 TRADE AND OTHER RECEIVABLES</b>					
<b>a) Trade and other receivables</b>					
Receivable from non-trading brokers		154,056	154,056	154,056	154,056
Trade receivables		42,015	33,709	42,015	33,709
Prepayments and deposits		34,947	23,677	34,947	23,677
Due from associate (note 29 e))		1,188	-	1,188	-
Other receivables		14,196	13,535	14,196	13,535
	-----	-----	-----	-----	-----
		246,402	224,977	246,402	224,977
Provision for doubtful debts (note 20 b))		(154,056)	(154,056)	(154,056)	(154,056)
	-----	-----	-----	-----	-----
		92,346	70,921	92,346	70,921
	=====	=====	=====	=====	=====
<b>b) Provision for doubtful debts</b>					
Movements in the provisions for bad debts were as follows:					
At start and end of year		154,056	154,056	154,056	154,056
	=====	=====	=====	=====	=====

The receivable from non-trading brokers of Sh 154.1 million (2016: Sh154.1 million) under note 20 a) represents amounts owed by Nyaga Stockbrokers Limited of Sh 121.1 million (on loan issued in 2008 and transactions levy receivable and expenses incurred for the year 2008) and Discount Securities Limited of Sh 33.0 million (on loan issued in 2008 and transactions levy receivable for the year up to March 2009). The firms were later placed under statutory management by the Capital Markets Authority (CMA) in March 2008 and March 2009 respectively.

The amounts were fully provided for in 2009 and make up the provision for bad debts of Sh 154.1 million (2016: Sh 154.1 million) under note 20 b).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
<b>21 CASH AND CASH EQUIVALENTS AND SHORT TERM RESTRICTED CASH &amp; INVESTMENTS</b>				
Call deposits	102,472	4,616	102,472	4,616
Fixed deposits	562,580	700,918	562,580	700,918
	-----	-----	-----	-----
Total short-term deposits (note 22)	665,052	705,534	665,052	705,534
Bank and cash balances	55,036	66,330	54,702	65,145
	-----	-----	-----	-----
Total bank and cash balances and deposits	720,088	771,864	719,754	770,679
	=====	=====	=====	=====
<b>Split into:</b>				
Short-term restricted cash and investments (note 34)	302,015	292,505	302,015	292,505
Cash and cash equivalents	156,030	479,359	155,696	478,174
Fixed deposits – maturity of three months to six months	262,043	-	262,043	-
	-----	-----	-----	-----
	720,088	771,864	719,754	770,679
	=====	=====	=====	=====
<b>22 SHORT TERM DEPOSITS</b>				
<b>Maturing within three months:</b>				
Fixed deposits	300,537	700,918	300,537	700,918
Call deposits	102,472	4,616	102,472	4,616
	-----	-----	-----	-----
<b>Maturing after three months to six months:</b>				
Fixed deposits	262,043	-	262,043	-
	-----	-----	-----	-----
	665,052	705,534	665,052	705,534
	=====	=====	=====	=====

The deposits are classified as loans and receivables, and measured at amortised cost.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

		Group		Company
		2017 Sh'000	2016 Sh'000	2017 Sh'000
<b>22</b>	<b>SHORT TERM DEPOSITS (Continued)</b>			
	The deposits were held at the following institutions			
	Co-operative Bank of Kenya Limited	232,475	277,127	232,475
	Equity Bank Kenya Limited	154,379	242,466	154,379
	Diamond Trust Bank Kenya Limited	146,072	111,393	146,072
	Kenya Commercial Bank Limited	21,369	69,304	21,369
	Stanbic Bank Kenya Limited	5,595	5,244	5,595
	NIC Bank Kenya PLC	105,162	-	105,162
		<hr/>	<hr/>	<hr/>
		665,052	705,534	666,052
		<hr/>	<hr/>	<hr/>

The weighted average effective interest rate on the deposits as at 31 December 2017 was 8.4% (2016 : 8.5%).

		Group		Company
		2017 Sh'000	2016 Sh'000	2017 Sh'000
<b>23</b>	<b>SHARE CAPITAL</b>			
	<b>Authorized share capital :</b>			
	At start of year:			
	375,000,000 ordinary shares of Sh 4 each (2016: 212,500,000 ordinary shares of Sh 4 each)	1,500,000	850,000	1,500,000
	Increase in shares in 2016 162,500,000 shares of Sh 4 each	-	650,000	-
		<hr/>	<hr/>	<hr/>
	At end of year:			
	375,000,000 ordinary shares of Sh 4 each (2016: 375,000,000 ordinary shares of Sh 4 each)	1,500,000	1,500,000	1,500,000
		<hr/>	<hr/>	<hr/>
	<b>Issued and fully paid up :</b>			
	At start of year:			
	259,500,791 ordinary shares of Sh 4 each (2016: 194,625,000 ordinary shares of Sh 4 each)	1,038,003	778,500	1,038,003
	Issue of 64,875,791 bonus shares of Sh 4 each in 2016	-	259,503	-
		<hr/>	<hr/>	<hr/>
	At end of year:			
	259,500,791 ordinary shares of Sh 4 each (2016: 259,500,791 ordinary shares of Sh 4 each)	1,038,003	1,038,003	1,038,003
		<hr/>	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 24 DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 20% (2016: 20%) except for deferred tax on revaluation of buildings which is calculated using the capital gains tax rate of 5% (2016: 5%). The net deferred tax liability is attributable to the following items:

