



nairobi
securities
exchange

Discover Opportunity



PROSPECTUS
FOR ADMISSION
FOR LISTING & OFFER
FOR SUBSCRIPTION

2014



NAIROBI SECURITIES EXCHANGE LIMITED

(formerly the Nairobi Stock Exchange Limited) Incorporated in Kenya under the Companies Act, Registration Number CPU/2014/144920 (the "NSE")

PROSPECTUS

in respect of

ADMISSION TO LISTING

of the NSE's up to 194,625,000 issued and fully paid up ordinary shares to the Main Investment Market Segment of The Exchange and

OFFER FOR SUBSCRIPTION

by the NSE of up to 66,000,000 new ordinary shares of par value Kshs 4.00 each in the capital of the NSE at an offer price of Kshs 9.50 per ordinary share for Kshs 627,000,000 and incorporating the **APPLICATION FORM**

Joint Lead Transaction Advisors



Renaissance
Capital



The Capital Markets Authority has granted permission for the Offer of the Offer Shares and the Self-Listing of the NSE Shares on the Main Investment Market Segment of the Nairobi Securities Exchange.

As a matter of policy, the Capital Markets Authority does not assume responsibility for the correctness of any statements or opinions made or reports contained in this Prospectus.

Approval by the Capital Markets Authority of the Offer and the Self-Listing is not to be taken as an indication of the merits of Nairobi Securities Exchange Limited or the shares of the Nairobi Securities Exchange.

This Prospectus is NOT FOR SALE

**A CDS Account is mandatory.
For Kenyan applicants a bank account in Kenya is mandatory.**

THIS DOCUMENT IS IMPORTANT FOR MAKING A DECISION TO INVEST AND REQUIRES YOUR CAREFUL ATTENTION AS IT INCLUDES IMPORTANT INFORMATION AND TIMELINES. INVESTORS ARE ADVISED TO READ AND SATISFY THEMSELVES ON THE MERITS AND RISKS INVOLVED IN INVESTING IN THE OFFER SHARES.

NAIROBI SECURITIES EXCHANGE LIMITED

(formerly the Nairobi Stock Exchange Limited)

INTRODUCTION

Authorised Ordinary Share Capital		Issued and Fully Paid Up Ordinary Share Capital		Unissued Ordinary Share Capital	
Current		Current		Current	
Number of Shares	Capital Kshs	Number of Shares	Capital Kshs	Number of Shares	Capital Kshs
212,500,000	850,000,000/-	128,625,000	514,500,000	83,875,000	335,500,000
		Par value	Kshs 4.00		

JOINT LEAD SPONSORING STOCKBROKERS

African Alliance Kenya Investment Bank Ltd, Faida Investment Bank Ltd, Genghis Capital Ltd, Kingdom Securities Ltd, NIC Securities Ltd

CO-SPONSORING STOCKBROKERS

ABC Capital Ltd, AIB Capital Ltd, Apex Africa Capital Ltd, CBA Capital Ltd, Francis Drummond & Company Ltd, Equity Investment Bank Ltd, Kestrel Capital (East Africa) Ltd, Old Mutual Securities Ltd, SBG Securities Ltd, Sterling Capital Ltd, Suntra Investments Ltd

LEGAL ADVISOR

Hamilton Harrison & Mathews

REPORTING ACCOUNTANT

Deloitte & Touche, Certified Public Accountants (Kenya)

REGISTRAR & RECEIVING AGENT

CDSC Registrars Limited

PUBLIC RELATIONS ADVISOR

BSD (EA) Limited

RECEIVING BANK

The Co-operative Bank of Kenya Limited

This Prospectus is dated 9 July 2014

Offer Opens on 24 July 2014 and Closes on 12 August 2014

Our Vision

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

Our Mission

“To provide a world class securities trading facility”

Our Core Values

We believe in: -

- Ethics
- Integrity
- Confidentiality
- Innovation
- Excellence

Important Notice

1. This document is a Prospectus with respect of an invitation to the public to subscribe for the Offer Shares in the NSE and the Self-Listing of the NSE Shares on the Exchange under the terms outlined herein.
2. This Prospectus is presented to enable you make an informed decision on the Offer and the Self-Listing.
3. You should carefully consider the matters set forth in this Prospectus. In case of any discrepancy or inconsistency between the electronic copy of this Prospectus and the printed version, the printed version will prevail. You are advised to read the printed version of this Prospectus before making the investment decision.
4. If you are in doubt as to the meaning of the contents of this Prospectus or as to what action to take, please consult your accountant, banker, lawyer, stockbroker or other professional advisor for professional advice.
5. This Prospectus contains information that is provided in compliance with the requirements of the Companies Act and the Capital Markets Legislation. The regulations and rules made thereunder.
6. A copy of this Prospectus together with documents required by Section 43 of the Companies Act to be attached thereto, have been delivered to the Registrar of Companies at Sheria House in Nairobi, Kenya, for registration and to the Capital Markets Authority and the NSE for approval.
7. The Capital Markets Authority has granted permission for the Offer of the Offer Shares and together with the NSE have approved the Self-Listing of the NSE Shares on The Exchange. As a matter of policy, the Capital Markets Authority assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Prospectus. Approval of the Offer and/or the Self-Listing is not to be taken as an indication of the merits of the NSE or of the shares in the NSE.
8. The existing shareholders of the NSE and the Board of the NSE have approved the Offer and the Self-Listing.
9. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy securities by any person in circumstances in which such offer or solicitation is unlawful. Persons into whose possession this Prospectus (electronic or printed) comes are required by the NSE to inform themselves about any such restriction.
10. Neither the delivery of this Prospectus nor any subscription for shares made pursuant to this Prospectus in any circumstances implies that there has been no change in the affairs of the NSE since the date of this Prospectus or that the information contained in this Prospectus is correct as of any time subsequent to its date.
11. The Offer Shares will carry the right to participate in all future dividends and other distributions to be declared and paid on the ordinary share capital of the NSE. It is anticipated that the first dividend payable to the NSE shareholders following the Offer and Self-Listing will be in respect of the year ending 31 December 2014. The Offer Shares rank *pari passu* with the existing shares of the NSE and each ordinary share in the NSE carries one vote at a general meeting of the NSE.
12. The Offer Shares will be freely transferable and will not be subject to any restrictions on marketability or any pre-emptive rights. The Offer Shares will be freely traded on The Exchange and will be subject to governance by the applicable law.
13. The Directors, whose names appear in Section 1-Corporate Directory of this Prospectus, accept responsibility for the information contained in this Prospectus.
14. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.
15. Annexure A2 of this Prospectus contains the Reporting Accountants' Report, which constitutes statements made by Deloitte & Touche as an expert in terms of Section 42(1) of the Companies Act. Deloitte & Touche have not withdrawn their consent to the issue of the Reporting Accountants' Report in the form and context in which it is included in this Prospectus.
16. The Joint Lead Transaction Advisors have given and not withdrawn their written consent to the reference to their names, in the form and context in which they appear in this Prospectus.
17. Hamilton Harrison & Mathews have given and not withdrawn their written consent to the inclusion in this Prospectus of their letter in Section 12-Legal Opinion, and the references to their name, in the form and context in which it appears in this Prospectus.
18. This Prospectus contains "forward-looking statements" relating to the NSE's business and can be identified by the use of forward-looking terminology such as "projected" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions.

These statements reflect the current views of the NSE with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of NSE to be materially different from the future results, performance or achievements that may be expressed or implied by such forward-looking statements.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Prospectus as anticipated, believed, estimated or expected. The NSE and its advisors do not intend, and do not assume any obligation to update any industry information or forward-looking statements set out in this Prospectus.
19. Investment in the NSE entails financial risk that can affect the value of the investment positively or negatively. Investors' investment objectives and financial position vary. It should also be noted that past returns do not indicate future returns. Prior to investing in the NSE, investors should carefully consider all information contained in this Prospectus including Section 11-Material Risks relating to NSE's business and any other information in the public domain.
20. The Prospectus will be available on the corporate website of the NSE (www.nse.co.ke) and free of charge at the offices of all the Authorised Agents listed in Section 14 of this Prospectus on business days during the hours of 8:30 a.m. and 5:00 p.m. during the Offer Period (see below).
21. The Self-Listing Date and commencement of trading for the NSE Shares on The Exchange is 9:00 a.m. on 9 September 2014.
22. Unless otherwise specifically mentioned, the following exchange rate has been used in the Prospectus: 1 USD = Kshs 86.5819.
23. Some numerical figures included in the Prospectus have been subject to rounding off adjustments. Accordingly, numerical figures shown as totals in certain figures may not be an arithmetic aggregation of the figures that precedes them.
24. A CDS Account is mandatory. For Kenyan applicants a bank account in Kenya is mandatory.

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Definitions & Abbreviations

In this Prospectus and related documentation, unless otherwise stated, the following expressions shall have the following definitions and abbreviations:

Application Form	- The application form incorporated in this Prospectus;
Application Money	- The amount paid in Kenya Shillings to the Authorised Agent or the Receiving Bank which is the Offer Price multiplied by each Offer Share in accordance with the relevant Application Form plus in the case of a CDS Account an additional Kshs 30.00 for CDSC;
ASEA	- African Securities Exchanges Association;
Authorised Agent	- Trading Participants contracted by the NSE to facilitate the distribution of the Prospectus and Application Form and sell the Offer Shares;
Banker's Cheque	- Refers to the cheque drawn on the account of a licensed commercial bank in Kenya that is a member of the CBK Clearing House;
Board/ Directors/ Board of Directors	- The Board of Directors of Nairobi Securities Exchange Limited;
Capital Markets Authority/ CMA	- The Capital Markets Authority in Kenya, a statutory body established under the Capital Markets Act;
Capital Markets Legislation	- The Capital Markets Act(Chapter 485A of the Laws of Kenya), and all subsidiary legislation enacted thereunder and any amendments or re-enactments thereto in force from time to time;
CDS	- Central Depository System at the CDSC;
CDSC Limited/CDSC	- Central Depository & Settlement Corporation Limited, a provider of automated, clearing, delivery and settlement facilities in Kenya.
CEO	- Chief Executive Officer;
Closure Date	- 12 August 2014, the date the Offer closes for applications;
Companies Act	- The Companies Act, Chapter 486 of the Laws of Kenya;
Company/NSE	- Nairobi Securities Exchange Limited (see Section 1-Corporate Directory for details);
EFT	- Electronic Funds Transfer;
Existing Shares	- 128,625,000 ordinary shares of par value Kshs 4.00 each in the capital of NSE;
GOK	- Government of the Republic of Kenya;
Joint Lead Transaction Advisors	- Standard Investment Bank Ltd, Dyer and Blair Investment Bank Ltd and Renaissance Capital (Kenya) Ltd, all or whom are licensed investment banks in Kenya;
Kshs	- Kenya Shillings, the lawful currency of the Republic of Kenya;
Legal Advisor	- Hamilton Harrison & Mathews;
Lender	- A licensed financial institution or commercial bank;

MIMS	- Main Investment Market Segment of The Exchange;
NSE Shares	- All the ordinary shares of Kshs 4.00/= each in the issued share capital of the NSE;
Offer	- Offer for subscription by Nairobi Securities Exchange Limited of up to 66,000,000 ordinary shares of par value Kshs 4.00 each in the capital of the NSE at the Offer Price;
Offer Period	- The period when the Offer opens at 9:00am on 24 July 2014 and closes at 4:00pm on Closure Date;
Offer Price	- Kshs 9.50 per Offer Share;
Offer Shares	- Offer for subscription by Nairobi Securities Exchange Limited of up to 66,000,000 ordinary shares of par value Kshs 4.00 each in the capital of the NSE at an Offer Price of Kshs 9.50 per share;
Prospectus/Information Memorandum	- This prospectus together with its Annexures and the attached Application Form;
Refund Date	- 4 September 2014, if applicable, the date the NSE will issue refunds;
Registrar & Receiving Agent	- CDSC Registrars Limited;
Reporting Accountant	- Deloitte & Touche, Certified Public Accountants;
Rights to Trade	- The rights of access to and the use of trading related facilities provided and maintained by a securities exchange which a securities exchange may grant a licensee of the CMA, subject to the rules of the securities exchange on admission of trading participants;
RTGS	- Real Time Gross Settlement;
Self-Listing/Listing	- Admission of the NSE Shares to the official list of The Exchange;
Self-Listing Date	- 9 September 2014, the date the NSE Shares list on The Exchange and commence trading;
The Exchange	- The securities exchange owned and operated by the NSE and duly approved by the Capital Markets Authority ;
Trading Participant	- A licensee of the CMA with Rights to Trade at the Nairobi Securities Exchange;
USD	- United States Dollar; the lawful currency of the United States of America;

Except where the context otherwise requires:

- (i) words denoting the singular include the plural and vice versa;
- (ii) words denoting any one gender include all genders;
- (iii) words denoting persons include firms and corporations and vice versa and
- (iv) capitalized terms used in the accompanying forms will be construed and interpreted in accordance with this Prospectus.

Advisors To The Company For The Offer And Self-Listing

Joint Lead Transaction Advisors

Standard Investment Bank Limited (SIB)

ICEA Building, 16th Floor, Kenyatta Avenue,
P. O. Box 13714 - 00800, Nairobi, Kenya.
Tel: 2228963/2228967
advisory@sib.co.ke

Dyer & Blair Investment Bank Limited

Pension Towers, 10th Floor, Loita Street,
P. O. Box 45396 - 00100, Nairobi, Kenya.
Tel: 3240000/ 3240136
shares@dyerandblair.com

Renaissance Capital (Kenya) Limited

6th floor, Purshottam Place,
Westlands Road, Westlands
P. O. Box 40560 - 00100, Nairobi, Kenya.
Tel : 3682000
infokenya@rencap.com

Joint Lead Sponsoring Stockbrokers

African Alliance Kenya Investment Bank Limited

Transnational Plaza, 1st Floor, Wing B,
Mama Ngina Street,
P. O. Box 27639 - 00506, Nairobi, Kenya.
Tel: 2762000
securities@africanalliance.co.ke

Faida Investment Bank Limited

Crawford Business Park, Ground Floor,
State House Road,
P.O. Box 45236-00100, Nairobi, Kenya.
Tel: +254 020 7606026-37. info@fib.co.ke

Genghis Capital Limited

4th Floor, PwC Tower, Westlands, Nairobi.
P.O.Box 9959 - 00100, Nairobi, Kenya.
Phone: +254 202 774 760/1/2
www.genghis-capital.com
Twitter: @GenghisCapital

Kingdom Securities Limited

Co-operative House, 5th Floor,
Haile Selassie Avenue,
P. O. Box 48231- 00100, Nairobi, Kenya.
Tel : 3276000
info@kingdomsecurities.co.ke

NIC Securities Limited

NIC House, Ground Floor, Masaba Road,
P. O. Box 44599 - 00100, Nairobi, Kenya.
Tel: 2888444/ 0711041444
info@nic-securities.com

Co-Sponsoring Stockbrokers

ABC Capital Limited

IPS Building, 5th Floor,
Kimathi Street,
P. O. Box 34137 - 00100, Nairobi, Kenya.
Tel: 2246036/ 2245971
headoffice@abccapital.co.ke

AIB Capital Limited

Finance House, 9th Floor,
Loita Street,
P. O. Box 11019 - 00100, Nairobi, Kenya.
Tel: 2210178/ 2212989
info@aibcapital.com

Apex Africa Capital Limited

Rehani House, 4th Floor, Koinange Street,
P. O. Box 43676 - 00100, Nairobi, Kenya.
Tel: 242170/ 2220517
invest@apexafrica.com

CBA Capital Limited

CBA Centre Mara Ragati Road Junction, Upper Hill,
P.O. Box 30437-00100, Nairobi, Kenya.
Tel: 0202884000/+254 20 2884000 / 365
Mobile +254 711 056365
Fax: 020 2734616

Equity Investment Bank Limited

Equity Centre, Hospital Road, Upper Hill,
P.O Box 75104 – 00200, Nairobi, Kenya.
Tel: +254-20-2262477
Mobile: +254-719056515/ 719056511/ 719056513
Fax: +254 20 2711439
www.equitybankgroup.com

Francis Drummond & Company Limited

Hughes Building, 2nd floor, Kenyatta Avenue
P.O. Box 45465 00100, Nairobi, Kenya.
Tel: +254 20 3318689/90 and 0724 256815
Fax: 2223061
Email: info@drummond.co.ke

Kestrel Capital (East Africa) Limited

ICEA Building, 5th Floor, Kenyatta Avenue,
P. O. Box 40005 - 00100, Nairobi, Kenya.
Tel: 2251758/ 2251893
info@kestrelcapital.com

Old Mutual Securities Limited

6th Floor, IPS Building, Kimathi Street,
P.O. Box 50338-00200, Nairobi, Kenya.
Tel: 2241379/2241408

SBG Securities Limited

CfC Stanbic Centre, 2nd Floor
58 Westlands Road,
P.O. Box 47198 - 00100, Nairobi, Kenya.
Tel: 3638900,
csfs@stanbic.com

Sterling Capital Limited

Barclays Plaza, 11th Floor, Loita Street.
P. O. Box 45080 - 00100, Nairobi, Kenya.
Tel: 2213914
info@sterlingstocks.com

Suntra Investments Limited

10th Floor, Nation Centre, Kimathi Street,
P. O. Box 74016 - 00200, Nairobi, Kenya.
Tel: 2870000
info@suntra.co.ke

Legal Advisor

Hamilton Harrison & Mathews

ICEA Building, 4th Floor, Kenyatta Avenue,
PO Box 30333-00100, Nairobi, Kenya.
Tel: 3258000
www.hhm.co.ke

Reporting Accountant

Deloitte & Touche

Certified Public Accountants of Kenya,
Deloitte Place,
Waiyaki Way, Muthangari,
PO Box 40092 – 00100,
Nairobi, Kenya.

Registrar, Receiving Agent

CDSC Registrars Limited

Nation Centre, 10th Floor
Kimathi Street
Tel: 2229407/08
Cell: 0724256130, 0733222033
P. O. Box 3464-00100, Nairobi, Kenya.
registrar@cdsckenya.com
Nairobi, Kenya

Public Relations Advisor

BSD (EA) Ltd

Lenana Road,
PO Box 10237-00100,
Tel: 2491078/ 1079
www.bsd.co.ke
Nairobi, Kenya

Receiving Bank

The Co-operative Bank of Kenya Limited

Co-operative House,
Haile Selassie Avenue,
P.O. Box 48231 - 00100,
Tel: 3276000
Nairobi, Kenya

Country Code Kenya: +254, Nairobi City Code: 20

Directors' Statement

The Directors in Section 1.10 below take responsibility for the information in this Prospectus. We declare that to the best of our knowledge and belief, the Directors have taken reasonable care to ensure that the information contained in this Prospectus is in accordance with the facts and that the Prospectus makes no omission likely to affect the import of such information or which, in the opinion of the Directors, should be included in this Prospectus or which could otherwise influence the decision of a prospective investor.

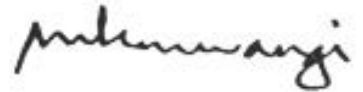
We further declare that statements contained in this Prospectus are correct and that the Board of Directors' minutes, audit reports and/or any other internal documents do not contain information which could distort the interpretation of this Prospectus.

We confirm that in our opinion based on the business as is currently carried on, the working capital available to NSE is sufficient for NSE's requirements for at least 12 months from the Self Listing Date. In our further opinion the issued and fully paid up share capital is adequate for NSE's requirements for the foreseeable future.

We confirm that NSE will comply where applicable with the Capital Markets Legislation and the Companies Act. NSE will also comply with The Exchanges's Rules and Listing Manual.



Mr. Edward Njoroge
Chairman



Mr. Peter Mwangi
Chief Executive

Chairman's Statement



Dear Investor,

On behalf of the Board it is my pleasure to present this Prospectus to you on the Offer of the NSE and Self-listing of the NSE on the Main Investment Market Segment of the Exchange.

I am also pleased that the NSE has achieved full demutualization.

The Offer is in line with global best practice for exchanges and is aimed at improving the effectiveness of the NSE and further strengthening its corporate governance structures. Upon its Self-Listing, the NSE will become the second listed exchange in Africa.

Kenya's Vision 2030 has identified six key sectors that are expected to deliver the 10% economic growth rate per annum envisaged under the "economic pillar" and one of them is "financial services". Capital markets is a critical sub-sector of "financial services" and we believe that the NSE is playing its significant role in attracting foreign capital and growing the domestic savings and investment rates to achieve the goals under the above plan.

As of 31 December 2013, The Exchange had over 120 listed equities and bonds for a total market capitalization of over Kshs 2.7 trillion (USD 31.18 billion) which was over 75% of Kenya's GDP. In the year 2013, the aggregate-purchase and sales of bonds was Kshs 914 billion (USD 10.56 billion) while purchases plus sales of equities was Kshs 311 billion (USD 3.59 billion). At the Exchange, the largest single equity primary transaction had bids in excess of Kshs 250 billion

(USD 2.89 billion) while the largest single corporate bond transaction had bids in excess of Kshs 25 billion (USD 288 million). The Exchange is one of the leading exchanges in Africa.

NSE is on a mission to seek world exchanges classification change from "frontier status" to "secondary emerging status" in the future. Towards this end, NSE supports accelerated capital markets development. A number of strategic initiatives will be required to be implemented and NSE will play its rightful role accordingly.

This Prospectus provides significant amount of information and I therefore urge you to read it carefully.

On behalf of the Board, I look forward to welcoming you as a shareholder of the NSE.

A handwritten signature in black ink, appearing to read 'E. Njoroge', written over a light blue background.

Mr. Edward Njoroge
Chairman

Chief Executive's Statement



Dear Investor,

On behalf of the management and staff of the NSE, I would like to congratulate all our stakeholders on this Offer and Self-Listing. I also extend a warm invitation to all investors to take advantage of this opportunity to become part owners of the Exchange.

Over the years the company has grown and now has total assets of Kshs 1.14 billion (USD 13.16 million). This includes the value of its five-storey building at 55 Westlands Road, Nairobi the location of the new NSE headquarters, "The EXchange".

The business generated a profit before taxation of Kshs 379 million (USD 4.37 million) for the full year ending 31 December 2013. The NSE declared a dividend of Kshs 49 million for the full year ending 31 December 2013 which was double that for the previous year.

We have high expectations for the year 2014 and beyond. We have already embarked on several initiatives that will significantly grow and develop the market over the next 12 to 18 months. These are categorized as Equity Capital Market Initiatives, Debt Capital Market Initiatives, New Market Initiatives and Miscellaneous Initiatives and are detailed in Section 9 of this Prospectus under Future Outlook.

In particular, the NSE has invested in a state-of-the-art system, in partnership with technology and market specialists, to establish a world class derivatives exchange. This will facilitate the trading of futures and options which are among the most cost-effective and convenient means through

which individuals and companies can cushion themselves against interest rate fluctuations, exchange rate volatility, and commodity price changes while boosting liquidity in the underlying assets. We believe that a more liquid market will attract more capital, which can finance Kenya's Vision 2030 ambitions and support East African businesses.

Going forward, NSE will need to balance the new "for-profit" and "revenue diversification" motives of its shareholders and the continuing demands of all other stakeholders. As the regional and domestic economies continue to expand, the NSE as the leading regional stock exchange can only grow. The financial performance of the bourse will be driven by increases in the GDP growth rate, the market capitalization to GDP ratio, as well as equity and bond turnover ratios.

I look forward to welcoming you as a shareholder of the NSE.

A handwritten signature in black ink, appearing to read "Peter Mwangi".

Mr. Peter Mwangi
Chief Executive

Section 1 Corporate Directory

- 1.1 Country of Incorporation:** The Nairobi Securities Exchange Limited is incorporated in Kenya under the Companies Act (Chapter 486 of the Laws of Kenya) as a public company limited by shares
- 1.2 Date of Incorporation:** 29 November 1990
- 1.3 Company number:** CPU/2014/144920
- 1.4 Registered/Head Office** L.R. No 209/18851
The EXchange, 55 Westlands Road
P O Box 43633 - 00100
Nairobi, Kenya
- 1.5 Share Capital** The authorised share capital of NSE is Kshs 850,000,000/- divided into 212,500,000 ordinary shares with a par value Kshs 4.00 each.
- The issued and fully paid up share capital of NSE is Kshs 514,500,000 divided into 128,625,000 ordinary shares with a par value Kshs 4.00 each.
- The unissued share capital of NSE is Kshs 335,500,000 divided into 83,875,000 ordinary shares with a par value of Kshs. 4.00 each.
- The recent alterations to the share capital of the NSE are set out in Section 13.1 and 13.2 below.
- 1.6 Financial Calendar** Year end of 31 December and therefore half year end of 30 June
- 1.7 Website** www.nse.co.ke
- 1.8 PIN No** P000606858H
- 1.9 Shareholders**
- The shareholders of the NSE at the date of this Prospectus are set out in Table 1.1 below and include the Trading Participants, the Cabinet Secretary, Treasury of Kenya and the Investor Compensation Fund Board.
 - Refer to Section 13.2 below on the changes in the shareholding in the NSE in the last two financial years.

Table 1.1-Shareholders

No	Name	No of Shares	%
1	ABC Capital Ltd	5,250,000	4.08
2	African Alliance Kenya Investment Bank Ltd	5,250,000	4.08
3	AIB Capital Ltd	5,250,000	4.08
4	Apex Africa Capital Ltd	5,250,000	4.08
5	SBG Securities Ltd	5,250,000	4.08
6	Discount Securities Ltd (under statutory management)	5,250,000	4.08
7	Dyer & Blair Investment Bank Ltd	5,250,000	4.08
8	Faida Investment Bank Ltd	5,250,000	4.08
9	Francis Drummond & Company Ltd	5,250,000	4.08
10	Genghis Capital Ltd	5,250,000	4.08
11	Kestrel Capital (East Africa) Ltd	5,250,000	4.08
12	Kingdom Securities Ltd	5,250,000	4.08
13	NIC Securities Ltd	5,250,000	4.08
14	Ngenye Kariuki & Company Ltd	5,250,000	4.08
15	Nyaga Stockbrokers Ltd (under statutory management)	5,250,000	4.08
16	Old Mutual Securities Ltd	5,250,000	4.08
17	Renaissance Capital (Kenya) Ltd	5,250,000	4.08
18	Shah Munge & Partners Ltd	5,250,000	4.08
19	Standard Investment Bank Ltd	5,250,000	4.08
20	Sterling Capital Ltd	5,250,000	4.08
21	Suntra Investments Ltd	5,250,000	4.08
22	Francis Thuo & Partners Ltd	5,250,000	4.08
23	Cabinet Secretary, Treasury of Kenya	6,562,500	5.10
24	Investor Compensation Fund Board	6,562,500	5.10
	Totals (* - rounded)	128,625,000	100.00%*

Source: NSE (figures have been rounded off)

1.10 Directors of NSE

Name	Designation	Nationality	Postal Address	Profession	Age
Mr. Edward Njoroge	Chairman, Non-Executive Director	Kenyan	18511-00500 Nairobi	Biochemist/ Businessman	61
Mr. Bob Karina	Vice Chairman, Non-Executive Director	Kenyan	45236-00100 Nairobi	Investment Banker	61
Ms. Sharon Maviala	Independent Director	Kenyan	2335-00606 Nairobi	Lawyer	39
Mr. Geoffrey Odundo	Non-Executive Director	Kenyan	48231-00100 Nairobi	Stockbroker/Fund Manager	45
Mr. Hosea Kili	Independent Director	Kenyan	55291-00200 Nairobi	Lawyer	51
Dr. Jonathan Ciano	Independent Director	Kenyan	49711-00100 Nairobi	Group CEO, Uchumi Supermarkets Ltd	63
Mr. Samuel Kimani	Independent Director	Kenyan	74093-00100 Nairobi	Banker	52
Ms. Winnie Nyamute	Independent Director	Kenyan	12899-00100 Nairobi	Certified Public Accountant – Lecturer, University of Nairobi	46
Mr. Peter Mwangi	Chief Executive	Kenyan	28516-00200 Nairobi	Chief Executive, NSE	44

All c/o PO Box 43633-00100 – Nairobi

1.11 Company Secretary

John Maonga (CS No 26)
Maonga Ndonge Associates
Certified Public Secretary (Kenya)
Jadala Place, 3rd Floor
Ngong Lane, Ngong Road
P.O. Box 73248 – 00200
Nairobi, Kenya

1.12 Auditor

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P.O. Box 40092 – 00100,
Nairobi, Kenya

1.13 Principal Bankers

Kenya Commercial Bank Ltd
Moi Avenue Branch
P.O. Box 30081-00100
Nairobi, Kenya

1.14 Lawyers

Hamilton Harrison & Mathews
ICEA Building, 4th Floor
Kenyatta Avenue
P.O. Box 30333-00100
Nairobi, Kenya

1.15 Subsidiaries of the NSE

	Name & Country of Incorporation	Authorised share capital	Issued share capital	Activities and current status	% Beneficial Ownership
a)	NSE Clear Limited – incorporated in Kenya on 4 February 2014 under company registration number CPR/2014/130100	Kshs. 100,000/-	Kshs. 100,000/-	Provision of clearing house services for the proposed derivatives/futures exchange Inactive	100%

1.16 Directors of Subsidiaries

1.16.1 NSE Clear Limited

Name	Designation	Nationality	Address	Profession	Age
Mr. Edward Njoroge	Director	Kenyan	18511-00500 Nairobi	Engineer	61
Mr. Bob Karina	Director	Kenyan	45236-00100 Nairobi	Investment Banker	61
Mr. Peter Mwangi	Director	Kenyan	28516-00200 Nairobi	Chief Executive	44

1.17 Other Companies or Associations in which NSE has an interest

No	Name & Country of Incorporation	Authorised and issued share capital	Activities and current status	% Beneficial Ownership
a)	*Central Depository and Settlement Corporation Limited - incorporated in Kenya on 23rd March 1999 under company registration number C. 84917	Kshs. 100,000,000/-	Provision of services relating to clearing, settlement and depository services Active	22.5%

*The other shareholders of Central Depository and Settlement Corporation Limited are:

- (1) The Capital Markets Challenge Fund Limited - 50%;
- (2) AKS Nominees Limited - 18% (associated with Kenya Association of Stockbrokers and Investment Banks);
- (3) Investor Compensation Fund Board - 7% and
- (4) Uganda Securities Exchange: 2.5%.

No	Name & Country of Incorporation	Authorised and issued share capital	Activities and current status	% Beneficial Ownership
b)	East African Securities Exchange Limited- incorporated in Uganda	Company limited by guarantee Company limited by	The promotion of the growth and development of capital markets in the East African Community guarantee Active	Not applicable NSE is a member
c)	African Securities Exchanges Association (previously African Stock Exchanges Association)- incorporated in Nairobi as a company limited by guarantee under company registration number C. 56726	Company limited by guarantee	The establishment of an association for systematic mutual cooperation, exchange of information, materials and persons, mutual assistance and joint programmes between the members Active	Not applicable NSE is a member
d)	Association of Future Markets- incorporated in Buenos Aires, Argentina	N/A	The promotion of the establishment of new derivative and related markets and to organize international conferences in order to promote communication among members, to strengthen their relationship and to transfer information and experience among them. Active	Not applicable NSE is an associate member
e)	The World Federation of Exchanges Limited incorporated in the UK	Company limited by guarantee	The global trade association of 60 publicly regulated stock, futures and exchanges. The member market operators are responsible for the functioning of key components in the financial world. Active	Not applicable NSE is an Affiliate.

Section 2 Timetable

The timetable for the Offer is as follows:

Table 2.1-Timetable

No	Event	Time	Date
1	Offer Opens	9:00 a.m.	24 July 2014
2	Offer Closes (Closure Date)	4:00 p.m.	12 August 2014
3	Public announcement of the results of the Offer	by 5:00 p.m.	3 September 2014
4	Electronic crediting of CDS Accounts and processing of refunds (if applicable) (Refund Date)	by 5:00 p.m.	4 September 2014
5	Self-Listing and commencement and trading of fully paid NSE Shares on The Exchange (Self-Listing Date)	9:00 a.m.	9 September 2014

Notes:

1. All references to times in this Prospectus are Kenyan local time, except as otherwise stated.
2. If any date falls on a gazette public holiday, the applicable date shall be the next working day.
3. The above dates may be changed at the discretion of the Board of Directors of NSE but subject to the approval of the Capital Markets Authority, where necessary.
4. Any changes will be communicated in the public media.

Section 3

Financial & Investment Data

The following is selected financial and investment data on the NSE:

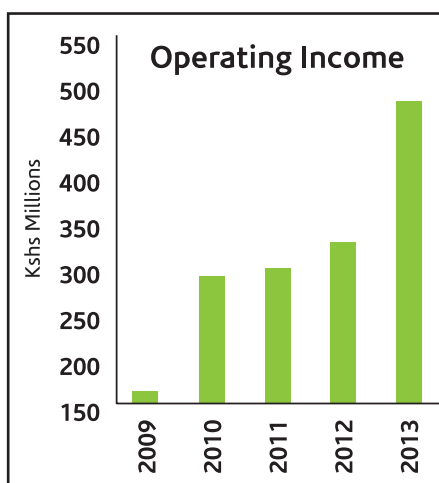
3.1 Financial Data

Refer to Annexure A - Nairobi Securities Exchange Limited - Financial Information

The operating income for the four months ended 30 April 2014 was Kshs 181 million while the total income was Kshs 215 million. The profit before taxation was Kshs 87 million while the net profit was Kshs 59 million.

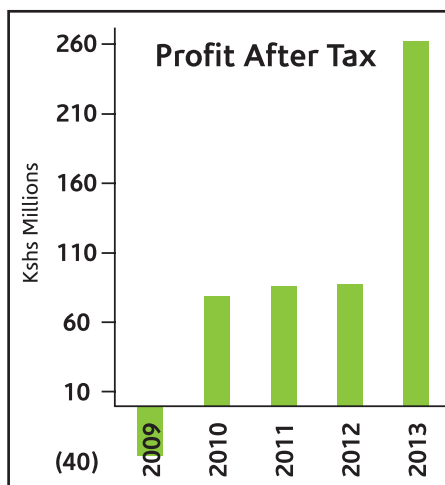
The five years trend to 31 December 2013 was as follows:

Figure 3.1.1 – Operating Income Trend



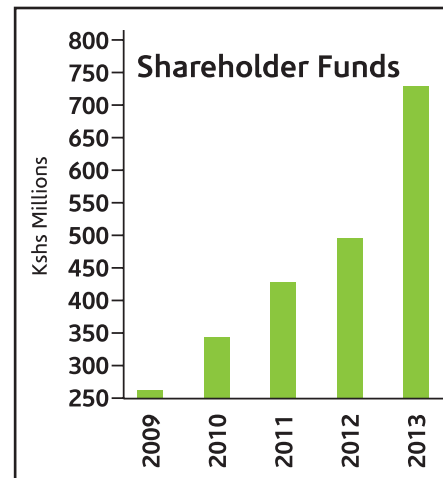
Source: Reporting Accountants' Report

Figure 3.1.2 – Profit Trend



Source: Reporting Accountants' Report

Figure 3.1.3 – Net Assets Value Trend



Source: Reporting Accountants' Report

The dividend history is as follows:

	2011	2012	2013
Total dividend	Kshs 22,000,000	Kshs 24,500,000	Kshs 49,000,000
Adjusted dividend per share using 128,625,000 Existing Shares	Kshs 0.17	Kshs 0.19	Kshs 0.38
Adjusted dividend cover	3.94	3.47	5.37

3.2 Offer Data

Table 3.2 - Selected Offer Data

No	Data	
1	Par value of NSE Shares (Kshs)	Kshs 4.00
2	Offer Price (Kshs)	9.50
3	Number of authorised shares of NSE	212,500,000
4	Authorised share capital of NSE (Kshs)	850,000,000
5	Number of issued and fully paid up shares of NSE	128,625,000
6	Issued and fully paid up share capital of NSE (Kshs)	514,500,000
7	Unissued and fully paid up share capital of NSE (Kshs)	335,500,000
8	Offer Shares	66,000,000
9	Gross proceeds of Offer	627,000,000
10	Number of issued and fully paid up shares of NSE post-Offer assuming full subscription	194,625,000
11	Percentage of immediate dilution to existing shareholders	33.91%
12	Exchange rate used for 1 USD	86.5819
13	Offer market capitalisation of NSE (Kshs)	1,221,937,500
14	Offer market capitalisation of NSE (USD)	14,113,082
15	Net asset value (shareholder funds) as of 31 December 2013 (Kshs)	730,810,000
16	Net asset value per share as of 31 December 2013 (Kshs)	5.68
17	Offer Price to net asset value per share above (Kshs)	1.67
18	Profit after tax for full year ending 31 December 2013 (Kshs)*	262,264,000
19	Profit after tax for full year ending 31 December 2013 (USD)	3,029,086
20	Earnings per share using profit after tax for full year ending 31 December 2013 (Kshs)*	2.04
21	Trailing price-earnings ratio using the diluted earnings per share above	4.66
22	Dividends for full year ending 31 December 2013 (Kshs)	49,000,000
23	Dividend payout ratio for 31 December 2013 (Kshs)	18.68%
24	Net asset value per share immediately post-Offer using gross proceeds of Offer and No 15 above	6.97

Some figures have been rounded off

* - includes "Recoveries in the year" and "Market access fee" (refer to Sections 17(c) and 6 in the Notes to the Financial Statements in the Reporting Accountants' Report in Annexure A2).