	Group	2016 Sh'000	2017 Sh'000	Company 2016 Sh'000
Accelerated capital allowances	(1,845)	(4,116)	(1,845)	(4,116)
Straight-lined rental income	(1,208)	(1,301)	(1,208)	(1,301)
Unrealized foreign exchange loss	(61)	(50)	(61)	(50)
Revaluation surplus on buildings	(619)	(166)	(619)	(166)
Leave provision	592	744	592	744
Tax losses	1,308	260	-	-
	=====	=====	=====	=====
Revaluation of investment property	(1,833)	(4,629)	(3,141)	(4,889)
	(1,663)	(1,002)	(1,663)	(1,002)
	=====	=====	=====	=====
	(3,496)	(5,631)	(4,804)	(5,891)
	=====	=====	=====	=====
The movement in the deferred income tax liability is as follows:				
At start of year	(5,631)	(5,364)	(5,891)	(5,364)
Credit/(charge) to profit or loss - (note 11(a))	2,588	(245)	1,540	(505)
Charge to other comprehensive income	(453)	(22)	(453)	(22)
	=====	=====	=====	=====
At end of year	(3,496)	(5,631)	(4,804)	(5,891)
	=====	=====	=====	=====
<b>25 TRADE AND OTHER PAYABLES</b>				
<b>a) Non-current portion</b>				
Tenant deposits	3,830	7,273	3,830	7,273
	=====	=====	=====	=====
<b>b) Current portion</b>				
Accrued expenses	37,013	43,361	35,221	42,172
Trade payables	12,730	14,613	12,730	14,613
Other payables	8,599	12,324	8,599	12,324
Staff leave accrual	2,962	3,719	2,962	3,719
Amount payable to Capital Markets Authority	2,030	2,074	2,030	2,074
Annual listing fees received in advance	1,957	26,850	1,957	26,850
Tenant deposits	1,648	-	1,648	-
Tax penalties payable	-	14,527	-	14,527
Amount payable to associate (note 29 (e))	-	1,750	-	1,750
	=====	=====	=====	=====
	66,939	119,218	65,147	118,029
	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 26 DIVIDENDS PAYABLE

The dividends payable represent the first and final dividend for the years ended 31 December 2016, 2015, 2014 and 2013 respectively not paid at year end. The movement in dividends payable during the year was as follows:-

	Group 2017 Sh'000	2016 Sh'000	Company 2017 Sh'000	2016 Sh'000
At start of year	16,278	13,287	16,278	13,287
Declared amount for prior years	70,065	95,366	70,065	95,366
Paid during the year	(66,474)	(92,375)	(66,474)	(92,375)
	-----	-----	-----	-----
At end of year	19,869	16,278	19,869	16,278
	=====	=====	=====	=====

### 27 CASH FLOW FROM OPERATING ACTIVITIES

Profit before income tax	269,186	233,115		222,087
Adjustments for:				
Depreciation (note 12)	23,925	21,595	23,925	21,595
Amortisation (note 14)	17,638	18,353	17,638	18,353
Share of results of associate (note 15 (c))	(12,324)	(3,221)	(12,324)	(3,221)
Interest income (note 9)	(98,569)	(94,766)	(84,358)	(79,885)
Gain on disposal of equipment	(24)	(104)	(24)	(104)
Gain on revaluation of investment property	(13,205)	(5,769)	(13,205)	(5,769)
Working capital changes:				
(Increase)/decrease in trade and other receivables	(21,425)	5,711	(21,425)	5,711
(Increase)/decrease in short-term restricted cash and investments	(9,510)	40,995	(9,510)	40,995
(Decrease)/increase in trade and other payables	(55,723)	4,566	(56,325)	4,492
Movement in related party balances	-	97	637	-
	-----	-----	-----	-----
Cash generated from operations	99,969	220,572	104,541	224,254
	=====	=====	=====	=====

### 28 EARNINGS PER SHARE

Profit attributable to owners of the Group (Sh'000)	216,250	183,956
	=====	=====
Number of shares at 31 December 2017 (in thousands)	259,501	259,501
	=====	=====
Basic and diluted earnings per share – Sh	0.83	0.71
	=====	=====

The basic earnings per share is the same as the diluted earnings per share as there were no potentially dilutive shares at 31 December 2017 and 31 December 2016.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 29 RELATED PARTY TRANSACTIONS

The Group and Company are related to various parties by virtue of common shareholding. The shareholders exercise significant influence over the operations of the exchange.

At 31 December 2017, the Group had 10 stock brokers (2016:11) and 7 licensed investment banks (2016:5) who are shareholders. The following transactions were carried out with related parties:

	Group		Company	
	2017	2016 Sh'000	2017	2016 Sh'000
<b>a) Directors' emoluments</b>				
<b>Non – executive</b>				
Directors sitting allowances (including committees)	12,053 =====	14,295 =====	10,939 =====	13,182 =====
<b>Executive</b>				
	18,170 =====	18,170 =====	18,170 =====	18,170 =====
<b>Group and Company</b>				
	2017 Sh'000	2016 Sh'000		
<b>b) Key management compensation</b>				
Salaries and other short-term employment benefits		50,197	53,154	
Other long term benefits		4,748	4,984	
		_____	_____	
		54,945 =====	58,138 =====	

### c) Transactions with shareholders

The transactions carried out during the year with the brokers and investment banks who are related parties by virtue of shareholding are disclosed below:

The Group charges investors, through the brokers, a transaction levy of 0.12% (31 December 2016: 0.12%) of the value of equity securities traded at the Exchange. During the 12 month period, the total turnover was Sh 209,800 million (31 December 2016: Sh 175,330 million) resulting in a transaction levy of Sh 252 million. (31 December 2016: Sh 210 million). NSE also charges investors, through brokers, a transaction levy of 0.0035% (31 December 2016 – 0.0035%) of the value of fixed income securities traded at the Exchange. The turnover for fixed income securities for the 12 months period ended 31 December 2017 was Sh 659,139 million. (31 December 2016: Sh 630,611 million), resulting in transaction levy of Sh 23 million (31 December 2016: Sh 22 million).

	Group		Company	
	2017 Sh'000	2016 Sh'000	2017 Sh'000	2016 Sh'000
Transaction levy on - equity securities	251,760	210,396	251,760	210,396
Transaction levy on - fixed income securities	23,070	22,071	23,070	22,071
Broker back office subscriptions	18,720	15,840	18,720	15,840
Data fee	516	597	516	597
Training	399	591	399	591
NOMAD fee	275	150	275	150
	_____	_____	_____	_____
	294,740 =====	249,645 =====	294,740 =====	249,645 =====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 29 RELATED PARTY TRANSACTIONS (Continued)

#### d) Transactions with companies related to directors

The Company's memorandum and articles of association requires that trading participants and listed companies to have two representatives each on the Board. The transactions listed below were carried out during the period with companies who the aforementioned representatives are directors.

	Group and Company 2017 Sh'000	2016 Sh'000
<b>i) Stockbrokers and investment bank representatives</b>		
Transaction levy on - equity securities	32,311	34,102
Transaction levy on - fixed income securities	3,939	3,356
Broker back office subscriptions	2,880	2,880
NOMAD fees	50	435
Purchase of data	12	120
	=====	=====
	39,192	40,893
	=====	=====
Allowances to broker company directors sitting on Committees but are not Group Directors	-	457
	=====	=====
<b>ii) Listed companies related to directors</b>		
Annual listing fees	4,000	3,000
Advertisement	52	52
	=====	=====
	4,052	3,052
	=====	=====
<b>e) Transactions with associate</b>		
During the period, transactions with CDSC Ltd were as follows:-		
Committee sitting allowance paid to CDSC director	-	143
	=====	=====
Income: Advertising	52	-
	=====	=====
Expenses relating to:		
Share registrar services and depository levies	2,973	2,682
Dividend processing	984	984
Joint Board meetings	-	(52)
	=====	=====
	3,957	3,614
	=====	=====
Net amounts receivable/(payable) to associate (note 20 a) and note 25 b))	1,188	(1,750)
	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 29 RELATED PARTY TRANSACTIONS (Continued)

#### f) Transactions with subsidiary and structured entities

	Company 2017 Sh'000	2016 Sh'000
(i) During the period, transactions with NSE Clear Limited were as follows:		
Expenses paid by the Company relating to:		
Audit and tax fees	532	776
Secretarial services	486	520
Market development fees	215	386
Board allowances	371	371
	=====	=====
	1,604	2,053
Amounts due from NSE Clear Limited	622	1,259
	=====	=====
(ii) During the period, transactions with NSE Derivatives Investor Protection Fund (IPF) were as follows:-		
Expenses paid by the Company relating to:		
Trustee allowances	371	371
Audit and tax fees	363	377
Secretarial fees	70	109
Income tax	21	109
Tax exemption application fees	355	-
	=====	=====
	1,180	966
Amounts due to the NSE Derivatives IPF	-	-
	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 29 RELATED PARTY TRANSACTIONS (Continued)

#### f) Transactions with subsidiary and structured entities (continued)

	Company 2017 Sh'000	2016 Sh'000
(iii) During the period, transactions with NSE Derivatives Settlement Guarantee Fund (SGF) were as follows:-		
Expenses paid by the Company relating to:		
Income tax	3,134	2,603
Trustee allowances	371	371
Audit and tax fees	363	378
Secretarial fees	70	109
Tax exemption application fees	355	-
	=====	=====
	4,293	3,461
Amounts due to the NSE Derivatives SGF	=====	=====
	-	-
	=====	=====
<b>g) Loans and advances to Executive Director</b>		
At start of year	167	-
Advances made in the year	800	500
Loan made in the year	2,000	-
Repayments in the year	(2,800)	(333)
	=====	=====
At end of year	167	167
	=====	=====
Interest income earned on loan	122	-
	=====	=====

The balances are included in note 20 (a) under Other Receivables. The repayment period for the loans and advances are one year and three months respectively. Interest on the loans was at 10% p.a (2016 - Nil). All terms are per company policy.

### 30 OPERATING LEASE COMMITMENTS (GROUP AND COMPANY)

#### The Group and Company as a lessor:

Lease rental income earned during the year was Sh 20 million (2016: Sh 21 million). At the end of the reporting period the Group and Company had existing contracts with tenants for the following minimum lease payments:

	2017 Sh'000	2016 Sh'000
Receivable within 1 year	14,771	19,445
Receivable after 1 year but within 5 years	24,375	43,710
	=====	=====
	39,146	63,155
	=====	=====

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 31 CAPITAL COMMITMENTS (GROUP AND COMPANY)

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

	2017 Sh'000	2016 Sh'000
Authorised but not yet contracted for	127,031	173,038
	=====	=====

The capital commitments relate mainly to balances on ATS implementation, property improvements and other system infrastructure and support.