Proforma Balance Sheet Impact of Offer

The proforma impact on the balance sheet of the NSE due to the Offer (assuming it is fully subscribed) is as follows:

	Financial Position as of 31 December 2013	Proforma Impact of Par Value Change and Bonus Issue 2014
Non-Current Assets	864,180,000	864,180,000
Current Assets	284,956,000	284,956,000
Total	1,149,136,000	1,149,136,000
Equity		
Share Capital	24,500,000	514,500,000
Share Premium	0	0
Retained Earnings	705,782,000	215,782,000
Revaluation Reserve	528,000	528,000
Sub-Total	730,810,000	730,810,000
Non-Current Liabilities	136,280,000	136,280,000
Current Liabilities	282,046,000	282,046,000
Total	1,149,136,000	1,149,136,000

	Proforma Impact of Offer
Non-Current Assets	864,180,000
Current Assets*	911,956,000
Total	1,776,136,000
Equity	
Share Capital	778,500,000
Share Premium	363,000,000
Retained Earnings	215,782,000
Revaluation Reserve	528,000
Sub-Total	1,357,810,000
Non-Current Liabilities	136,280,000
Current Liabilities	282,046,000
Total	1,776,136,000

• - includes new cash of gross Kshs 627,000,000

3.3 Basis of Offer Price

The Offer Price has been set on the following basis:

3.3.1 Historical Performance

The compound annual growth rate (CAGR) of the NSE for various indicators from year 2009 to year 2013 was studied:

- a. The CAGR of operating income was 31.34%.
- b. The CAGR of interest & other income was 60.59%
- c. The CAGR of total income was 35.59%.
- d. The CAGR of administrative expenses was 17.45%.
- e. The CAGR of profit after tax was over 300%.
- f. The CAGR of total assets was 39.55%.
- g. The CAGR of shareholder funds was 28.95%.
- h. The return on average equity 2013 was 42.88%.

The key conclusions drawn from the above was that NSE was successful in diversifying its income away from operating income and the growth in total assets was due to significant reinvestment of profits.

3.3.2 Operating Income

Operating income comprises the following:- annual equity listing fees, equity transaction levy, annual fixed-income listing fees, fixed-income transaction levy and other fees. Other fees comprise initial listing equity fees, initial listing fixed-income fees and additional listing equity fees.

Annual equity listing fees and equity transaction levy are dependent upon Kenya's GDP, ratio of equity market capitalization to GDP, equity turnover ratio and share turnover velocity (refer to Section 7 below). The interest rate environment is one of the most important factors that affects the volume of bonds traded.

3.3.3 Other Items

Interest, other income, administration expenses, profits and cash flows was studied for the year 2013 in particular:-

- a) Year 2013 had "Recoveries in the year" and new "Market access fee" (refer to Sections 17(c) and 6 in the Notes to the Financial Statements in the Reporting Accountants' Report in Annexure A2).
- b) Year 2012 and 2013 had new income in "broker back office subscriptions" which is to continue. "data vending" income has grown significantly since year 2009.
- c) The growth in "administration expenses" was noted between year 2012 and 2013.

3.3.4 Investment in CDSC Limited

CDSC Limited is treated as an associate of NSE and so the equity method of accounting is being used for the value, which as of 31 December 2013, was Kshs 60.94 million (refer to Section 13 in the Notes to the Financial Statements in the Reporting Accountants' Report in Annexure A2). The market value could be significantly different.

3.3.5 Key Valuation Methods

The price/earnings ratio method was one of the key methodologies. The comparable indicators in May/June 2014 from internationally listed exchanges included Moscow Exchange, Johannesburg Stock Exchange, Warsaw Stock Exchange and BM&F Bovespa. A valuation range was established (notwithstanding their size, liquidity, product range).

Additional comparable indicators in May/June 2014 from the Exchange were used and included the entire listed market, commercial banks, insurance companies and an investment company. A valuation range was established.

The other key method was the discounted cash flow valuation. Full year performance 2013 excluding extra-ordinary items was a key basis for the financials. The performance for the four months ended 30 April 2014 was also used. Using various assumptions another valuation range was established.

Using the three valuation ranges above a broader valuation range was concluded. More weighting was given to the domestic comparable indicators above.

3.3.6 Offer Price

A number of factors were considered in establishing the indicative Offer Price range.

These included the investment environment, possible direction of interest rates, possible competing offers in the market, projected net earnings growth of the listed companies on The Exchange for the year 2014 and material risks.

The recent performance of previous new listings on The Exchange was a critical determinant and they were carefully studied. The findings were used to guide the setting of the final Offer Price range based on the broader valuation range above.

In particular, a lower Offer Price/earnings ratio was deemed to be more suitable in order to create more vibrant secondary trading.

The Board of Directors finally settled on Kshs 9.50 in order to encourage stronger and more broad based retail investor participation.

Section 4

Terms And Conditions

4.1 The Company and Regulatory Approval

NSE is a public limited liability company incorporated as a private company on 29 November 1990 under the Companies Act. The NSE was converted into a public company on 25 April 2014 and issued with a new company registration number CPU/2014/144920 (previously CPR/2011/56966).

NSE has been operating The Exchange and it is the sole approved securities exchange in Kenya, duly approved as such by the Capital Markets Authority under the Capital Markets Legislation.

4.2 Articles of Association

Selected highlights of NSE's Articles of Association include:

4.2.1 Trading Participant & Rights To Trade

"Trading Participant" is defined to mean: a licensee of the CMA with Rights to Trade at the Nairobi Securities Exchange.

Rights To Trade are defined to mean: means the rights of access to and the use of trading related facilities provided and maintained by a securities exchange which a securities exchange may grant a licensee of the CMA, subject to the rules of the securities exchange on admission of trading participants:-

4.2.2 Independent Non-Executive Director

An Independent Non-Executive Director is defined as:

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 his appointment as a director of the Company;
- (iii) has not been employed by a Trading Participant in an executive capacity in the 5 years immediately preceding his 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.

4.2.3 Directors - Article 94

Unless and until otherwise from time to time determined by an ordinary resolution of the Company, but always subject to the provisions of the Act and the Capital Markets Act, 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 these Articles. A maximum of two Directors shall be elected by the members from among or to represent the Trading Participants. A further two Directors shall be elected by the members from among nominees of companies listed on the Nairobi Securities Exchange to represent the said listed companies.

Any other directors shall be elected by the members in accordance with the 26 Companies Act provided that at all times at least one third of the Directors must be Independent Non-executive Directors. If at any time the number of Directors falls below the minimum number fixed by or in accordance with these Articles, 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.

4.3 Gross Proceeds and Use of Proceeds

The gross amount being raised is Kshs 627 million (inclusive of expenses) while the net proceeds will be used to: (a) invest in new infrastructure to support the various expansion initiatives; (b) reduce mortgage debt; (c) providing seed capital towards the settlement guarantee fund for futures.

New infrastructure is expected to include: Automated Trading System Upgrade and Bonds Trade Reporting System – software implementation fees, licenses, hardware costs, training and other project expenses. Investment is also expected in Futures License Fees; Hardware Servers for Capacity Enhancement; Service Desk System; Additional Trading Floor Computers; Network Management Software and Screen and an Administration System.

The NSE borrowed an amount of Kshs 300 million from the Kenya Commercial Bank Limited to partly finance the purchase of its new building. The loan is repayable in equal monthly installments of Kshs 4.84 million each over a period of 5 years. The loan is secured by a legal charge of Kshs 300 million over the property purchased and a debenture of the same amount over the assets of the company. The effective interest rate during the year 2013 was 15% p.a. During the year ended 31 December 2013, there was an accelerated repayment of Kshs 120 million while another accelerated repayment of Kshs 20 million has been made subsequently in January 2014. NSE intends to use the proceeds to repay the outstanding loan further.

4.4 Eligibility, Minimum Subscription

There are 2 Pools:

- a) Employees Pool:** A pool of 2.5 million Offer Shares at the Offer Price is reserved for employees of the NSE. The minimum application size is for 500 Offer Shares for Kshs 4,750. Applications are to be made in multiples of 100 Offer Shares.
- b) Public Pool:** A pool of 63.5 million Offer Shares at the Offer Price is for any prospective investor with capacity to assess and evaluate this investment, risks and risk mitigants. The minimum application size is for 500 Offer Shares for Kshs 4,750. Applications are to be made in multiples of 100 Offer Shares. Applications are to be made in multiples of 100 Offer Shares.

A CDS Account is mandatory.

For Kenyan applicants a bank account in Kenya is mandatory.

4.5 Status of Offer Shares

The Existing Shares and the Offer Shares will be freely transferable and will not be subject to any restrictions on marketability or any pre-emptive rights. The entitlement to dividends and other corporate actions will commence for the financial year ending 31 December 2014. At every general meeting of the NSE, every shareholder present has one vote on a show of hands, and on a poll, every shareholder present in person or by proxy has one vote for each share of which he is the holder.

4.6 Minimum Success, Underwriting

A minimum of 68.8% of the Offer is required to be accepted for the Offer to be declared successful. This implies that a minimum of 45,400,000 Offer Shares need to be taken up and fully paid for in the Offer. However, in the event that this minimum amount is not attained, approval may be sought from the Capital Markets Authority to proceed with the listing of the accepted fully paid Offer Shares under the Offer on a different market segment.

- a) The Directors shall not be bound to proceed with the Offer unless valid applications for the Offer are received from not

less than 1,000 applicants (excluding employees of the NSE) for a total subscription of Kshs. 431,300,000 million (i.e.) the minimum aggregate subscription;

- b) For purposes of Section 49 of the Companies Act, the Directors shall not proceed with the allotment of the Offer Shares if the applications to subscribe for at least 68.8% of the Offer Shares with a value of Kshs. 431,300,000 million are not received and fully paid for;
- c) The amount which in the opinion of the Directors, must be raised by the Offer in order to provide for the matters listed in paragraph 4 of the Third Schedule to the Companies Act is as noted in Section 13.27 below, the expenses of the Offer.

The Offer is not underwritten.

4.7 Free Float

All the Existing Shares held by the shareholders except for those held by the Cabinet Secretary, Treasury of Kenya and the Investor Compensation Fund Board can be considered more free float.

Regulation 8 of The Capital Markets (Demutualization of the Nairobi Securities Exchange Limited) Regulations 2012, requires the Trading Participant shareholders to reduce their cumulative shareholding in the NSE to not more than 40% within three years.

4.8 Dividend Policy

The Board of Directors adopted its current dividend policy on 2 April, 2014 as follows:-

In considering the level of dividends, the Board will take account of the outlook of current and future earnings growth, operating cash flow generation, working capital requirements, capital expenditure requirements, acquisitions and divestments, together with the amount of debt, if any and any statutory or regulatory guidelines that may impact on the Company's ability to pay dividends.

The first priority of the Board will be to maintain sufficient distributable reserves and liquidity to ensure that current and projected operational needs and/or business growth are not limited by the unavailability of funds and also that facilities are available to cover all known contingencies. As such, recommendation of dividend payment is not guaranteed and is subject to the above factors, the performance of the Company and the discretion of the Board.

The Board may from time to time propose a separate dividend policy and may propose the issue of dividends from distributable reserves.

Once recommended by the Board, declaration and payment of dividends shall require shareholder approval.

Dividend payment will be made within reasonable time after the approval by the annual general meeting in accordance with good practice.

4.9 Offer Dates

The Offer opens on 24 July 2014 and closes on 12 August 2014. The date of Self Listing and commencement of trading in the NSE Shares of NSE is 9 September 2014. The dates may be changed at the discretion of the Directors subject to the approval of the CMA (where applicable) and published in the public media. For full details on the timetable, refer to Section 2-Timetable above.

4.10 Offer Documents

The documents that will be used are as follows:

Table 4.1- Documents

Document	Description
Application Form	The Application Form enclosed within/ accompanying this Prospectus.
CDS Form 1	Standard form by the CDSC Limited to be used to open a CDS Account in CDS through authorized central depository agents.
CDS	Securities Pledge Form (CDS 5 form) Standard form by the CDS to be used for utilizing loan facilities to subscribe for Offer Shares.
Prospectus	By NSE this long form booklet that contains legal, compliance and relevant information to assist investors in the making of informed decisions.

The above documents will be available from the Authorised Agents.

4.11 Application

4.11.1 A CDS Account is mandatory. To open a CDS Account please contact an authorised CDS agent. For Kenyan applicants a bank account in Kenya is mandatory.

4.11.2 Copies of this Prospectus, with the accompanying Application Form, may be obtained from the Authorised Agents referred to in Section 14 below.

4.11.3 Persons wishing to apply for the Offer Shares must complete the Application Form in accordance with the instructions contained in it and this Prospectus.

4.11.4 A completed Application Form must be physically returned to an Authorised Agent.

4.11.5 Neither the NSE, nor any of the advisors nor any of the Authorised Agents shall be under any liability whatsoever should an Application Form not be received by the Closure Date.

4.11.6 Joint applications may only be made by individuals (not corporations) and must not be used to defeat the allocation policy. For purposes of the minimum initial allocation under the allocation policy, the NSE reserves the right to consider each joint application as an application by each joint applicant alone, namely two separate applications, jointly for the number of the Offer Shares applied for.

4.11.7 Presentation of cheques for payment or receipt of funds transferred shall not amount to the acceptance of any application.

4.11.8 No alterations will be allowed.

4.11.9 Applications sent by facsimile or by any means other than the methods stipulated in this Prospectus will not be accepted.

4.11.10 Applications once given are irrevocable and may not be withdrawn once submitted.

4.11.11 By signing an Application Form, each applicant:

- a) agrees that having had the opportunity to read this Prospectus, he shall be deemed to have had notice of all information and representations concerning the NSE contained herein;
- b) confirms that in making such application he is not relying on any information or representation in relation to the NSE other than that contained in this Prospectus and accordingly agrees that no person responsible solely or jointly for this Prospectus or any part thereof shall have any liability for any other information or representation;
- c) accepts to receive any communication from the NSE, including notices for meetings, through electronic means including but not limited to email or placement of such notices on NSE's website, as well as notification through the mass media;
- d) represents and warrants that, except in cases where the applicant is licensed to apply for and hold shares for other persons, the applicant applies for the Offer Shares on his own account, will be the beneficial owner of the Offer Shares, has not represented himself as a different person in any other application nor applied for the Offer Shares under a different name, and is not applying for the Offer Shares on the instructions of or on behalf of any other person and has not instructed any other person to apply for the Offer Shares as his nominee;
- e) being an applicant who is authorised to apply for the Offer Shares on behalf of other persons, represents and warrants that he is not making multiple applications for himself or any other person, is not applying as nominee of any person whom he knows to have applied under any other name or through any other nominee or person or for any beneficial owner more than once;
- f) acknowledges that the NSE reserves the right to reject any Application found to be in contravention of subparagraphs 4.11.11 (b), (d) and (e) above.

4.11.12 By signing an Application Form, an applicant agrees to the allotment and issue of such number of Offer Shares (not exceeding the number applied for) as shall be allotted and issued to the applicant under the terms and conditions of the Prospectus and subject to the NSE's Memorandum and Articles of Association, and agrees that the NSE may enter the applicant's name in the register of members of the NSE as holder of such Offer Shares.

4.12 Acceptance

4.12.1 Acceptance of the Offer, once given is irrevocable.

4.12.2 Acceptance of the Offer may only be communicated by submitting a duly completed Application Form, together with Application Money for the number of Offer Shares specified in the Application Form under the terms set out in this Prospectus.

4.12.3 The Application Form must be correctly executed so as to be binding, while the Application Money must be cleared funds.

4.12.4 The Application Form, once duly completed and executed, must be returned to any Authorised Agent, together with the Application Money for the number of Offer Shares.

4.12.5 The Application Form and Application Money should be received by the Authorised Agent or the Receiving Agent by 4.00 p.m. on Closure Date. Refer to Application Payment below, for details on how to make payment.

4.12.6 If the Application Form is not completed correctly, the NSE may in its sole and absolute discretion reject it or treat it as valid, and the NSE's decision as to whether to accept or reject, or how to construe, amend or complete an Application Form shall be final.

4.12.7 Application Forms may be rejected as per *Rejection Policy* below.

4.12.8 Acceptance is subject to regulatory restrictions and obligations under Regulatory Restrictions below.

4.12.9 Over-subscription will require refunds to be processed for applicants.

4.13 Application Payment

4.13.1 All payments to the Receiving Bank must be made in Kenya Shillings.

4.13.2 For amounts above Kshs 1 million, payment may only be made by EFT or RTGS.

Payment for the Offer Shares, may be made directly to the Receiving Bank via Banker's Cheque, EFT or RTGS.

Subject to the authorisation by the Authorised Agent, payment for the Offer Shares, may also be made directly to the Authorised Agent via brokerage account internal transfer, cash (where applicable), Banker's Cheque, EFT, RTGS, credit card (where applicable), mobile money (where applicable) or by personal cheque.

All Banker's Cheque payments to the Receiving Bank should be drawn in favor of '**NSE IPO-Form No. XXXXXX**' and be crossed "A/C Payee Only". The form number refers to the Application Form and must be inserted to reduce complications in reconciliation. Where there is non-compliance with these instructions, the application will be rejected. Each Banker's Cheque received by the Receiving Bank will be deposited immediately for collection.