### 32 RISK MANAGEMENT OBJECTIVES AND POLICIES

The main business risks faced by the Group and 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 Group and the Company maintains a conservative policy regarding currency and interest rate risks and does not engage in speculation in the markets. In addition, the Group and the Company do not speculate or trade in derivative financial instruments.

##### *(i) Interest rate risk (Group and Company)*

The Group and Company's investment in interest earning investments are at fixed rate hence there is no interest rate risk. Further, interest earning investments are not fair valued and therefore, fair value interest rate risk does not arise.

##### *(ii) Foreign currency exchange risk (Group and Company)*

The Group and Company undertake certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are however minimal as these only relate to income from data and interest income.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### a) Market risk (continued)

##### (ii) Foreign currency exchange risk (Group and Company) (continued)

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

	2017 Sh'000	2016 Sh'000
<b>Assets</b>		
Cash and bank balances	1,879	7,134
Trade receivables	375	747
Fixed deposit	25,364	38,972
	—————	—————
	27,618	46,853
<b>Liabilities</b>		
Trade payables	(1,784)	(8,424)
	—————	—————
Net position	25,834	38,429
	=====	=====

At 31 December 2017, 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 2,583,000 (2016: Sh 3,843,000) higher/lower mainly as a result of translation of US dollar denominated balances.

##### (iii) Price risk (Group and Company)

The Group and Company do not hold investments that would be subject to price risk; hence this risk is not relevant.

#### b) Credit risk (Group and Company)

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group and 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.

Bank balances and term deposits are fully performing. Balances under the fully performing category are expected to be recovered in full as the debtors are paying their debts as they continue trading. Balances in the past due category are partly impaired. Balances under the impaired category are long overdue debts that have been fully provided for.

The Group and Company do not hold collateral or security to mitigate credit risk.

The amount that best represents the Group and Company's maximum exposure to credit risk as at 31 December 2017 and 2016 is made up as follows:

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### (b) Credit risk (Group and Company) (continued)

*On balance sheet*

##### Group

	2017 Sh'000	2016 Sh'000
Corporate bonds	-	15,281
Government securities	330,619	199,449
Long-term restricted investments	148,391	143,204
Net trade receivables	42,015	33,709
Other receivables	14,196	13,535
Short-term restricted cash and investments	302,015	292,505
Cash, cash equivalents and fixed deposits	418,073	479,359
Due from associate	1,188	-
	1,256,497	1,177,042
	=====	=====

##### Company

	2017 Sh'000	2016 Sh'000
Corporate bonds	-	15,281
Government securities	330,619	199,449
Net trade receivables	42,015	33,709
Other receivables	14,196	13,535
Short-term restricted cash and investments	302,015	292,505
Cash, cash equivalents and fixed deposits	417,729	478,174
Due from associate	1,188	-
	1,107,762	1,032,653
	=====	=====

The above represents the worst case scenario of credit exposure for both years.

#### Classification of trade receivables

	Fully performing Sh'000	Impaired Sh'000	Total Sh'000
<b>Group and Company</b>			
<b>31 December 2017</b>			
Due from non-trading brokers	-	154,056	154,056
Trade receivables	42,015	-	42,015
Provision	-	(154,056)	(154,056)
	42,015	-	42,015
	=====	=====	=====
<b>31 December 2016</b>			
Due from non-trading brokers	-	154,056	154,056
Trade receivables	33,709	-	33,709
Provision	-	(154,056)	(154,056)
	33,709	-	33,709
	=====	=====	=====

There are no past due but not impaired trade receivables.

*Other financial assets:* None of the other financial assets are past due or impaired. These balances are mainly government securities or balances with reputable financial institutions.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### c) Liquidity risk (Group and Company)

Prudent liquidity risk management includes maintaining sufficient cash to meet the Group and Company's obligations. The Group and Company manage 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 Group and 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.

Group	Up to 1 year Sh'000	1 - 5 years Sh'000	Total Sh'000
<b>At 31 December 2017</b>			
<b>Financial assets</b>			
Government securities	237,515	93,104	330,619
Long-term restricted investments	-	148,391	148,391
Short-term restricted cash and investments	302,015	-	302,015
Cash, cash equivalents and fixed deposits	418,073	-	418,073
Trade receivables	42,015	-	42,015
Other receivables	14,196	-	14,196
Due from associate	1,188	-	1,188
	-----	-----	-----
	1,015,002	241,495	1,256,497
	-----	-----	-----
<b>Financial liabilities</b>			
Tenant deposits	1,648	3,830	5,478
Trade and other payables	62,329	-	62,329
Dividends payable	19,869	-	19,869
Investor Protection Fund/trading member contributions	2,200	-	2,200
	-----	-----	-----
	86,046	3,830	89,876
	-----	-----	-----
<b>Liquidity surplus</b>			
	928,956	237,665	1,166,621
	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### c) Liquidity risk (Group and Company) (continued)