4.13.3 For any amount payable by an Authorised Agent to the Receiving Bank, payment for the Offer Shares, for single or multiple Application Forms, can be made via cheque drawn on the Authorised Agent or via EFT or RTGS.

4.13.4 The main bank account at the Receiving Bank is:

Account Name	NSE IPO A/C
Bank	The Co-operative Bank of Kenya Ltd
Branch	Westlands
Account No	01141154262700
SWIFT	KCOOKENA

Each Authorised Agent has a unique designated bank account with the Receiving Bank and no other commercial bank. Authorised Agents will be issued with sub-accounts for ease of reconciliation purposes. The bank account information will include the SWIFT Code above All the account numbers commence with 011411542627XX.

4.13.5 All EFT and RTGS transfers must include the name of the investor and the Application Form number for immediate reference. This will reduce complications in reconciliation. Where there is non-compliance with these instructions, the application will be rejected.

4.13.6 Payment may be made via a loan from a Lender. For this refer to Loan Facilities below.

4.13.7 Any fees payable in securing a Banker's Cheque, EFT or RTGS or other form of payment, will be borne by the investor and not the NSE.

4.13.8 Any payments made to the Receiving Bank in accordance with the above, will upon receipt by the Receiving Bank of the relevant amount in cleared funds, constitute acceptance of the Offer under the terms and conditions set out in this Prospectus and in the Application Form.

4.13.9 Each Application Form will be charged Kshs 30.00 in accordance with the Central Depositories (Regulation of Central Depositories) (Amendment) Rules, 2008, provided that only one payment is made in the case of multiple forms for the same CDS Account. This fee is therefore to be paid by the investor. Where payments are being made to the Authorised Agent, the Authorised Agent in turn will pass the fee over to the CDSC Limited on behalf of NSE on or before the commencement of trading of the NSE Shares.

4.13.10 No interest will be payable by the NSE on any Application Money received for the Offer to any investor or Authorised Agent. Interest earned on the Application Money is payable to the Investor Compensation Fund Board, in accordance with the Capital Markets Legislation.

4.14 Regulatory Restrictions

The NSE is subject to the provisions of the Capital Markets Legislation. Selected provisions include:

- (a) Main Investment Market Segment – Eligibility Requirement (extract) - 'Following the public share offering at least 25% of the shares must be held by not less than 1000 shareholders excluding employees of the issuer'.
- (b) The Capital Markets (Take-Overs and Mergers) Regulations, 2002, oblige the observance of certain procedures if any person takes up Offer Shares which would result in that person "acquiring effective control" of a listed company.
- (c) At least 40% of the Offer Shares will be reserved for allocation to Local Investors in accordance with the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations, 2002. If at least 40% of the Offer Shares are not subscribed for in full by Local Investors, the Company may with the prior written approval of the CMA, allot the remaining Offer shares to Foreign Investors.
- (d) In the case of a company newly listed on any securities exchange approved under the Capital Markets Legislation with at least 30% of its issued share capital listed, the income tax payable by the company shall be at the rate of 25% for the period of three years commencing immediately after the year of income following the date of such listing.

Prospective investors are required to seek their own independent professional advice in connection with

these matters. The Board will take the said provisions into account and any other when determining the allocation of any Offer Shares.

4.15 Rejection Policy

An Application Form will be rejected for the following reasons:

4.15.1 Incomplete, inconsistent or inaccurate vis-a-vis the instructions provided in the Prospectus and Application Form;

4.15.2 No signature as required;

4.15.3 Insufficient Application Money received by Authorised Agent or Receiving Bank;

4.15.4 Multiple Authorised Agent stamps on the Application Form;

4.15.5 Triggered Regulatory Restrictions above and the relevant regulatory approvals were not obtained before Closure Date;

4.15.6 Application Money was correctly received but the Application Form is incorrect or missing.

The NSE reserves the right to reject any Application Form.

The NSE and its transaction advisors shall be under no liability whatsoever, should any Application Form be rejected as per the Rejection Policy under this Section 4.15.

4.16 Allocation Policy

4.16.1 The allocation policy has been designed to comply with the requirements of the Capital Markets Legislation with regard to the share ownership structure of the NSE to ensure that at least 25% of the Shares are held by not less than 1,000 shareholders, and that at least 40% of the Offer Shares are reserved for local investors.

4.16.2 All valid applications will be allocated in full as per the number of Offer Shares applied for by such applicants in the event of exact or under-subscription.

4.16.3 In the event that the total number of Offer Shares applied for by Applicants in a particular pool is below the total number of Offer Shares reserved for that pool, the following will apply:

- a) All valid Applications received will be allocated in full as per the number of Offer Shares applied for taking into account the minimum number of Offer Shares that may be applied for in each pool; and
- b) The balance of Offer Shares reserved for that pool will be available for allocation in the other pool which is oversubscribed, and such excess Offer Shares will be aggregated and the pool of excess Offer Shares available will be allocated pro-rata to the excess Offer Shares applied for in the other pool.

4.16.4 In the event of over-subscription: applicants will be allocated the minimum number of shares applied for i.e. 500 Offer Shares in the first instance and thereafter in multiples of 100 Offer Shares on a pro rata basis, rounded down to the nearest 100 Offer Shares, until all Offer Shares are fully exhausted.

4.16.5 In the event that the results of the subscription make the above allocation policy impractical then an amendment to the allocation policy shall be made with the approval of the CMA and such amendment will be announced through a notice in at least two daily newspapers with national circulation in Kenya within twenty four hours of the grant of such approval.

4.16.6 In the event of any doubt whatsoever as to the allocation of the Offer Shares as determined by the NSE, the decision of the NSE will be final.

4.16.7 The NSE will announce the manner in which the Offer Shares have been allocated to applicants in the above two pools on the date detailed in No 3 of the Section 2-Timetable above. The announcement will be published in at least two newspapers with national circulation in Kenya.

4.17 Loan Facilities

4.17.1 Investors may approach a Lender for loan facilities to facilitate participation and payment of the full amount due in respect of the Offer Shares.

4.17.2 The extension of loan facilities by any Lender is a decision to be made by such Lender, at its sole and absolute discretion.

4.17.3 Investors who intend to acquire the Offer Shares through loan facilities shall ensure that the following is complied with:

4.17.3.1 the Lender shall write to the CDSC stating that it requires the Offer Shares to be pledged as security, until such time as the CDSC is instructed in writing to the contrary by such Lender, through an Authorised Agent, to lift such pledge; and

4.17.3.2 upon completion of CDS Form 5 (available from an Authorised Agent), all pledges will be effected through entries in the Central Depository System maintained by the CDSC. The pledging of such shares will, at all times, be subject to Rule 63 of the Central Depositories (Regulation of Central Depositories) Rules, 2004.

For every financed application to the CDSC, the Lender or the purchaser is required to pay Kshs 1,000/- via a Banker's Cheque or a cheque issued by an Authorised Agent, payable to "CDSC" - [insert serial no. of CDS Form 5].

4.17.4 Lenders extending finance must submit payment for the full amount due and attach the duly completed and executed Application Form, together with a letter signed by the authorized representatives of the Lender addressed to the Registrar, requesting the shares to be frozen in the CDS, to reach the Authorised Agent by the Closure Date.

4.18 Refunds

4.18.1 Refunds will be paid by EFT or RTGS to the bank account details in the CDS Account or in the Application Form. However, if the electronic transfer is declared unsuccessful or otherwise, a Banker's Cheque or bank draft may be issued in the name appearing on the Application Form.

4.18.2 Where a Lender has advanced money to an investor to subscribe for Offer Shares, refunds will be made to or for the account of such a Lender as the case may be.

4.18.3 The NSE will make refunds on the Refund Date and will comply with Capital Markets Legislation.

4.18.4 Refund cheques (where applicable) should be collected from the relevant Authorised Agent against proof of identity and other documentation to the satisfaction of the Authorised Agent.

4.18.5 Payment of refunds to foreign/nonresident investors, shall be made having regard to the prevailing exchange rates and any fluctuations shall be for the investor's account.

4.18.6 Neither the NSE, the Receiving Agent, the Receiving Bank nor any transaction advisors to this Offer will be responsible or liable for any refund not received or not received in time, once the refund has been made by NSE using the data in the CDS Account or the Application Form, as provided by the account holder.

Where refunds are sent to the incorrect bank account or where cheques are cleared incorrectly, by the Receiving Bank on behalf of NSE, NSE will take responsibility and have the transfer or cheque rectified as required, provided there is a formal notification by investors for refunds not received. The investor is required to write a letter to their Authorised Agent who within 5 business days of receipt will be required to investigate and revert back to the investor with the relevant information. Any rectification is expected to be made within a further 5 business days.

The Receiving Bank and Receiving Agent are expected to put in measures to ensure safe custody of cheques and proper verification procedures for clearance of cheques. These include effective co-ordination of information flow between them and the Authorised Agents, the use of special documentation, hierarchical administrative structures and dedicated personnel with specific responsibilities.

4.19 Trading

4.19.1 Investors who comply with the procedures for acceptance as set out in this Prospectus, will receive their fully paid Offer Shares in electronic form, by way of credit to their respective CDS Accounts. It is the responsibility of the investors to ensure that their CDS Account details set out in the Application Form are correct.

4.19.2 Trading in fully paid Offer Shares may only take place through a CDS Account.

4.19.3 Fully paid Offer Shares will be admitted on the Main Investment Market Segment of the Exchange on the Self-Listing Date with dealings of fully paid Offer Shares commencing at 10:00 a.m. on the same date.

4.19.4 Foreign investors: The Capital Markets (Foreign Investors) Regulations, 2002 ("the Foreign Investors Regulations") define a 'foreign investor' in Regulation 2 of the Foreign Investors Regulations as being any person who is not a citizen of an East African Community Partner State or a body corporate established or incorporated in an East African Community Partner State and whose beneficial interest in 100% of its ordinary shares is for the time being held by a citizen or government of an East African Community Partner State or incorporated under the provisions of the laws of an East African Community Partner State.

Regulation 3 (1) of the Foreign Investors Regulations provides that: "Every issuer shall reserve at least twenty-five per centum of its ordinary shares for investment by local investors in the issuer". The shares to be reserved should be the percentage of the ordinary shares to be listed on the securities exchange. Regulation 3(3) the Foreign Investors Regulations goes on to provide that: "Any proportion of the voting shares of an issuer in excess of twenty - five per centum reserved for local investors, shall be available for investment by [among others] foreign investors without restrictions except as provided under the Capital Markets (Take-Overs and Mergers) Regulations 2002".

4.20 Distribution Restrictions

This Prospectus and accompanying Application Form do not, and are not intended to, constitute an offer for the Offer Shares in any place outside Kenya or in any circumstances where such offer or solicitation is not authorised or is unlawful. In that regard, this Prospectus and accompanying Application Form may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction or in any circumstances where such offer or solicitation is not authorized, or is unlawful. The distribution of this Prospectus and accompanying Application Form outside of Kenya may be restricted by law and persons who come into possession of this Prospectus and accompanying Application Form should seek advice on and observe those restrictions.

Any failure to comply with those restrictions may constitute a violation of applicable securities laws. Any such recipient must not treat this Prospectus and accompanying Application Form as constituting an offer to him, unless it is received in the relevant jurisdiction, where such invitation or offer could be made lawfully to him/her without contravention of any registration or legal requirements. Without limitation, neither this Prospectus nor the accompanying Application Form may be sent or otherwise distributed outside Kenya.

Persons into whose possession this Prospectus may come are required by the NSE to inform themselves about and to observe such restrictions.

4.21 Investment Restrictions

The Offer to foreign investors may be affected by laws and regulatory requirements of the relevant jurisdictions. Any foreign investors wishing to trade in the Offer Shares must satisfy themselves as to the full observance of the laws of the relevant territory and governmental and other consents to ensure that all requisite formalities are adhered to and pay any issue, transfer or taxes due in such territory.

Foreign investors are advised to consult their own professional advisors as to whether they require any governmental or other consent or need to observe any applicable legal or regulatory requirements to enable them to trade in the Offer Shares.

4.22 Taxation

The comments below are of a general nature based on taxation law and practice in Kenya as at the date of this Prospectus and are subject to any changes thereafter.

Withholding tax at the prevailing rate will be deducted from dividend payments made to all shareholders of the NSE. Non-residents may be entitled to a tax credit in their country of residence, either under domestic law or under country to country tax treaties. Kenya has entered into some double taxation treaties while some have been signed but are not yet in force. If any investor is tax exempt, a certified copy of the Tax Exemption Certificate will be required.

This sub-section does not purport to be a complete analysis of or advice whatsoever concerning tax considerations relating to the trading of the NSE Shares and so should be treated with appropriate caution. Investors should consult their own professional advisors concerning the possible tax consequences of purchasing, holding and/or selling the Offer Shares and receiving payments of dividend and/or other amounts in respect of the Offer Shares under the applicable laws of their country of citizenship, residence or domicile.

4.23 Governing Law

This Prospectus and any contract resulting from the acceptance of an order to trade in the shares of the NSE as a consequence of the Offer shall be governed by and construed in accordance with the Laws of Kenya.

Section 5

Exchanges

The following is selected information and statistics relating to securities exchanges and worldwide:

5.1 World Exchanges

There are over 95 securities exchanges around the world. Some large domestic equity market exchanges include NYSE Euronext (US), NASDAQ OMX (US), Japan Exchange Group - Tokyo, NYSE Euronext (Europe), Hong Kong Exchanges, Shanghai SE, TMX Group, Deutsche Borse, Australian SE and National Stock Exchange of India.

5.1.1 Equity Markets

On 31 December 2013, the global equity market domestic capitalization was in excess of USD 59 trillion and the number of listings crossed 43,000. The value of share trading in the month of December 2013 alone exceeded USD 4.2 trillion while the number of equity electronic book trades was 847 million. In the same month there were 1.4 million securitized derivatives and over 6,000 electronic traded funds. The share turnover velocity varies across exchanges from as low as 0.1% to as high as 287%.

5.1.2 Bond Markets

On 31 December 2013, the number of bonds listed was over 198,000 while the value of bonds traded was over USD 1.3 trillion.

Source: World Federation Exchanges website

5.2 Africa

In Africa, the large exchanges include Johannesburg Stock Exchange, Nigeria Stock Exchange, Egyptian Exchange, Casablanca Stock Exchange and Nairobi Securities Exchange.

Kenya is well represented in the FTSE ASEA Pan African Index (excluding South Africa) which is designed as a regional index - that involves 14 countries, contains no more than 30 constituents per country and has a maximum country weight of 20% at review. The index is designed for the creation of index tracking funds, derivatives and a performance benchmark.

Stocks are free float weighted to ensure that only the investable opportunity is included. Index constituents are categorized in accordance with the Industry Classification Benchmark, the global standard for industry sector analysis.

In June 2014, the countries and the number of constituents to the Index were Botswana (7), Egypt (30), Ghana (12), Ivory Coast (15), Kenya (25), Mauritius (30), Morocco (28), Nigeria (30), Rwanda (1), Tunisia (20), Tanzania (5), Uganda (4), Zambia (7) and Zimbabwe (24). Total constituents was 238.

Source: ASEA Yearbook 2012 and FTSE (a global leader in indexing and analytic solutions).

5.3 Listed Exchanges

The information below is selected to showcase listed exchanges:

5.3.1 Reasons to go public

Traditionally stock exchanges have been mutual structures with access to trading floors restricted to some intermediaries - members. Since the beginning of the 1990's several stock exchanges have demutualized, i.e. they became for profit companies and opened ownership to outside investors. In addition, a growing number of exchanges have introduced their own shares on the stock markets they operate - a process called 'self listing' - emphasizing at the same time the for-profit and public nature of the activity. There has been a sharp rise in the number of for-profit exchanges, demutualisations and self-listings in the last fifteen years.

Some reasons that lead demutualized exchanges to go public are:

- (1) a higher level of democracy in the relevant country;
- (2) to raise capital to invest in new technology and other infrastructure;
- (3) anticipated future higher level of competition from peers;
- (4) more capital market liberalization;
- (5) enhanced reputation and increased investor confidence and;
- (6) to facilitate mergers and acquisitions.

5.3.2 Listed Exchanges

The following are selected examples of listed exchanges: ASX (Australia); BM&F Bovespa (Brazil); Bolsa Mexicana de Valores SAB de CV (Mexico); Bolsas y Mercados Espanoles (Spain); Bursa Malaysia (Malaysia); CBOE Holdings (United States of America); Deutsche Boerse (Germany); Dubai Financial Market (United Arab Emirates); Hellenic Exchanges SA (Greece); Hong Kong Exchanges & Clearing (Hong Kong); Japan Exchange Group (Japan); JSE (South Africa); London Stock Exchange Group (United Kingdom); Multi Commodity Exchange of India (India); Philippine Stock Exchange (Philippines) and Warsaw Stock Exchange (Poland).

Source: Mondo Visione website

Section 6

Development Of Capital Markets

The development of the capital markets in Kenya has a long history as the NSE is in its 60th year of existence. The following is a selected brief summary of that development.

1920s – 1953: Dealing in shares commenced with trading taking place on a 'gentleman's agreement' with no physical trading floor. London Stock Exchange (LSE) officials accepted to recognize the setting up of the Nairobi Stock Exchange as an overseas stock exchange (1953).

1954 – 1962: The Nairobi Stock Exchange (NSE) was registered under the Societies Act (1954) as a voluntary association of stockbrokers and charged with the responsibility of developing the securities market and regulating trading activities. Business was transacted by telephone and prices determined through negotiation. Securities traded on the NSE during the period mainly included government debt, loan stocks, preference and common shares.

1963 – 1970: The GOK 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 public sector securities included issues by the Governments of Tanzania and Uganda (the East African Community). However, with the changing political regimes among East African Community members, various decisions taken affected the free movement of capital which ultimately led to the delisting of companies domiciled in Uganda and Tanzania from the Nairobi Stock Exchange.

1971 – 1990: The GOK made a first attempt to directly monitor the operations of the securities market in an effort to ensure that capital raised in the market was not used for investment outside the country. Tight taxation policies were implemented to reduce repatriation of funds by foreigners and to raise GOK revenue. In 1971, the GOK established the Capital Issue Committee. When the EAC finally collapsed in 1975, the Government of Uganda compulsorily nationalized companies which were either quoted or subsidiaries of listed companies.

1988: The first privatization through the NSE took place, through the successful sale of a 20% GOK stake in Kenya Commercial Bank. The sale left the Government of Kenya and affiliated institutions retaining 80% ownership of the bank.

In November 1988, The GOK set up a Capital Market Development Advisory Council whose role was to work out the modalities for establishing the Capital Markets Authority (CMA). **In November 1989:** The Capital Markets Act was passed by Parliament.

In January 1990, The CMA was constituted through the Capital Markets Authority Act (Cap 495A) and inaugurated in March 1990. The main purpose of setting up the CMA was to have a body specifically charged with the responsibility of promoting and

facilitating the development of an orderly and efficient capital market in Kenya.

1991: NSE was registered as a private company limited by shares. Share trading moved from being conducted over a cup of tea, to the floor based open outcry system.

1993: The CMA increased the initial paid up capital for stockbrokers from Kshs.100,000 to Kshs.5.0 million while that for investment advisors was set at Kshs.1.0 million.

1994: With the amendments to the Capital Markets Act, it became mandatory that a securities exchange approved by the CMA be a company limited by guarantee. The number of stockbrokers increased by a further seven.

On February 18, 1994, the NSE 20-Share Index reached a record high of 5,030 points. The NSE was rated by the International Finance Corporation (IFC) as the best performing market in the world with a return of 179% in dollar terms. The NSE also moved to more spacious premises at the Nation Centre in July 1994, setting up a computerized delivery and settlement system (DASS).

1995: An additional eight stockbrokers were licensed in June 1995 and with the suspension of one stockbroker, the total number of stockbrokers was twenty. The CMA established the **Investor Compensation Fund** whose purpose was to compensate investors for financial losses arising from the failure of a licensed broker or dealer to meet their contractual obligations. To meet its developmental role, the 1995 amendments to the Capital Markets Act 995 spelt out regulations providing for foreign investors' participation in the domestic capital markets.

1996: Privatization of Kenya Airways took place where more than 110,000 shareholders acquired a stake in the airline and the Government of Kenya reduced its stake from 74% to 26%. The Kenya Airways Privatization team was awarded the World Bank Award for Excellence for 1996, for being a model success story in the divestiture of state-owned enterprises.

1997: New rules, regulations and guidelines to govern the issuance of corporate bonds and commercial paper were issued by the CMA. With the objective of developing a code of conduct, promoting professionalism, and establishing examinable courses for its members as well as facilitate liaison with the CMA and the NSE, the members of the NSE formed the Association of Kenya Stock brokers (AKS).

1998: The CMA published new guidelines on the disclosure standards by listed companies. The disclosure requirements were meant for both public offerings of securities as well as continued reporting obligations, among others. On July 17, 1998, Mr. Robert E. Rubin, the 70th United States Secretary to the Treasury, visited the trading floor of the Nairobi Stock Exchange.

1999: In January 1999, the CMA issued guidelines to promote good corporate governance practices by listed companies through the constitution of audit committees. A majority of the members of the audit committees would be non-executive directors with knowledge of the business and qualifications in the accountancy profession.

On March 23, 1999, The Central Depository and Settlement Corporation Limited (CDSC) was incorporated under the Companies Act (Cap 486).

On November 30, 1999, The East African Community Treaty was signed in Arusha, Tanzania between five countries, Burundi, Kenya, Rwanda, Uganda and The United Republic of Tanzania. The accord established the East African Community whereby all participating nations agreed to establish more cooperative commercial and political relations for their cumulative 133 million citizens. Articles 85, 86, and 87 of the Treaty highlighted the desire for a single capital market for the region.

2000: Five core shareholders of the CDSC signed an agreement and paid up some share capital.

2001: The market at the NSE was split into the Main Investment Market Segment (MIMS), Alternate Investment Market Segment (AIMS) and the Fixed Income Securities Market Segment (FISMS). The EAC Secretariat formally convened the first meeting of the new Capital Markets Development Committee in Dar es Salaam, Tanzania.

2003: The Central Depositories Act 2000 was operationalized in June 2003.

2004: Following the successful signing of an MOU between the Dar-es-Salaam Stock Exchange, the Uganda Securities Exchange and the Nairobi Stock Exchange, the East African Securities Exchanges Association was formed. **On November 10, 2004,** The central depository system set up by the CSC was commissioned. For the first time in Kenya's history, the process of clearing and settlement of shares traded in Kenya's capital markets was automated.

2006: On September 11, The NSE implemented live trading on its own automated trading systems trading (ATS). 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). **In November,** the Nairobi Stock Exchange and Uganda Securities Exchange signed an MOU enabling mass cross listing between the two countries and in turn facilitating growth and development of the regional securities market.

2007: On December 17, 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.

2008: February 1: The NSE announced the extension of trading hours at the bourse. Trading would commence from 9.00am and close at 3.00pm each working day. **February 25:** In an effort to provide investors with a comprehensive measure of the performance of the stock market, the NSE introduced the NSE All-Share Index (NASI). The NASI is a comprehensive index designed to represent investors' expectations of the future performance of all companies listed on the NSE. The NASI's calculation was based on market capitalization, implying that the index level reflected the total market value of the constituent stocks. The index would be reviewed during the last week of every quarter to track changes in the number of shares for the constituent stocks. The NASI, which was backdated to January 1, 2008, complimented the NSE 20-Share Index. In April, the NSE launched the first edition of the NSE Smart Youth Investment Challenge to promote stock market investments among Kenyan youth.

On June 9 2008: The immobilized shares of Safaricom Ltd., commenced trading on the NSE after the trading session was opened at a colorful ceremony presided by H.E. President Mwai Kibaki. The trading of Safaricom, enabled turnover to reach a new record of Kshs. 3.38 billion and market capitalization to reach Kshs. 1.28 trillion. The Safaricom initial public offer increased the number of shares listed on the bourse to over 55.0 billion shares, from the previous 15.0 billion. The divestiture by the GOK of a 25.0% stake equivalent to 10.0 billion Safaricom shares to raise Kshs. 50 billion attracted a 532% subscription level, it was the first initial public offer in which citizens of the East African Community were accorded the same treatment as domestic investors and in 2008, it was the largest public offer in Sub-Saharan Africa.

2009: The Exchange launched its Complaints Handling Unit (CHU) in a bid to make it easier for investors and the general public to forward any queries and access prompt feedback. **December 7:** The NSE marked the first day of automated trading in government bonds through the ATS and uploaded all government bonds on the system. The following were the main highlights of the system: (1) The Central Bank of Kenya remained the Registry for Government of Kenya securities; (2) Trading of Treasury bonds continued to take place at the NSE, and did not cater for Over the Counter (OTC) trading; (3) Stock brokers continued to exercise their role as agents of investors in placing sale and buy trade orders; (4) Cash settlement of all trades through this system would take place through the Kenya Electronic Payment and Settlement System (KEPSS) also known as Real Time Gross Settlement System (RTGS) domiciled at the Central Bank of Kenya; (5) The trading process would be premised on a Delivery versus Payment (DvP) arrangement and (6) Transactions Settlement Cycle would be at T+3, but parties could opt to shorten this period.

2011: July 4, The equity settlement cycle moved from the previous T+4 settlement cycle to the T+3 settlement cycle. Investors who sold their shares, would now be able to get their money three (3)

days after the sale of their shares. The buyers of these shares would have their CDS accounts credited with the shares, at the same time. **July 6:** 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 Nairobi Securities Exchange to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments. **August 1:** The business segments under which our listed companies are placed were reclassified. Equities were now under ten (10) industry sectors. Debt securities including preference shares were under three (3) categories. This reclassification brought The Exchange closer to international best practise and would enable domestic and international investors compare company and sector performance more easily. **September:** The NSE re-converted to a company limited by shares. **November 8:** The NSE together with FTSE International launched the FTSE NSE Kenya 15 and FTSE NSE Kenya 25 Equity Indices. The launch of the indices was the result of an extensive market consultation process with local asset owners and fund managers and reflected the growing interest in new domestic investment and diversification opportunities in the East African region. Designed to enhance and capture the depth of information available on the Kenyan market, the indices were a suitable foundation for exchange traded funds and other index-linked products which could also be utilised by global investors wishing to access this frontier market. These indices run concurrently with the NSE 20 Share and NSE All Share indices. The branded indices gave the NSE the opportunity to use FTSE's expertise to design, manage and distribute branded indices and index related products, domestically and internationally.

2012: March 21: The NSE became a member of the Financial Information Services Division (FISD) of the Software and Information Industry Association (SIIA). **August 8:** The NSE entered into a Memorandum of Understanding with The Somalia Stock Exchange Investment Corporation (SSE), regarding the possibility of co-operating to establish a securities exchange business involving the trading, settlement, delivery of listed securities and other stockbrokerage activities. **September 5:** The NSE Broker Back Office commenced operations with a system capable of facilitating internet trading improving the integrity of the Exchange trading systems and facilitating easy access for the brokers. The entire process of transacting in securities now had minimal manual intervention. **October 3:** NSE together with FTSE International launched the FTSE NSE Kenyan Shilling Government Bond Index. This was the first instrument of its kind in Eastern Africa and gave investors the opportunity to access current information and provided a reliable indication of the Kenyan Government Bond market's performance. It followed the November 8, 2011 launch of the FTSE NSE Kenya 15 and FTSE NSE Kenya 25 Indices. **December 14:** UMEME Holdings Limited cross listed on the Main Investment Market Segment (MIMS) of the Nairobi Securities Exchange after a successful initial public offer in Uganda. 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) on May 15 2009.

December 10: Approval of the registration of nominated advisors to the NSE Growth Enterprise Market Segment (GEMS).

2013: January 22: GEMS was launched. **February 25:** 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 the NSE FISMS. **February 28:** The Board of The Association of Futures Market (AFM), admitted the NSE as an associate member of the Association. The Association promotes and encourages the establishment of new derivatives and related markets. **June 3:** The NSE moved to its new residence outside the central business district located on 55 Westlands Road - The EXchange is a five storied building which has available office space of about 30,000 square feet. **June 25:** The first reverse takeover transaction in East Africa was completed when I&M Holdings began trading on the NSE. A reverse takeover is where a private company's shareholders exchange their shares for those of a public company, making the non-listed company a publicly-traded one. I&M Holdings used the reverse takeover of City Trust which was listed on AIMS to migrate the new firm to MIMS. **June 26:** Moody's Investors Service and the NSE hosted the inaugural East Africa Credit Risk Conference in Nairobi. The conference included detailed presentations from Moody's analysts discussing credit risk topics and exploring Moody's methodological approach to rating Sovereign, Banking and Corporate Finance issuers, complimented by a market overview by the NSE. **July 15:** Home Afrika, a real estate company, made history by being the first company to list by introduction on the Growth Enterprise Market Segment (GEMS). **August 8:** The NSE and the Shanghai Stock Exchange (SSE) entered into a Memorandum of Understanding (MoU). The MoU outlined the Exchanges' areas for future collaboration that included training of human capital, technology development, product development, mutual sharing of information and undertaking joint research projects. It served as the basis of the partnership with SSE to position the NSE to attract more investment funds from Asia. **August 19:** CBA Capital Ltd and Equity Investment Bank Ltd were admitted as trading participants on The Exchange. **September 24:** As a result of its initiatives to increase company listings and diversify asset classes, the panel of distinguished judges for the 2013 Africa investor Index Series Awards, ranked the NSE, the winner of the Most Innovative African Stock Exchange category. The Index Series Awards is held annually at the New York Stock Exchange, to profile African capital market success stories and recognize Africa's best performing stock exchanges, listed companies, investment banks, research teams, regulators, socially responsible companies and fund managers.

2014: April 7: The Deputy President of Kenya launches The EXchange building, the new home of the NSE. **June 26:** NSE was declared fully demutualization by the CMA.

Sources: (1) CMA
(2) NSE
(3) CDSC

Section 7 Products & Performance

The two main traded products at the NSE are equities and bonds. The information below is statistical, covers the period from 2002 to 2013 and includes secondary market and primary market data. The exchange rates used were the prevailing rates at the end of each year under consideration.

7.1 Equity Capital Markets

7.1.1 Primary Market

During the years 2002 – 2013, transactions have included initial public offers, rights issues, offers for sale, outward cross-listings, introductions, mergers, acquisitions, inward cross-listings and delistings. The grand total amount of capital raised is in excess of Kshs 130 billion (USD 1.52 billion).

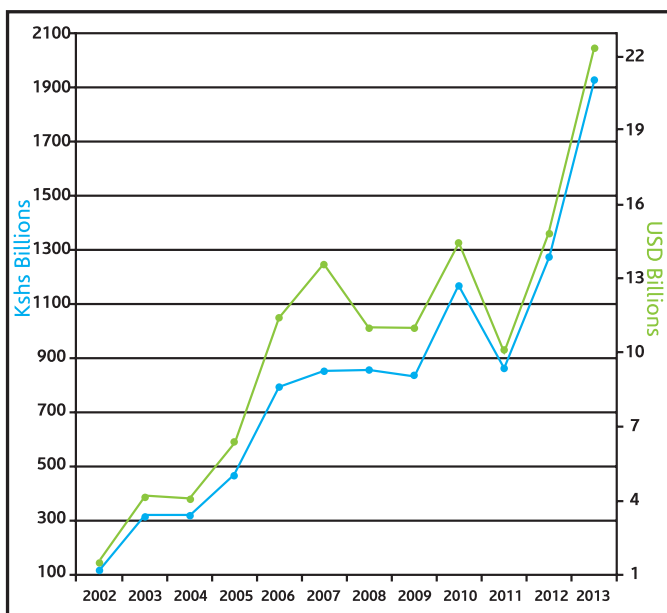
The largest single transaction was in year 2008 - the GOK divestiture in Safaricom Ltd, which raised Kshs 50 billion (USD 583 million). The offer for sale was subscribed 532%. Kshs 50 billion itself was raised from Kenyans and East Africans via over 800,000 applications. The balance of the heavy subscription was from foreign bids.

The heavy oversubscriptions period was in the full calendar years 2006, 2007 and 2008 most without 'bookbuilding'.

Oversubscriptions next returned in the calendar year 2012 mainly during rights issues.

7.1.2 Market Capitalisation

Figure 7.1 – Equity Market Capitalisation



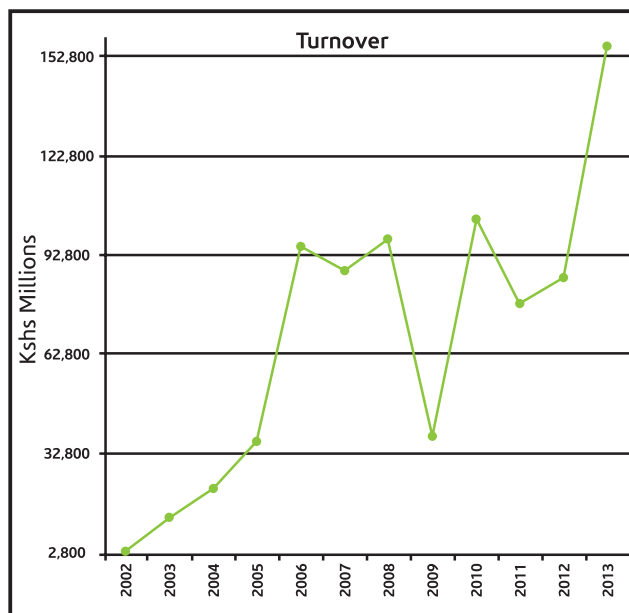
Source: NSE

The market capitalization as of 31 December 2013 was just below Kshs 2 trillion (or USD 23 billion) using the year end rate of Kshs 86 to 1USD.

Between 2002 and 2013 the Kenya Shilling growth in equities market capitalization was 1,614% or on average 146.7% per annum. In USD this was 1,417% or 129% per annum.

7.1.3 Turnover & Equity Turnover Ratio

Figure 7.2 – Equity Turnover



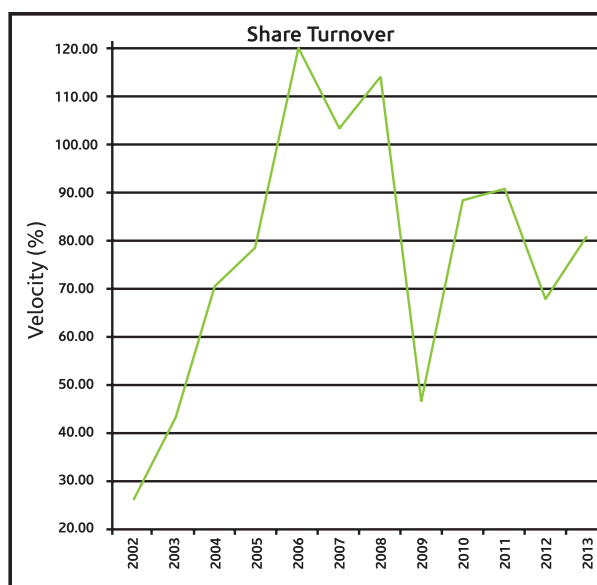
Source: NSE

The turnover improved from Kshs 2.8 billion in 2002 to Kshs 155 billion in 2013 (USD 1.8 billion).

Based on year end closing equity market capitalization, the highest equity turnover ratio was 15.18% in 2006 while it was 11.21% in 2013.

7.1.4 Share Turnover Velocity

Figure 7.3 – Share Turnover Velocity



Source: NSE

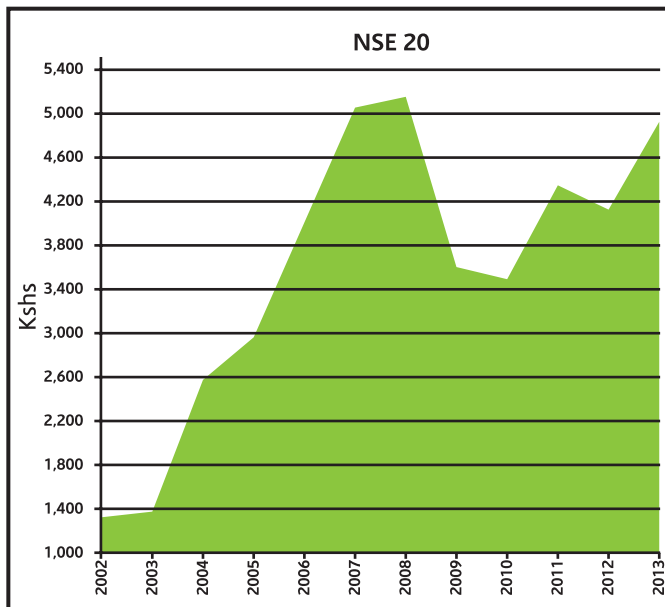
The graph is share turnover velocity (share turnover divided by market capitalization). The highest was 120% in 2006 while 2013 closed at 81%.