Group	Up to 1 year Sh'000	1 – 5 years Sh'000	Total Sh'000
<b>At 31 December 2016</b>			
<b>Financial assets</b>			
Corporate bonds	15,281	-	15,281
Government securities	102,959	96,490	199,449
Long-term restricted investments	-	143,204	143,204
Short-term restricted cash and investments	292,505	-	292,505
Cash, cash equivalents and fixed deposits	479,359	-	479,359
Trade receivables	33,709	-	33,709
Other receivables	13,535	-	13,535
	-----	-----	-----
	937,348	239,694	1,177,042
	-----	-----	-----
<b>Financial liabilities</b>			
Tenant deposits	-	7,273	7,273
Trade and other payables	115,499	-	115,499
Dividends payable	16,278	-	16,278
Investor Protection Fund/trading member contributions	2,200	-	2,200
	-----	-----	-----
	133,977	7,273	141,250
	-----	-----	-----
<b>Liquidity surplus</b>			
	803,371	232,421	1,035,792
	=====	=====	=====
<b>Company</b>			
<b>At 31 December 2017</b>			
<b>Financial assets</b>			
Government securities	237,515	93,104	330,619
Short-term restricted cash and investments	302,015	-	302,015
Cash, cash equivalents and fixed deposits	417,729	-	417,729
Trade receivables	42,015	-	42,015
Other receivables	14,196	-	14,196
Due from associate	1,188	-	1,188
	-----	-----	-----
	1,014,658	93,104	1,107,762
	-----	-----	-----
<b>Financial liabilities</b>			
Tenant deposits	1,648	3,830	5,478
Trade and other payables	60,537	-	60,537
Dividends payable	19,869	-	19,869
	-----	-----	-----
	82,054	3,830	85,884
	-----	-----	-----
<b>Liquidity surplus</b>			
	932,604	89,274	1,021,878
	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### c) Liquidity risk (Group and Company) (continued)

Company	Up to 1 year Sh'000	1 – 5 years Sh'000	Total Sh'000
<b>At 31 December 2016</b>			
<b>Financial assets</b>			
Corporate bonds	15,281	-	15,281
Government securities	102,959	96,490	199,449
Trade receivables	33,709	-	33,709
Short-term restricted cash and investments	292,505	-	292,505
Cash, cash equivalents and fixed deposits	478,174	-	478,174
Other receivables	13,535	-	13,535
	-----	-----	-----
	936,163	96,490	1,032,653
	-----	-----	-----
<b>Financial liabilities</b>			
Tenant deposits	-	7,273	7,273
Trade and other payables	114,310	-	114,310
Dividends payable	16,278	-	16,278
	-----	-----	-----
	130,588	7,273	137,861
	-----	-----	-----
<b>Liquidity surplus</b>			
	805,575	89,217	894,792
	=====	=====	=====

#### (d) Fair value of financial assets and liabilities

IFRS 7 specifies a hierarchy of valuation techniques based on whether inputs used in the valuation techniques of financial instruments are observable or unobservable. Financial instruments are grouped into 3 levels based on the degree to which fair value data / input is observable.

- i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active trading markets for identical assets or liabilities. This level includes Corporate bonds traded on the Nairobi Securities Exchange ("NSE").
- ii) Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices). Input data for this category is sourced mainly from the Nairobi Securities Exchange. The external valuation of buildings and investment property has been performed using a sales comparison.
- iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

There are no financial assets carried at fair value (2016: nil).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 32 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### d) Fair value of financial assets and liabilities (continued)

The table below shows an analysis of the fair value of financial instruments that are not carried at fair value by level the fair value hierarchy.

Group	2017 Sh'000	2016 Sh'000
<b>Level 1</b>		
<i>Financial assets</i>		
Government securities – held to maturity	323,122	199,449
	=====	=====
<b>Level 2</b>		
<i>Financial assets</i>		
Corporate bonds	-	15,281
Long-term restricted investments	148,391	143,204
Short-term restricted cash and investments	302,015	292,505
Cash, cash equivalents and fixed deposits	418,073	479,359
	-----	-----
	868,479	930,349
	=====	=====
<b>Company</b>		
<b>Level 1</b>		
<i>Financial assets</i>		
Government securities – held to maturity	323,122	199,449
	=====	=====
<b>Level 2</b>		
<i>Financial assets</i>		
Corporate bonds	-	15,281
Short-term restricted cash and investments	302,015	292,505
Cash, cash equivalents and fixed deposits	417,729	478,174
	-----	-----
	719,744	785,960
	=====	=====

There were no transfers between levels 1, 2 and 3 in the period and for level 3, there was no movement.

- i) Level 1 – We have determined the fair value using quoted prices (unadjusted) from the Nairobi Securities Exchange.
- ii) Level 2 – The fair value of these balances is equal to their amortised cost.

### 33 CAPITAL RISK MANAGEMENT (GROUP AND COMPANY)

The Group and Company manage 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. At 31 December 2017 and 31 December 2016, the Group and Company did not have any borrowings.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 34 MINIMUM LIQUID NET-WORTH REQUIREMENTS (COMPANY)

	2017 Sh '000	2016 Sh '000
Estimated twelve months operating costs	604,029 =====	585,009 =====
Required minimum liquid net-worth at one half of estimated operating costs	302,015 =====	292,505 =====
Cash and cash equivalents and fixed deposits	417,739 =====	478,174 =====

To ensure that there is no significant risk that liabilities may not be met as they fall due, the Capital Markets (Derivatives Markets) Regulations, 2015 requires a futures exchange to maintain minimum liquid net-worth requirements equal to one half of the estimated gross operating costs of the futures exchange for the next twelve (12) month period or such other liquid net-worth amount as may be prescribed by the Authority. This has been met based on the above.

## NOTICE OF THE 64<sup>TH</sup> ANNUAL GENERAL MEETING

NOTICE is hereby given that the 64<sup>th</sup> Annual General Meeting of the Nairobi Securities Exchange PLC (NSE) will be held at the Kenyatta International Convention Centre (KICC), Amphitheatre, Nairobi, on **Wednesday, 30 May 2018 at 11.00 a.m.** to transact the following business:-

### ORDINARY BUSINESS

1. To read the notice convening the meeting, table the proxies received and confirm the presence of a quorum.
2. To confirm and adopt the minutes of the 63<sup>rd</sup> Annual General Meeting held on 31 May 2017.
3. To receive the Chairman's Statement and the Chief Executive's Report.
4. To receive, consider and, if thought fit, adopt the Audited Financial Statements for the year ended 31 December 2017 together with the reports of the Directors and Auditors thereon.
5. To approve a first and final dividend of Kshs. 0.30 per ordinary share in respect of the Financial Year ended 31 December 2017 and to approve the closure of the Register of Members at the close of business on 30 May 2018 for the purpose of determining the qualifying members entitled to dividends.
6. To approve the Remuneration Policy of the Company as detailed in the Annual Report for the Financial Year ended 31 December 2017.
7. To approve the Remuneration Report of the Board as detailed in the Annual Report for the Financial Year ended 31 December 2017.
8. Election of Directors :
  - a) In accordance with Articles 94 and 95 of the Company's Articles of Association, Mr. Michael Turner (a Non-Executive Director) retires by rotation and, being eligible, offers himself for re-election;
  - b) In accordance with Articles 94 and 95 of the Company's Articles of Association, Mrs. Nasim Devji (a Director representing the Listed Companies) retires by rotation and, being eligible, offers herself for re-election.
  - c) In accordance with Articles 94 and 95 of the Company's Articles of Association, Mr. Jimnah Mbaru (a Director representing the Trading Participants) retires by rotation and, having attained the age of seventy in terms of Clause 2.5.1 of the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, does not offer himself for re-election;
  - d) In accordance with Clause 2.4.2 of the Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015, Dr. Winnie Nyamute, (an Independent Non-Executive Director), having served for nine years, retires from the Board at the conclusion of the 64<sup>th</sup> Annual General Meeting.
  - e) In accordance with Articles 94 and 95 of the Company's Articles of Association, Mr. James Mworia (a Director representing the Listed Companies) retires by rotation and, although eligible, does not offer himself for re-election.
9. In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit, Risk and Compliance Committee be elected individually to continue serving as members of the said Committee:
  - a) Mr. Hosea Kimutai Kili   b) Mrs. Nasim Devji
10. To re-appoint Messrs PricewaterhouseCoopers (PwC) as the auditors of the Company in accordance with the provisions of Section 721 of the Companies Act, 2015 and to authorize the Directors to fix the Auditors' remuneration for the ensuing Financial Year in accordance with the provisions of Section 724 of the Companies Act, 2015.

### ANY OTHER BUSINESS

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

BY ORDER OF THE BOARD



J L G MAONGA  
COMPANY SECRETARY

DATE 4 May 2018

## **NOTICE OF THE 64<sup>TH</sup> ANNUAL GENERAL MEETING (Continued)**

### **Note:**

1. In accordance to Section 298 of the Companies Act, 2015, a member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. A Proxy Form may be obtained from the Company's website [www.nse.co.ke](http://www.nse.co.ke), the Registered Office of the Company, Exchange Building, 5th Floor, 55 Westlands Road, P O Box 43633 – 00100, Nairobi, or from the offices of the Company's Share Registrars, CDSC Limited, Nation Centre, 10th Floor, Kimathi Street, Nairobi; Email: [registrar@cdskenya.com](mailto:registrar@cdskenya.com).

To be valid, a Proxy Form must be duly completed by the member and must be returned to the Shares Registrar on the above address so as to arrive not later than 48 hours before the time fixed for the meeting, failing which, it will be invalid. In the case of a corporate body, the Proxy Form must be executed under its common seal or under the hand of duly authorised officers or an attorney of such corporation.

2. In accordance with Article 159 of the Articles of Association of the Company, a copy of the entire Annual Report and Accounts may be viewed at the Company's website at [www.nse.co.ke](http://www.nse.co.ke).
3. In accordance with Article 96 of the Articles of Association of the Company, a person seeking election at the Annual General Meeting should deliver to the Company Secretary at least seven (7) days prior to the day of the meeting, notice in writing signed by a shareholder duly qualified to attend and vote at the meeting, of his intention to propose such person for election and notice in writing signed by the person to be proposed, of his willingness to be elected as per the nomination papers, which may be accessed on the Company's website at [www.nse.co.ke](http://www.nse.co.ke).

**NAIROBI SECURITIES EXCHANGE PLC**  
**PROXY FORM**



I/We,....., of....., being a shareholder/shareholders of the above-named Company, hereby appoint....., of....., or failing him..... of..... as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the 30th day of May 2018 and at any adjournment thereof.

As witness my/our hand this..... day of .....2018

Signed.....

Signed.....

This Form is to be used \*in favour of/against the resolutions. Unless otherwise instructed, the proxy will vote as he thinks fit.

\*Strike out whichever is not desired.

**Note:**

- i) To be valid, a Form of Proxy must be duly completed by the member and must be returned to the Shares Registrars CDSC Limited, Nation Centre, 10th Floor, Kimathi Street, Nairobi; **Email: registrar@cdsckenya.com so as to arrive not later than 48 hours before the time fixed for the meeting, failing which, it will be invalid.**
- ii) In the case of a corporate body, the proxy form must be executed under its common seal.