The highest number of equity deals was 974,000 in 2006 with shares volume at 7.3 billion. The 2013 number of equity deals was just over 426,000 with shares volume at 7.6 billion.

7.1.5 NSE 20 Share Index Performance

The NSE 20 Share Index is a price weighted Kenya Shilling index calculated as a mean of the top 20 best performing counters. The members are selected based on a weighted market performance for a 12 month period based on market capitalization, sector, number of shares traded, number of deals and turnover.

Figure 7.4 – NSE 20 Index



Source: NSE

The NSE 20 Share Index has increased from 1300 to 4927 between 2002 and 2013 – an increase of 279%.

The highest closing year index was 5200 in year 2008.

7.1.6 FTSE NSE Kenya Equity Index Series

The FTSE NSE Kenya Index Series comprises the FTSE NSE Kenya 15 Index and the FTSE NSE Kenya 25 Index. The indices are designed for the creation of index tracking funds, derivatives and as a performance benchmark. Stocks are selected and weighted to ensure that the index is investable. Stocks are screened to ensure that the indices are tradable. The indices are calculated based on price and total return methodologies, both real time and end-of-day. Index constituents are categorized in accordance with the Industry Classification Benchmark, a global standard for industry sector analysis.

The FTSE NSE Kenya 15 Index, measures the performance of the shares of 15 largest companies by market capitalization at NSE. The Base Value is 100. The highest was 153.08 on 16 June 2008. On 28 February 2013, it was 141.12. On 31 December 2013, it was 91.83.

The FTSE NSE Kenya 25 Index, measures the performance of the 25 most liquid stocks listed on the NSE. Base Value is 100. On 9 June 2008, it was 157.42. On 28 February 2013, it was 144.27. On 31 December 2013, it was 174.27.

Source: FTSE/NSE

7.2 Debt Capital Markets

7.2.1 Primary Market

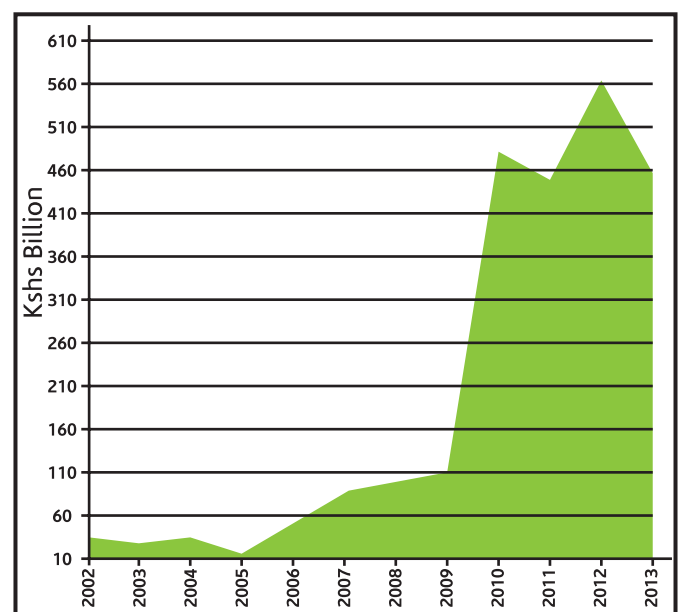
During 2007 – 2013, GOK and corporates raised in excess of Kshs 700 billion (USD 8.17 billion) in bonds that were listed at the NSE.

In the year 2009, Kenya Electricity Generating Company Ltd, the GOK controlled electricity producer, raised Kshs 25 billion (USD 288.88 million). The offer was oversubscribed with over 10,000 applications.

7.2.2 Bonds Turnover

The graph below shows the bond turnover from years 2002 – 2013. There was a significant increase in bond trading in year 2010 because of the introduction of automation of GOK Treasury Bonds trading via the automated trading system at the NSE. Corporate bonds were settled via the CDSC in the year 2011.

Figure 7.5 – Bonds Turnover



Source: NSE

7.2.3 FTSE NSE Kenyan Shilling Government Bond Index

The FTSE NSE Kenyan Shilling Government Bond Index is designed to measure the average performance of eligible GOK bonds with 5 differing maturity bands: (1-3 years), (3-5 years), (5-7 years), (7-10 years) and (over 10 years).

The underlying constituents are based on Kenyan Government Securities quoted on the NSE Fixed Income Securities Market Segment with maturity levels of more than one year and notional amounts above Kshs 5 billion.

The index is designed as a performance benchmark, and for the creation of a wide range of index tracking funds and derivatives. The index is calculated based on price and total return methodologies, on an end-of-day basis.

The base value was set at 100. The Kenya Shilling based index was launched on 3 October 2012. The index moved upwards to a high of 134 in early December 2012 but subsequently dropped to 90.23 as of 28 March 2013. It was 91.283 on 31 December 2013.

Sources: (1) NSE; (2) CDSC; (3) FTSE

Section 8

Nairobi Securities Exchange Limited

The following is selected information on the profile of the NSE, its Board of Directors, senior management and other aspects of operations:

8.1 Base Profile

Table 8.1-Base Profile

No	Item	Details
1	Exchange operations	1920s but formally from 1954
2	Membership	<ul style="list-style-type: none"> • Founding Member of the African Securities Exchanges Association • Founding Member of the East African Securities Exchanges Association • Associate Member of the Association of Futures Markets • Associate Member of World Federation of Exchanges
3	Time Zone	Greenwich Mean Time + 3 Nairobi
4	Address	The EXchange, 55 Westlands Road, PO Box 43633-00100, Tel: 254-20-2831000- Nairobi
5	Website	www.nse.co.ke
6	Trading Days	Monday, Tuesday, Wednesday, Thursday, Friday
7	Trading	Automated Trading System
8	Trading Access	Wide Area Network and Local Area Network (Backup)
9	Access Rights	Trading Participants
10	Trading Hours 9:00 a.m. to 3:00 p.m.	<p>a) During 'pre-open' the system accepts orders (permitted orders). Orders may be amended or cancelled during pre-open. However, no executions take place at this stage.</p> <p>b) During 'open-auction', the system temporarily closes the order book and starts matching orders. It establishes the opening price and determines the orders to be executed according to the rules for the open-auction period.</p> <p>c) During 'regular trading' new orders are continually matched against existing orders in the order book according to the rules for the regular trading session. If an order cannot be executed it is stored in the order book depending on its attributes.</p> <p>d) During 'close trading' the system computes the closing price for each security. During closing the state of the market is displayed as "closing". Once the closing process is complete, the status of the market is displayed as "closed".</p>
11	Trading Currency	Kenya Shilling
12	Key Regulations	<p>a) The Capital Markets Act and the regulations and rules made thereunder;</p> <p>b) Companies Act and the regulations and rules made thereunder;</p> <p>c) Central Depository Act and the regulations and rules made thereunder;</p> <p>d) NSE Listing Manual; and</p> <p>e) NSE Trading Rules.</p>
13	Total No of Securities	129 as of 31 December 2013 – (Equities – 61); (GOK Treasury Bonds – 60); (Corporate Bonds – 9).
14	No of Segments	4
15	No of Indices	5
16	Reports	<p>a) Daily Market Report</p> <p>b) Daily Equity Price List</p> <p>c) Daily Fixed Income Price List</p> <p>d) Monthly Bulletin</p> <p>e) Weekly Equity Statistics</p> <p>f) Weekly Bond Statistics</p> <p>g) NSE Monthly Bulletin</p> <p>h) Quarterly EASEA Exchange Magazine</p> <p>i) Annual Report</p>
17	Data Vending	Yes – 13 authorised data vendors
18	Settlement Procedure	Delivery vs Payment
19	Delivery	Automated Delivery System
20	Settlement	via Clearing House
21	NSE Broker Back Office	Automated back office system that enables senior management to monitor and audit activities through suitable alerts and exception reports;
22	Risk Mitigation	<p>a) Investor Compensation Fund</p> <p>b) Guarantee Fund</p> <p>c) Settlement Limits</p>
23	Policy & Tax Incentives	There are numerous policy and tax incentives that are available in the development of capital markets

Source: NSE

8.2 Equities Profile

The listed shares traded are 'ordinary shares' with par values ranging from Kshs 0.10 to Kshs 100/-.

Table 8.2-Equities Profile

No	Item	Details
1	No of Securities	61 equities as of 31 December 2013
2	No of Segments	3
3	Segments	a) Main Investment Market Segment (MIMS) b) Alternate Investment Market Segment (AIMS) c) Growth Enterprise Market Segment (GEMS)
4	Main Investment Market	10 namely Agricultural; Automobile & Accessories; Banking; Commercial & Services; Segment Sectors Construction & Allied; Energy & Petroleum; Insurance; Investment; Manufacturing & Allied Sector; Telecommunication & Technology.
5	Market Capitalisation	Kshs 1.92 trillion (USD 22.33 billion at Kshs 86 per USD) as of 31 December 2013
6	Indices	a) NSE 20 Share Index b) NSE All Share Index c) FTSE NSE Kenya 15 Index d) FTSE NSE Kenya 25 Index
7	Indices Base	a) NSE 20 Share Index (Base 100:1966) b) NSE All Share Index (Base 100: January 2008) c) FTSE NSE Kenya 15 Index (Base 100: 1 January 2008) d) FTSE NSE Kenya 25 Index (Base 100: 1 January 2008)
8	Big 5 Listees	a) Safaricom Ltd b) East African Breweries Ltd c) Kenya Commercial Bank Ltd d) Equity Bank Ltd e) Barclays Bank Ltd
9	Delivery, Settlement,	Provided by independent company Central Depository and Settlement Corporation Registration Limited in which the NSE has 22.5% shareholding
10	Settlement Procedure	Delivery vs Payment
11	Delivery	Automated Delivery System
12	Settlement	via Clearing House at commercial bank
13	Settlement Cycle	T+3
14	Risk Mitigation	a) Investor Compensation Fund b) Guarantee Fund c) Settlement Limits
15	Taxation	a) Capital gains tax suspended since 1985 b) 5% withholding tax for local investors (including East African investors) c) 10% withholding tax for foreign investors

Source: NSE

8.3 Bonds Profile

Table 9.3-Bonds Profile

No	Item	Details
1	No of Securities	60 GOK Treasury Bonds and 9 Corporate Bonds as of 31 December 2013
2	No of Segments	2 - Normal and Infrastructure
3	Segments	Fixed Income Securities Market Segment
4	Market Capitalisation (value in issue)	Over Kshs 700 billion
5	Types of Listees	a) Government of Kenya Bonds b) Corporate Bonds/Notes c) Preference Shares
6	Mix	Government of Kenya Bonds contributes the majority of the market capitalization.
7	Index	FTSE NSE Kenyan Shilling Government Bond Index Base Date 01st Jan 2012 = 100

8	Immobilisation Level	a) Government of Kenya Bonds is 100% as of 31 December 2012 b) Corporate Bonds is 62.45% as of 31 December 2012
9	Maturity	From 1 year to 30 years
10	Interest Rate	Floating, fixed, combination
11	Yield Curve	Available from NSE Monthly Reports
12	Delivery, Settlement, Registration	Provided by Central Bank of Kenya
13	Settlement Procedure	Delivery vs Payment
14	Delivery	Automated Delivery System
15	Settlement	via Clearing House at Central Bank of Kenya
16	Settlement Cycle	T+3
17	Risk Mitigation	<ul style="list-style-type: none"> • Guarantee Fund - For Corporate Bonds • In majority of the bond transactions, settlement is made directly between buyer and seller.
18	Taxation	<ul style="list-style-type: none"> • 15% withholding tax on interest • 0% withholding tax on interest for infrastructure bonds (with tenor more than 3 yrs)

Source: NSE

8.4 Board of Directors

In line with the Articles of Association of the NSE and Capital Markets Legislation, the Board is made up of six independent and non-executive directors and two directors representing Trading Participants. The Board composition is in compliance with Clause 1.10 of the Guidelines of Corporate Governance Practices by Public Listed Companies in Kenya. The Chief Executive is the only executive director. The Directors have diverse skills and are drawn from various sectors of the economy. The Board meets regularly and at least four times annually. The profiles of the Board and the Chief Executive are as follows:

Mr. Eddy Njoroge – Chairman – Independent and Non-executive Director

Mr. Eddy Njoroge is a Bsc. (Hons) Chemistry/ Biochemistry graduate from Makerere University. He has also undertaken many courses in management, finance, investments and Corporate Governance. Mr. Njoroge has a very rounded experience in the corporate and financial sector.

In 2011, Mr Njoroge was voted the Africa Investor 100 CEO of the year and the Utility CEO of the year. In 2012, the Africa Energy Forum presented him with a life-time award for his contributions to Africa's power sector.

In 2003, coming from the Private Sector, Mr. Njoroge was appointed as the Managing Director and Chief Executive Officer of the government owned Kenya Electricity Generating Company (KENGEN) and spearheaded the transformation of the company from a parastatal to a publicly listed company with a commercial orientation. He retired in June 2013. From 2008-2012, Mr. Njoroge was the President of the Union of Producers and Distributors of Electric Power in Africa, giving him a unique perspective of Africa's Power sector.

Currently, he is the Chairman of the Investment Committee of Auroes East Africa Fund, Member Investment Committee- Africa Renewable Energy Fund, Chairman of Telkom Kenya and a board member of CFC Stanbic Bank, Real Insurance Ltd and Proctor & Allan.

Mr. Njoroge has been decorated by the French Government with the Order National du Merit for his contributions in advancement of power generation in Africa. He was also awarded the Elder of the Burning Spear (EBS) and the Chief of the Burning Spear (CBS); two national honors by the former President of Kenya, His Excellency Mwai Kibaki. He was also awarded the Life Time

Award for his contribution to the power sector in Africa.

Mr. Bob Karina – Vice Chairman - Non Executive Trading Participant Director

Mr. Karina is the Founder and Chairman of Faida Investment Bank and the Vice Chairman of the Nairobi Securities Exchange (NSE) Ltd. He is also the Vice Chairman of the Rwanda Stock Exchange, where he has played a key role in the setup of the Rwanda Stock Exchange (RSE) and serves as the Chairman of the Trading Committee. He is also a Board Member of the Central Depository and Settlement Corporation (CDSC), where he serves as the Chairman of the Finance Committee.

He is an accomplished stockbroker, an information technology professional and a successful businessman. He plays other roles including; Chairman of Asterisks Holdings, Chairman of Norwich Union Properties Ltd., Chairman of the Association of Kenya Stockbrokers (AKS) Nominees Ltd and Founder Member of the Institute of Certified Securities and Investment Analysts (ICSIA). He is also a member of the Institute of Directors (IoD). He also served as the Director and Chairman of the Finance Committee of the National Chamber of Commerce and Industry.

Mr. Karina was instrumental in the establishment of the CDSC, the implementation of the NSE's Automated Trading System (ATS), the Wide Area Network (WAN), and the Broker Back Office (BBO) system; as the Chair of the implementation committees that spearheaded these developments in the Kenyan Capital Markets. He has broad experience in advising institutional and corporate investors, corporate finance consulting and research analysis. He holds a Master of Science (MSc) in Corporate Finance from the University of Liverpool, in the UK.

Mr. Geoffrey O Odundo - Non Executive Trading Participant Director

Mr. Odundo is the Managing Director and CEO of Kingdom Securities Limited, a subsidiary of the Co-operative Bank of Kenya Limited. He took stewardship of the company after having successfully transformed the Bank's wholly owned subsidiaries; Co-op Trust Investment Company limited and Co-operative Consultancy Company Limited into leading assets management and financial advisory companies respectively.

He has been with the Co-operative Bank of Kenya Group for the last fifteen years rising from the position of Fund Manager to Chief Manager, Merchant & Investment Banking and subsequently Managing Director of Kingdom Securities Limited. He holds a

Bachelor's degree in Mathematics & Economics and a Masters in Business Administration (Strategic Management).

Prior to engagement at the company, he spent 9 years in the insurance sector, his last as a Manager in the Employee benefits Division of Britam. He is a past Director/Secretary of Kenya Association of Stockbrokers and Investment Banks (KASIB) and past Chairman on the Financial Standards Committee Kenya Bureau of Standards.

Mr. Hosea Kimutai Kili O.G.W – Independent and Non-executive Director

Mr. Kili holds an M.B.A. in Strategic Management from the Management College of Southern Africa (MANCOSA). He is an Advocate of the High Court of Kenya and Fellow of the Institute of Certified Public Secretaries of Kenya F(CPS(K).

Mr. Kili is the Group Managing Director and CEO of CPF Financial Services Ltd (formerly Laptrust Administration Services Ltd) that administers LAPTRUST D.B Scheme, one of Kenya's largest retirement benefits scheme. He is the current Chairperson of the East & Central Social Security Association (ECASSA), a regional social security body. He has also previously served both as a Managing Trustee of Local Authorities Pension Trust (LAPTRUST) and Deputy General Manager. In these positions, he provided strategic direction and leadership propelling LAPTRUST to receive the Champion of Governance Award by ICPSK and 2nd runners up Company of the Year CEO from the COYA (KIM) as assessed under OPI.

In 2011, Mr. Kili was conferred the Order of the Golden Warrior (O.G.W), a Head of State award for his exemplary service by H.E the President of Kenya.

Dr. Jonathan Ciano - Independent and Non-executive Director

Dr. Jonathan Ciano is the Managing Director and Group CEO of Uchumi Supermarkets and has been with the Group since July 2006. Dr. Ciano crafted and implemented the turnaround of Uchumi, culminating in lifting of receivership in March 2010, and the lifting of its suspension from trading at the Exchange in May 2011. He has had exposure and experience at board and senior management levels locally, regionally (Eastern African Region) and internationally in global/multi-national/cultural Companies for a period of around 25 years.

He previously worked for Shell Group (Executive Director), Kenya Petroleum Refineries and Kenya Power & Lighting Company Ltd. where he facilitated restructuring and their respective turnarounds. Dr Ciano's experience extends to, but is not limited to, managing organizations, corporate strategy development and change programmes implementation, restructuring and reorganization, finance and asset management, contracting and logistics, legal services, information technology, and HR policies/ disciplines and PR/administration.

Dr. Ciano serves as non-executive director in a number of both public and private limited organizations. He has B.Com, MBA (Strategy and Finance), FCPA(K), FKIM, PhD, DB (MKU) and MBS.

Mr. Samuel Njuguna Kimani - Independent and Non-executive Director

Mr. Kimani holds a Bachelor of Science Degree in Civil Engineering and an MBA in Strategic Management both from the University of Nairobi. He is an alumnus of Harvard Business School's Advanced Management Program.

He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He is the CEO, Jamii Bora Bank Ltd after having served as the Deputy CEO of the KCB Group. Prior to this he served at the Central Bank of Kenya as Deputy Chief Banking Manager. He has also served as a Senior Auditor at PriceWaterhouseCoopers.

He is a member of the University of Stellenbosch Executive Education Advisory Board and sits on the board of the Deposit Protection Fund.

Ms. Winnie Nyamute - Independent and Non-executive Director

Ms. Nyamute holds an MBA in Finance from the University of Nairobi and is a Certified Public Accountant (CPA) of Kenya. Winnie is a past member of the Institute of Certified Public Accountants of Kenya (ICPAK) Audit Quality Assurance Committee, a panel member of the ICPAK/NSE/ CMA Financial Reporting (FiRe) Awards Scheme and a member of the Association of Women Accountants of Kenya. In 2003, she was involved in the Capital Markets Authority's curriculum development for the Financial Proficiency Examination. She is a faculty advisor for the Chartered Financial Analyst (CFA) Institute Research Challenge, University of Nairobi, as well as Board Advisor for the Finance Students Association (FISA) of the University of Nairobi and a former member of the Special Interest Group Committee of ICPAK.

She is a lecturer at the University of Nairobi and currently co-ordinates the MBA program.

Ms. Sharon Maviala - Independent and Non-executive Director

Ms. Maviala is an Advocate of the High Court and a Certified Public Secretary both of fifteen years standing and a member of the Institute of Directors. She is currently the Corporate Services Director / Shareholder of Pinnacle Projects (I) Limited, a real estate project management firm.

In her current position she provides strategic, legal and project structuring advice to clients with multi-billion shilling real estate projects. Prior to joining Pinnacle Projects she served as company secretary/chief legal officer for seven years for listed and private companies in the insurance and microfinance sectors respectively. In her early career she practiced as a commercial / contracts lawyer.

Ms. Maviala holds an MBA (Strategic Management) from USIU and an LLB (Honors) from the University of Reading (England).

Mr. Peter Mwangi – Chief Executive

Mr. Peter Mwangi is the Chief Executive of the Nairobi Securities Exchange. He is also a director of the Central Depository and Settlement Corporation Ltd in Kenya, and a Member of the Executive Committees of the African Securities Exchanges Association (ASEA) and the East African Securities Exchanges Association (EASEA).

Before joining the Exchange, Peter was the Managing Director of Centum Investment Company Ltd, the largest publicly quoted investment company in the East African region, from 2004 to 2008. He started his career in the Kenya Air Force where he worked for 5 years and left having attained the rank of Captain.

Peter holds a Bachelor of Science Degree in Electrical Engineering from the University of Nairobi. He is a member of the CFA Institute, the CFA Society East Africa, Institute of Certified Public Accountants of Kenya, Institute of Certified Public Secretaries of Kenya, Institute of Directors of Kenya and the Kenya Institute of Management.

8.5 NSE Committees of the Board

The Committees of the NSE Board are: Disciplinary & Compliance; Audit, Risk & Corporate Governance; Trading and Surveillance; Finance and Manpower; Business Development and Public Education; Listings and Admissions; and Technology.

Membership is drawn from a diverse range of professionals from the corporate sector. The Chairman of these committees is a Director of the NSE. The permanent committees and their membership is set out below.

1. Disciplinary & Compliance Committee

- i. Hosea Kili: Chairman
- ii. Winnie Nyamute
- iii. Rose Mambo
- iv. Karim Anjarwalla
- v. Sharon Maviata
- vi. Peter Mwangi

2. Audit, Risk & Corporate Governance Committee

- i. Winnie Nyamute- Chairperson
- ii. Hosea Kili
- iii. Lucas Otieno
- iv. Isaac Onyango
- v. Peter Mwangi

3. Trading & Surveillance Committee

- i. Bob Karina – Chairman
- ii. John Odhiambo
- iii. Rose Mambo
- iv. John Kirimi
- v. Moses Lopokoityit
- vi. Joseph Kahenya
- vii. Job Kihumba
- viii. Peter Mwangi

4. Finance & Manpower Committee

- i. Jonathan Ciano: Chairman
- ii. Geoffrey Odundo
- iii. Sam Kimani
- iv. Andre DeSimone
- v. Peter Mwangi

5. Business Development & Public Education Committee

- i. Sam Kimani: Chairman
- ii. Sharon Maviata
- iii. Jonathan Ciano
- iv. Job Kihumba
- v. Ewart Salins
- vi. Christine Mweti
- vii. Edward Burbidge
- viii. Peter Mwangi

6. Listing & Admissions Committee

- i. Edward Njoroge: Chairman
- ii. Jonathan Ciano
- iii. Geoffrey Odundo
- iv. Winnie Nyamute
- v. Bob Karina
- vi. Peter Mwangi

7. Technology Committee

- i. Geoffrey Odundo - Chairman
- ii. Bob Karina
- iii. Kris Senanu

- iv. Rose Mambo
- v. Stanley Ngaine
- vi. Peter Mwangi

8.6 Senior Management

NSE has the following 5 senior managers:

Mr. Peter Mwangi - Chief Executive

See above.

Mr. Andrew Wachira – Head of Compliance & Legal

Mr. Wachira is the Head of Compliance & Legal at the Nairobi Securities Exchange. He joined the Exchange in the year 2000 as an officer in the Compliance & Legal Department and rose through the ranks and was appointed to head the department in 2009.

Andrew, a lawyer by profession, holds a Bachelor of Law Degree from the University of Nairobi and is an Advocate of the High Court of Kenya. He is a member of the Law Society of Kenya.

Mr. Donald Ouma- Head of Market & Product Development

Mr. Ouma has been the Head of Market and Product Development at the Nairobi Securities Exchange (NSE), since May 1 2010. His responsibilities include managing the brand of the Nairobi Securities Exchange, the marketing of the NSE's products and services, investor relations, public relations and the development and launch of new products and services.

Donald is also in charge of the Exchange corporate social responsibility initiatives. Prior to becoming the Head of Market and Product Development, Donald was the Manager Policy Research and Analysis. Donald also coordinates the affairs of the Secretariat of the African Securities Exchanges Association (ASEA), headquartered at the Nairobi Securities Exchange.

Donald holds a MBA from the Melbourne Business School (Australia) and a BSc. in Chemical Engineering from the University of Maine at Orono (USA).

Mr. Caleb Musau Kivuva – Head of Operations & Technology

Mr. Kivuva is the Head of Operations & Technology at the Nairobi Securities Exchange (NSE) since 02 April 2013. He joined the NSE from GrabIT Limited where he served as Director, IT Assurance & Advisory. Caleb holds a First Class Degree in Education (Mathematics & Physics) from Kenyatta University and is currently pursuing a Master of Business Administration Degree at the University of Nairobi.

He is a Certified Information Security Manager, a Certified Information Systems Auditor, a SAP ERP (Finance) Functional Consultant and a Microsoft Certified Professional.

Ms. Jane Wambui Kiarie - Head of Finance & Strategy

Ms. Kiarie joined the NSE as Head of Finance & Strategy on November 5, 2012 where she is in charge of the Finance, Strategy, Administration, Human Resources and Procurement departments with the aim of ensuring prudent management and control of NSE's resources.

Prior to joining the NSE, Jane had accumulated four years experience as a Financial Controller/Head of Finance and Administration in various organizations where she was also in charge of the Finance, Human Resources, Administration and

IT departments. Jane has also worked as an Associate Consultant with PricewaterhouseCoopers Limited, Kenya in Advisory Consulting within the Accounting and Operations Effectiveness line of service. In addition, she has worked with Deloitte (both in Kenya and the USA) for about 11 years in audit where she gained valuable experience providing auditing, accounting, compliance, internal controls reviews, risk identification and management, and financial reporting and management services across many sectors of the economy.

Jane holds a Master of Business Administration Degree in Strategic Management from the United States International University and a Bachelor of Science Degree in Mathematics (Statistics Major) from the University of Nairobi. She is also a Certified Public Accountant of Kenya and a member of the Institute of Certified Public Accountants of Kenya.

8.7 Employees

NSE has a total of 38 who operate within the following departments:

- a) The Operations and Technology Department;
- b) The Compliance and Legal Department;
- c) The Marketing and Product Development Department; and
- d) The Finance and Strategy Department.

The NSE offers a variety of benefits to its employees in addition to group personal accident scheme, bonus scheme, long service award and pension scheme.

8.8 Premises

NSE has operated from 1st Floor, Nation Centre, Kimathi Street, Nairobi for many years. Following the acquisition of its own modern five storey building on 55 Westlands Road, Nairobi in December 2012, NSE moved its entire operations in June 2013. NSE renamed the building to "The EXchange". NSE also maintains an independent offsite premises as a standby location for trading/ backup purposes in Westlands, Nairobi.

8.9 Technology

The Automated Trading System is the core equities and bonds trading system owned and controlled by Nairobi Securities Exchange Limited. It was acquired from an international software vendor, went live in September 2006 and has been maintained through a service level agreement.

The delivery, settlement and registration system i.e. the Central Depository System is owned and controlled by CDSC Limited. It was acquired from the same international software vendor in 2004 and has been maintained through a service level agreement.

The NSE, Kenya Association of Stockbrokers and Investment Banks, CMA and CDSC launched the NSE Broker Back Office (BBO) System in year 2012. The BBO System automates the back office which is connected with the trading platform and the clearing and settlement platforms – minimizing manual intervention. The BBO System has the following benefits:-

- a) It automates the back office and enables senior management to monitor and audit activities through suitable alerts and exception reports;

- b) It permits internet access to the system, helping Trading Participants expand their services across all forty seven (47) counties;
- c) It supports initial public offers, portfolio management and complaints processing;
- d) It supports internet and mobile phone trading.

The BBO System was acquired from another international software vendor and is being maintained through a service level agreement.

Other systems include the new derivatives system.

8.10 Financials

Refer to Annexure A - Nairobi Securities Exchange Limited - Financial Information which includes Annexure A1 - Management Accounts for the Four Months Period Ended 30 April 2014 and Annexure A2 - Reporting Accountants' Report for 5 years ended 31 December 2013. For a snapshot refer to Section 3.1 - Financial Data .

In the year 2013, NSE has had the following key sources of income:

- (1) Equities Transaction Levy
- (2) Fixed Income Transaction Levy
- (3) Annual Listing Fees
- (4) Initial Listings & Additional Listings
- (5) Interest Income
- (6) Data Vending
- (7) Broker back office subscription
- (8) Rental income
- (9) Market access.

The focus of the NSE up to and including the year 2013 was not on maximizing profits and dividend payouts but more on service delivery of its core mandate to its many stakeholders. Following its Offer, the above focus is set to change as NSE will include 'creating shareholder value' amongst its core deliverables. This change in focus is not uncommon for exchanges that have demutualized and/or self listed.

Section 9

Future Outlook

Capital markets are subject to constant transformation. Over the next decade and beyond, investors will continue to become high frequency traders and more technologically savvy – this will require more products, further efficiency, ease of access, flexibility, speed and transparency. NSE prepares strategic plans to accommodate the changing environment. The following are some of the changes expected in capital markets in the coming years subject to implementation:

9.1 Capital Markets Master Plan

On 16 October 2012, a committee constituted by the Capital Markets Authority, commenced work on development of the Capital Markets Master Plan. This plan seeks to be transformative and linked into Kenya Vision 2030. This plan will set the agenda for implementation of various far reaching strategic initiatives which are expected to grow capital markets more rapidly. The plan has since been completed.

9.2 Legislation

Occasionally, the CMA and The National Treasury continue to introduce new legislation.

9.3 Equity Capital Market Initiatives

The following are specific initiatives amongst others that are expected to grow the equities market:

9.3.1 Growth Enterprise Market Segment

On 22 January 2013, NSE launched this new segment which is to enable firms to benefit from price discovery and raise ongoing capital, while benefitting from increased profile and liquidity within a regulatory environment designed specifically to meet their needs. This segment is expected to bring more listings, more investors and more trading activity. NSE has licensed Nominated Advisors and authorised representatives who will be responsible to the NSE for providing advisory services on this new segment. The first listing has already been achieved.

9.3.2 Dematerialization

In November 2013, CDSC launched full dematerialization of all equities securities into the CDS system and eliminate share certificates from the market. This could bring forward many new shareholders into the CDS system, increase shareholder contact during corporate actions and increase trading activity.

9.3.3 Cross Border Trading

There are plans by NSE and CDSC to implement more efficient and effective cross border trading, delivery, settlement and electronic registration. This could bring forward new cross border investors, increased cross listings, increase orders on cross listed equities and increase trading activity.

9.3.4 Smart Order Routing

Smart order routing involves the use of technological and algorithmic ability to achieve best execution of trades while minimizing market impact. This could lead to increased orders, higher number of trade executions, increased turnover and liquidity.

9.3.5 Settlement Cycle

NSE, CMA and CDSC have successfully reduced the equities settlement cycle over many years from T+14(+) to T+3 (year 2011). This led to the upgrading of the standards of the NSE to international benchmarks. NSE (and CDSC and CMA, as necessary) is exploring ways of reducing the settlement cycle further and even introducing day trading/same day settlement. This may include the introduction of straight through processing techniques. This could lead to increased interest from high frequency traders, increased orders, higher number of trade executions and increased turnover and liquidity.

9.3.6 Margin Account

When settling a trade the buyer can pay the purchase price in full or in a margin account purchase, the buyer pays a portion of the

purchase price and the stockbroker/intermediary lends the difference. The buyer in turn pays interest on the stockbroker's/intermediary loan in addition to the usual commission fees. For collateral, the stockbroker/intermediary holds onto the securities. Income earned from the securities are used to help offset the interest payments. Trading on margin allows for buying power by borrowing a major portion of the investment amount. This could lead to increased interest from high frequency traders, increased orders, large order sizes, higher number of trade executions and increased turnover and liquidity.

9.3.7 Short Selling

Short selling (or "selling short") is a technique used to try to profit from the falling price of a stock - involves precise timing and goes contrary to the overall direction of the market. Some short-sellers target the following types of companies:

- (1) small cap corporates that have been driven up by momentum investors, especially companies that are difficult to value;
- (2) corporates whose P/E ratios are much higher than can be justified by their growth rates;
- (3) corporates with weak products and services;
- (4) corporates that have new competition coming;
- (5) corporates with weak financials and
- (6) corporates that depend too heavily on a few products.

This could lead to increased interest from high frequency traders, increased orders, higher number of trade executions and increased turnover and liquidity.

9.3.8 Securities Lending

Securities lending refers to the lending of securities by one party to another under a legal and regulated environment and can be used to:

- (1) to facilitate settlement of a trade;
- (2) to facilitate delivery of a short sale;
- (3) to finance the purchase of the security, or
- (4) to facilitate a loan to another borrower who is motivated by one of the above requirements.

This could lead to increased interest from high frequency traders, increased orders, higher number of trade executions and increased liquidity.

9.3.9 Upgrade Systems & Infrastructure

NSE has plans to upgrade the core ATS in order to introduce new functionality and access. There are plans to upgrade the WAN infrastructure setup to reduce latency. This could lead to increased transparency, increased information flows, increased speed of placing orders and executions and increased turnover and liquidity.

9.3.10 New Listings

NSE has a target of new listings every year on the various segments and has various initiatives to achieve the target. New listings have had a positive impact on increased turnover which in turn can increase market liquidity indicators.

9.3.11 Internet Trading

NSE has plans to implement internet trading as a key component of the capital markets evolution. It is believed this will become a significant percentage of the daily traded turnover in future years. This could lead to increased transparency, increased information flows, increased speed of placing orders and executions and increased turnover and liquidity.

9.3.12 Diaspora (Non Resident Kenyans)

Following the introduction of internet trading, NSE has marketing plans to target more direct involvement from the diaspora (estimated in the hundreds of thousands) in the activities of the NSE. This could lead to increased orders and executions and increased turnover and liquidity.

9.3.13 Mobile Phone

NSE has plans to further enhance the participation of more

youthful investors in the use of the mobile phone for trading activities at the NSE. This could lead to increased orders and executions, increased speed and increased turnover and liquidity.

9.3.14 Foreign Investor Diversification

NSE has plans to market the activities of the NSE to a wider international investor base including China, India and other Far East countries. This could lead to large orders, increased executions and increased turnover and liquidity.

9.3.15 Active Trader

NSE has plans to carry out public education campaigns on the 'active trader approach' to investing. This could lead to more traders, more orders, more executions and increased turnover and liquidity.

9.3.16 Market Maker

NSE is keen to admit trading participants to act as market makers for equity securities. A market maker is a dealer who maintains a firm bid or offer and is available to trade a stated security on their own account at any time at the quoted market prices. This could lead to more orders, more executions, increased turnover and liquidity.

9.3.17 Regional Operator

NSE is interested to operate exchanges in Somalia, Southern Sudan, Democratic Republic of Congo and Burundi. This could lead to more cross border business.

9.3.18 Counties Participation

NSE is interested to increase participation from residents in the counties in Kenya and has planned marketing initiatives. This could lead to more investor diversification, more orders and trade executions.

9.3.19 Free Float

NSE is interested to increase the amount of free float of its listed securities and will engage with listed corporates. This could lead to more trading activity.

9.4 Debt Capital Market Initiatives

NSE wishes to increase the number of secondary market transactions and will explore ways to ensure more public participation. The following are specific initiatives amongst others that are expected to grow the debt market:

9.4.1 Market Maker

NSE is keen to license authorised securities dealers (under the current regulations) to act as market makers for debt securities. Market maker is a dealer who maintains a firm bid or offer and is available to trade a stated security on its own account at any time at the quoted market prices. This could lead to more orders, more executions, increased turnover and liquidity.