NAIROBI SECURITIES EXCHANGE PLC

## NOMINATION FORM FOR INDEPENDENT DIRECTOR

NOTICE OF INTENTION TO PROPOSE  
A CANDIDATE FOR ELECTION AS AN INDEPENDENT NON-EXECUTIVE DIRECTOR



I/We ..... of P. O. Box ..... being a shareholder(s) of the Nairobi Securities Exchange PLC and duly qualified to attend and vote at the Company's Annual General Meeting to be held on the **30th** day of **May 2018**, do hereby give notice of my/our intention to propose ..... of P. O. Box ..... for election as an Independent Non-Executive Director of the Company at the meeting.

SIGNED this ..... day of ..... 2018.

SEALED WITH THE COMMON SEAL OF

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)  
)

In the presence of:

DIRECTOR

DIRECTOR/SECRETARY

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SEAL

### PLEASE NOTE :

1) The Articles of Association of Nairobi Securities Exchange PLC defines "Independent Non-Executive Director", "Non-Executive Director" and "Executive Director" as follows:

**"Independent Non-Executive Director"** means a Non-Executive Director who:

- (i) has not been employed by the Company in an executive capacity in the 5 years immediately preceding his appointment as a director of the Company;
- (ii) has not been a director of a Trading Participant in the five years immediately preceding appointment as a director of the Company;
- (iii) has not been employed as a Trading Participant in an executive capacity in the five years immediately preceding appointment as a director of the Company;
- (iv) has no personal service contract(s) with a Trading Participant or with a person who is in the senior management of a Trading Participant; is not a director or a member of the senior management of a company listed on the Company's securities exchange ; or
- (v) does not own or hold shares in a Trading Participant.

**"Non-Executive Director"** means a Director who is not an Executive Director;

**"Executive Director"** means a Director who is appointed to be the holder of a full-time office of the Company pursuant to a contract of service with the Company, such office being one that entails involvement in the day to day management of the Company;

2) To be valid, this Nomination Form must be received by the Company Secretary; email: [jmaonga@maongandonye.com](mailto:jmaonga@maongandonye.com) by **5.00 p.m. on Tuesday, 22 May 2018**.



NAIROBI SECURITIES EXCHANGE PLC

## CONSENT FORM FOR INDEPENDENT DIRECTOR

### CONSENT TO ACT AS AN INDEPENDENT NON-EXECUTIVE DIRECTOR



I ..... of P. O. Box ..... being the person in respect of whom ..... of P. O. Box ..... has given notice of intention to propose as a candidate to be elected as an Independent Non-Executive Director of the Nairobi Securities Exchange PLC at the Annual General Meeting to be held on the 30th day of May 2018, do hereby notify you of my willingness to be so elected.

SIGNED this ..... day of ..... 2018.

.....  
SIGNATURE

#### PLEASE NOTE:

- 1) Article 96 of the Articles of Association of Nairobi Securities Exchange PLC provides as follows:

*"No person, other than a Director retiring at a meeting, shall be eligible for appointment as a Director at any General Meeting, unless not less than seven (7) nor more than twenty one (21) days before the day appointed for the meeting, there shall have been delivered to the Secretary of the Company notice in writing signed by a Shareholder duly qualified to attend and vote at the meeting for which the notice has been given, of his intention to propose such person for election, and notice in writing, signed by the person to be proposed of his willingness to be elected."*

**"Independent Non-Executive Director"** means a Non-Executive Director who:

- (i) has not been employed by the Company in an executive capacity in the 5 years immediately preceding his appointment as a director of the Company;
- (ii) has not been a director of a Trading Participant in the five years immediately preceding appointment as a director of the Company;
- (iii) has not been employed as a Trading Participant in an executive capacity in the five years immediately preceding appointment as a director of the Company;
- (iv) has no personal service contract(s) with a Trading Participant or with a person who is in the senior management of a Trading Participant; is not a director or a member of the senior management of a company listed on the Company's securities exchange ; or
- (v) does not own or hold shares in a Trading Participant.

**"Non-Executive Director"** means a Director who is not an Executive Director;

**"Executive Director"** means a Director who is appointed to be the holder of a full-time office of the Company pursuant to a contract of service with the Company, such office being one that entails involvement in the day to day management of the Company;

- 2) To be valid, this Nomination Form must be received by the Company Secretary; **email: jmaonga@maongandonye.com** by **5.00 p.m. on Tuesday, 22 May 2018.**



NAIROBI SECURITIES EXCHANGE PLC

## NOMINATION FORM FOR TRADING PARTICIPANT

### NOTICE OF INTENTION TO PROPOSE A CANDIDATE FOR ELECTION AS A TRADING PARTICIPANT & NON-EXECUTIVE DIRECTOR



I/we ..... of P. O. Box ..... being a shareholder(s) of Nairobi Securities Exchange PLC and duly qualified to attend and vote at the Company's Annual General Meeting to be held on the 30th day of May 2018, do hereby give notice of our intention to propose .....  
..... of P.O. Box ..... for election as a Trading Participant & Non-Executive Director of the Company at the meeting.

SIGNED this ..... day of ....., 2018.

SEALED WITH THE COMMON SEAL OF

In the presence of:

DIRECTOR

DIRECTOR/SECRETARY

SEAL

#### PLEASE NOTE:

1) The Articles of Association of Nairobi Securities Exchange PLC defines a "Trading Participant" as a licensee of the CMA with Rights to Trade at the Nairobi Securities Exchange;

2) Article 93 of the Articles of Association of Nairobi Securities Exchange PLC provides that:-

"A maximum of two (2) Directors shall be elected by the members from among or to represent the Trading Participants."

3) To be valid, this Nomination Form must be received by the Company Secretary; email: [jmaonga@maongandonye.com](mailto:jmaonga@maongandonye.com) by 5.00 pm Tuesday, 22 May 2018.



**CONSENT FORM FOR TRADING PARTICIPANT**

**CONSENT TO ACT AS A TRADING PARTICIPANT & NON-EXECUTIVE DIRECTOR**



I..... of P. O. Box ..... being the person in respect of whom  
..... of P. O. Box ..... has given  
notice of intention to propose as a candidate to be elected as a Trading Participant & Non-Executive Director of the Nairobi Securities Exchange PLC at the Annual General Meeting to be held on the 30th day of May 2018, do hereby notify you of my willingness to be so elected.

SIGNED this ..... day of ....., 2018.

.....  
SIGNATURE

**PLEASE NOTE:**

- 1) Article 96 of the Articles of Association of Nairobi Securities Exchange PLC provides as follows:

*"No person, other than a Director retiring at a meeting, shall be eligible for appointment as a Director at any General Meeting, unless not less than seven (7) nor more than twenty one (21) days before the day appointed for the meeting, there shall have been delivered to the Secretary of the Company notice in writing signed by a shareholder duly qualified to attend and vote at the meeting for which the notice has been given, of his intention to propose such person for election, and notice in writing, signed by the person to be proposed of his willingness to be elected."*

- 2) The Articles of Association of Nairobi Securities Exchange PLC defines "Non-Executive Director", "Executive Director" and "Trading Participant" as follows:

**"Non-Executive Director"** means a Director who is not an Executive Director;

**"Executive Director"** means a Director who is appointed to be the holder of a full-time office of the Company pursuant to a contract of service with the Company, such office being one that entails involvement in the day to day management of the Company;

**"Trading Participant"** means a licensee of the CMA with Rights to Trade at the Nairobi Securities Exchange;

- 3) To be valid, this Nomination Form must be received by the Company Secretary; **email: jmaonga@maongandonye.com by 5.00 p.m. on Tuesday, 22 May 2018.**



**NOMINATION FORM FOR LISTED COMPANIES**

**NOTICE OF INTENTION TO PROPOSE A CANDIDATE FOR ELECTION AS A  
NON-EXECUTIVE DIRECTOR REPRESENTING LISTED COMPANIES**



I/We ..... of P. O. Box ..... being a shareholder(s) of Nairobi Securities Exchange PLC and duly qualified to attend and vote at the Company's Annual General Meeting to be held on the 30th day of May 2018, do hereby give notice of my/our intention to propose ..... of P. O. Box ..... for election as a Non-Executive Director representing listed companies in the Company at the meeting.

SIGNED this ..... day of ....., 2018.

SEALED WITH THE COMMON SEAL OF

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In the presence of:

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)  
)

SEAL

DIRECTOR

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)

DIRECTOR/SECRETARY

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)

**PLEASE NOTE:**

- 1) Article 93 of the Articles of Association of Nairobi Securities Exchange PLC provides that:

***... two Directors shall be elected by the members from among nominees of companies listed on the Nairobi Securities Exchange to represent the listed companies.***

***"Non-Executive Director"*** means a Director who is not an Executive Director;

***"Executive Director"*** means a Director who is appointed to be the holder of a full-time office of the Company pursuant to a contract of service with the Company, such office being one that entails involvement in the day to day management of the Company;

- 2) To be valid, this Nomination Form must be received by the Company Secretary; **email: jmaonga@maongandonye.com** by **5.00 p.m. on Tuesday, 22 May 2018.**



NAIROBI SECURITIES EXCHANGE PLC

CONSENT FORM FOR LISTED COMPANIES

CONSENT TO ACT AS A NON-EXECUTIVE DIRECTOR REPRESENTING  
LISTED COMPANIES



I ..... of P. O. Box ..... being the person in respect of whom ..... of P. O. Box ..... has given notice of intention to propose as a candidate to be elected as a Non-Executive Director representing listed companies in the Nairobi Securities Exchange PLC at the Annual General Meeting to be held on the 30th day of May 2018, do hereby notify you of my willingness to be so elected.

SIGNED this ..... day of ....., 2018.

.....  
*SIGNATURE*

**PLEASE NOTE:**

- 1) Article 96 of the Articles of Association of Nairobi Securities Exchange PLC provides as follows:

"No person, other than a Director retiring at a meeting, shall be eligible for appointment as a Director at any General Meeting, **unless not less than seven (7) nor more than twenty one (21) days before the day appointed for the meeting**, there shall have been delivered to the Secretary of the Company notice in writing signed by a shareholder duly qualified to attend and vote at the meeting for which the notice has been given, of his intention to propose such person for election, and notice in writing, signed by the person to be proposed of his willingness to be elected."

**"Non-Executive Director"** means a Director who is not an Executive Director;

**"Executive Director"** means a Director who is appointed to be the holder of a full-time office of the Company pursuant to a contract of service with the Company, such office being one that entails involvement in the day to day management of the Company;

- 2) To be valid, this Nomination Form must be received by the Company Secretary; **email: jmaonga@maongandonye.com by 5.00 p.m. on Tuesday, 22 May 2018.**



## NOTES



Nairobi Securities Exchange PLC  
The Exchange, 55 Westlands Road  
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