9.4.2 Corporate Bonds

NSE will play a role in marketing for increased corporate bond listings on the Fixed Income Securities Market Segment. This could bring forward more listings.

9.4.3 Municipal Bonds

NSE intends to engage the county governments to use the NSE for raising development capital via the use of municipal bonds. This could bring forward more listings and more trading activity.

9.4.4 Shariah Compliant Bonds

NSE will play a role in lobbying for the regulatory framework and encourage listings of these securities also known as sukuks. This could bring forward more listings.

9.5 New Market Initiatives

The following are other specific initiatives amongst others that are expected to develop new markets, increase listings and trading activity:

9.5.1 Real Estate Investment Trusts

NSE has made progress towards future listing of Real Estate Investment Trusts (REITs). A REIT is a regulated investment vehicle that enables persons to collectively contribute money as consideration for the acquisition of rights or interests in a trust with the intention of earning profits or income from real estate as the underlying assets of the trust. There are Development REITs and Investment REITs.

9.5.2 Asset Backed Securities

NSE will play a role in encouraging listings of these securities. An asset backed security is a security whose value and income payments are derived from and collateralized (or "backed") by a specific pool of underlying assets.

9.5.3 Listed Unit Trusts / Exchange Traded Funds

NSE intends to engage the managers of existing unlisted unit trusts to seek listing on the NSE. NSE wishes to support the listing of exchange traded funds – i.e. an investment fund traded on the NSE. The investment funds can hold different types of securities. Some funds track specific indices.

9.5.4 Derivatives Exchange

NSE has plans to introduce a derivatives exchange. This is a central financial exchange where people can trade standardized futures and options contracts; a contract to buy or sell specific quantities of a commodity or other underlying assets at a specified price with delivery set at specified time in the future – these contracts fall into the category of derivatives.

9.5.5 Mining Sector

NSE is interested to tap the mining sector corporates that may require to raise capital for their activities. The Ministry of Mining has appointed the NSE to chair the taskforce that has been appointed to establish a mining and minerals exchange to serve the region.

9.6 Miscellaneous Initiatives

The following are other NSE related initiatives:

9.6.1 Information Product Sales

NSE intends to widen the products for sales, enlist more data vendors including international ones and introduce new subscription fees for daily data.

9.6.2 Marketing Campaigns

NSE will implement targeted marketing campaigns to increase awareness of the activities of the NSE.

9.6.3 Media Briefings/Forums

NSE will regularly call media briefings to announce performance of the NSE and progress of the various initiatives.

9.6.4 Indices

NSE will consider introducing more indices to help investors more closely monitor the performance of their investments.

9.6.5 World Federation of Exchanges

NSE is currently an Affiliate Member of the World Federation of Exchanges but there are plans to achieve full membership.

9.6.6 Brand Management

NSE has plans to enhance the NSE brand through various targeted initiatives.

9.6.7 Institutional Capacity

NSE has plans to enhance internal capacity to implement the various initiatives it has planned.

Source: NSE, CMA

Section 10

Selected Macroeconomic Indicators

The following is selected information on macroeconomic indicators on Kenya as background to making an investment decision:

10.1 Gross Domestic Product

Provisional estimates of Gross Domestic Product (GDP) for Third Quarter 2013 by Kenya National Bureau of Statistics, show that the country's economy maintained a moderate growth of 4.4 per cent in the third quarter of 2013 compared to 4.5 per cent recorded during a similar quarter of 2012.

It is believed that although Kenya's economic growth prospects are improving, its limited economic diversification, narrow export base, low per-capita income and infrastructure deficit, weighs on productivity and competitiveness and overall constrains potential growth to 8%-10%. However, there are targets of 6% - 7% in the near term.

New information in the public media is emerging as to the possible rebasing of Kenya's GDP in year 2014 to take into account new factors that may improve the GDP and improve the per capita income.

10.2 Medium Term Debt Management Strategy

Source: Report dated February 2014 by The National Treasury
The strategy includes: 60% net domestic borrowing, 40% net external borrowing to finance the central government budget and issuance of medium term domestic debt. There is an intention to lower the nominal public debt to GDP ratio to below 45 per cent and maintain inflation at 5 percent. One of the objectives of the Euro Bond to be issued in FY2013/2014 is to act as a benchmark for the corporates who may wish to access external funding. The stock of public and publicly guaranteed debt is projected at Kshs 2.23 trillion or 53.3 percent of GDP in nominal terms as at end June 2014 of which 52% is projected to be domestic debt and 48 percent external debt.

The following is sourced from the Central Bank of Kenya website:

10.3 Inflation

The overall 12-month inflation rate in June 2014 stood at 7.39 percent. The rate for February 2014 was 6.86 percent down slightly from January 2014, the sixth month since September 2013 it has dropped. However, the rate was 4.44 percent in February 2013.

10.4 Central Bank Rate, Interest Rates

(1) On 14 September 2011, the Central Bank Rate was increased to 7.00% from 6.25% previously. By 11 January 2012 the rate had sharply moved to 18.00% which remained the same till 5 June 2012 when longer term auction deposits were introduced to further assist in liquidity management. On 5 July 2012, on the back of a high current account deficit of 11.3% in May 2012, the rate was dropped to 16.5%. Since, 10 January 2013, on the back of a more positive outlook on the economy the rate had gradually dropped to 9.5%. The current rate is 8.5%.

(2) The 91-day Treasury Bill rate in June 2014 increased to over 11% p.a.

10.5 Exchange Rate

April 10, 2014: The Kenya Shilling traded at an average of Kshs 86.56 (January 31, 2013: Kshs 87.58) per USD and Kshs 119.81 (January 31, 2013: Kshs 117.93) per Euro. Sterling Pound was Kshs 145.24 and it was Kshs 85.05 per 100 Japanese Yen. In the East African Community region, the Kenya Shilling traded at an average of Uganda Shilling 29.27, Tanzania Shilling 18.83, Rwanda Franc 7.86 and Burundi Franc 17.91.

10.6 Balance of Payments

Kenya's overall balance of payments position declined to a surplus of USD 685 million in the year to December 2013 from a surplus of USD 1,261 million in the year to December 2012. This is attributed to a reduction in the capital and financial account surplus. The cumulative current account deficit as a proportion of GDP reduced to 9.10 percent in the year to December 2013 from 10.45 percent in the year to December 2012.

The current account balance narrowed from a deficit of USD 4,254 million in the year to December 2012 to a deficit of USD 3,702 million in the year to December 2013. The narrowing of the current account balance is attributed to a decline in the merchandise account deficit and an improvement in the services account surplus.

Section 11

Material Risks

The future operating and financial performance of the NSE is subject to the material risks as described below which should not however be regarded as exhaustive of all potential risks and uncertainties that may impact the NSE. Risks when they materialise can impact the share price and the market value of the NSE. An investor interested in the shares of NSE should consider carefully the material risks below, together with all other information contained in this Prospectus and any other information referenced or generally available before making an investment decision. NSE oversees risk management through its Audit, Risk & Corporate Governance Committee.

11.1 Country Risks

11.1.1 Frontier Market

Kenya is currently classified as "frontier". Over the past two decades, frontier markets have become increasingly relevant in the global economy and can complete investors' global exposure and improve diversification. But investing can be challenging due to amongst other factors, lower market capitalization, lack of adequate liquidity, high volatility and lack of enhanced products and services. The NSE intends to seek upgrade to "secondary emerging" status in the future which could have the impact of increasing business at the NSE.

11.1.2 Sovereign Credit Rating

Kenya's credit rating by Standard & Poor's Rating Services and as of November 2013, the rating was affirmed as "B+/Stable/B". The credit rating can change from time to time and can therefore have some impact on investment in the country. This can affect macro-economic indicators which can impact the listed corporates at the NSE and therefore impact the operations of the NSE.

11.1.3 Single Country Exposure

The NSE derives the majority of its revenues from operations within Kenya. NSE's revenues are not adequately diversified to mitigate against fall in revenues in Kenya. NSE is exploring initiatives to diversify its revenues including operating exchanges in other neighbouring countries.

11.1.4 Politics

The democratic environment prevailing in the country, underpinned by the implementation of what is widely believed to be a progressive Constitution, coupled with the support from the international community reduces the risk of any significant political unrest. It is underlined however that no matter what systems, controls and procedures businesses may design to mitigate political risk, there can be no assurance that any adverse political events will not have an adverse impact on the NSE's business.

11.1.5 Macroeconomics

Specific issues include growth, inflation, unemployment, interest rates, exchange rates, money supply, trade deficits and budget deficits. Different monetary and fiscal policies affect the aggregate behaviour of the population which then affects macroeconomic performance. These policies change from time to time based on domestic events as well as regional and international events. Reduced volatility in key macroeconomic indicators can assist the growth prospects

and operational results of NSE. NSE has put in place a business strategy to minimise NSE's exposure to adverse economic conditions, however, this cannot provide an assurance that adverse economic conditions cannot hamper NSE's performance.

11.2 Operations Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the NSE's processes, personnel, technology and infrastructure and from other unforeseen external factors. The focus of the NSE is to sufficiently manage operational risk and hence minimize possible financial losses and damage to market confidence. Senior management of the NSE is tasked with implementation of the necessary controls to minimize any interruption of business. Key risks include:

11.2.1 Regulatory Framework

The operations of the NSE is affected by:

- (1) international securities regulatory standards;
- (2) intentions of GOK as regards the industry;
- (3) the capital markets regulatory framework created and overseen by the industry regulator, the Capital Markets Authority and
- (4) regional capital markets development.

The regulatory framework is subject to change as capital markets continues to evolve and although NSE may be consulted for the changes, the NSE cannot determine the outcome in the final legislation or the time period it takes to enact new legislation. Some legislation may be beneficial to NSE but sometimes it may be adverse - either because of the contents or the time taken to implement the legislation.

11.2.2 Competition

The NSE is the only approved securities exchange in Kenya but this could change and affect the NSE should the Capital Markets Authority approve more securities exchanges in Kenya. The NSE is aware of such a possibility so it has continued to build the brand and put in place a dynamic strategy to ensure continued competitiveness.

11.2.3 Systems Support

Amongst other systems, the NSE is the license holder of two particular critical systems – the Automated Trading System and the Broker Back Office System - from two different international software technology firms. NSE is in constant touch with these firms to ensure continued support and will continue to have the systems updated in order to meet stakeholders' expectations.

11.2.4 Reputation

The integrity of the equities and bonds market also depends on the reputation of the NSE. Adverse reports touching on the CMA, the NSE, the NSE listed corporates or the market intermediaries can affect the NSE brand, investors' appetite to trade and hence the equities and bonds turnover. The NSE has a proactive approach which includes training and other such initiatives aimed at building the capacity of market intermediaries, with the objective of eventually licensing of practitioners. NSE also has a media monitoring mechanism to get timely feedback from the market so that issues can be addressed at the earliest opportunity.

11.2.5 Trading Intermediaries

The NSE relies on trading intermediaries to provide services to investors and conduct business at the NSE. Various intermediaries have had challenges in the past that have adversely impacted the NSE, reputation and financial. The NSE has since worked with the CMA where necessary, to boost standards of corporate governance in the intermediaries via numerous regulations. This includes regular in-depth inspections, regular reporting and publishing of financial performance and use of risk-based supervision approach. However, there can be no assurance that present or future intermediaries will have no adverse impact on NSE.

11.2.6 Strategy

Strategic risk is the risk of adverse impact on current and prospective earnings or capital arising from incorrect or inappropriate business decisions, improper implementation of decisions or lack of responsiveness to industry change. The NSE is managing strategic risk through the regular monitoring and updating of its 5 year strategic plan based on new market dynamics.

11.2.7 Compliance

Compliance risk is the risk of non-compliance with regulatory guidelines. Regulatory risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with laws, rules, regulations, prescribed practice, or ethical standards issued by the regulator from time to time. NSE has in place a compliance function which is responsible for continuous review and monitoring to ensure compliance at all times.

The NSE is exposed to tax risk which is risk associated with changes in taxation rates or law, or misinterpretation of the tax laws and regulations which could have an adverse impact on the NSE. Taxes introduced by GOK on listed securities may have an impact on the NSE.

11.3 Financial Risk

The main business risks faced by the company in respect of its principal non-derivative financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. There are policies for managing these risks. Refer to Annexure A2 – Reporting Accountants' Report for more details.

11.3.1 Interest Rate

Interest rate risk arises primarily from investments in fixed interest securities and bank borrowings. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. The NSE monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 5 percentage points in all yield curves of financial assets.

11.3.2 Foreign Exchange & Price

The NSE undertakes certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise however these are minimal.

11.3.3 Credit

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the NSE. Credit risk arises from deposits with banks, as well as trade receivables. The NSE assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Bank balances, treasury bills and term deposits are fully performing. Trade receivables under the fully performing category are expected to be recovered in full as the debtors are paying their debts as they continue trading.

11.3.4 Liquidity

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

11.3.5 Capital Management

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

11.4 Investment Risk

11.4.1 Capital Markets Development

There are various initiatives ongoing in the capital markets, some under the full control of the NSE and some not. Due to the complex nature of these initiatives some maybe implemented some may not. Some may be implemented within a calendar year while some may take many years.

11.4.2 Offer Price

This can be affected by GDP, equity and bond market capitalization to GDP ratio, equity and bond turnover ratio, level of interest rates and various other factors. There can be significant variation between projected and actual indicators which can change the investment environment. No adverse extra-ordinary or exceptional events were included in the assumptions however these are possible. This was concluded a number of weeks before the date of the Prospectus and volatility can affect the price of the Offer Shares. The share price of the NSE should be considered volatile due to the unpredictable nature of investor behavior towards the annual earnings potential of the NSE.

11.4.4 Liquidity

The NSE is listing on the Main Investment Market Segment of The Exchange which has the maximum number of interested investors including local and foreign sophisticated /institutional investors. This can enhance liquidity. The actual level of free float may be lower than projected which can affect liquidity. As a result, shareholders and investors are cautioned that the NSE Shares may experience moderate illiquidity.

11.4.5 Currency

Trading and payment of dividends is denominated in Kenya Shilling and as a result those investors whose principal currency is not the Kenya Shilling, are exposed to foreign currency rate risk.

HAMILTON HARRISON & MATHEWS

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WHEN REPLYING PLEASE QUOTE OUR REF:

27/N0190/71

YOUR REF:

9 July 2014

The Directors
Nairobi Securities Exchange Limited
The Exchange
55 Westlands Road
P.O. Box Number 43633
NAIROBI-00100

Dear Sirs

RE: INITIAL PUBLIC OFFERING OF 66,000,000 ORDINARY SHARES OF KSHS.9.50 EACH AND THE SELF-LISTING OF THE ENTIRE ISSUED SHARE CAPITAL OF NAIROBI SECURITIES EXCHANGE LIMITED

We have acted as legal advisors to the Nairobi Securities Exchange Limited (the "NSE") in relation to an Initial Public Offer of 66,000,000 ordinary shares of Kshs 9.50 each (the "Offer") and to the self-listing of the entire issued share capital of the NSE on the Main Investment Market Segment of the Nairobi Securities Exchange (the "Self-Listing").

We, Hamilton Harrison & Mathews, are Advocates of the High Court of Kenya, practising and qualified as such to practice in Kenya, and to advise upon the laws of Kenya.

Unless otherwise stated or the context otherwise requires, words and terms defined in the Prospectus dated 9th July 2014 issued by the NSE in relation to the Offer (the "Prospectus") bear the same meaning in this Opinion.

1. DOCUMENTS

For this Opinion, we have examined originals or copies certified to our satisfaction of the following documents:

- 1.1 the certificate of incorporation of the NSE, and its memorandum and articles of association in force as at the date of the Prospectus;
- 1.2 the resolutions of the shareholders of the NSE passed at an Annual General Meeting on 25th April 2014, *inter alia*, approving an increase in the authorised share capital of the NSE, the consolidation of the authorised share capital of the NSE, the conversion of the NSE into a public company, the adoption of the new articles of association of the NSE and the Offer;

- 1.3 the Prospectus; and
- 1.4 such other records and documents as we have considered necessary and appropriate for the purposes of this Opinion.

2. ASSUMPTIONS

For the purposes of this Opinion, we have assumed:

2.1 Accuracy of information supplied

All written information supplied to us by the NSE and by its officers and advisors is true, accurate and up to date.

2.2 Authenticity of copies

The authenticity of documents submitted as originals, the conformity with the original documents of all documents submitted as copies and the authenticity of the originals of such latter documents.

2.3 Signatures

The genuineness of all signatures on all documents.

2.4 Due execution by other parties

All agreements and other relevant documents have been duly authorised, executed and delivered by the parties to those documents other than the NSE.

2.5 Factual matters

With respect to matters of fact, we have relied on the representations of the NSE and its officers and advisors.

3. OPINIONS

In our opinion, based on the information made available to us by the NSE and subject to (i) the foregoing; (ii) section 2 of this Opinion; (iii) any matters set out in the Prospectus; (iv) the reservations set out below; and (v) any matters not disclosed to us:

- 3.1 the NSE is a company limited by shares, duly incorporated in Kenya pursuant to the provisions of the Companies Act (Chapter 486 of the Laws of Kenya), with power to execute, deliver and exercise its rights and perform its obligations pursuant to the Offer, and such execution, delivery and performance have been duly authorised by appropriate legal action;
- 3.2 all material licences, permits and consents of or with any governmental or public bodies or authorities of or in Kenya required in connection with the business of the NSE have been obtained in proper form and are in full force and effect;
- 3.3 all rights and obligations of the NSE contemplated by the Offer constitute valid and binding rights and obligations enforceable according to their terms;
- 3.4 the existing share capital of the NSE has been authorized and issued in conformity with all applicable laws and has received all necessary authorizations;

- 3.5 the transactions contemplated by the Offer and the performance by the NSE of its obligations thereunder will not violate any laws of Kenya;
- 3.6 the NSE continues to maintain its statutory books at its registered office;
- 3.7 the NSE is the legal and beneficial owner of the immovable property described in section 13.11 of the Prospectus;
- 3.8 save for the contracts disclosed in the Prospectus in sections 13.11, 13.12 and 13.14 and contracts with the advisors engaged by the NSE in relation to the Offer, the NSE has not entered into any material contracts (within the meaning set out in paragraph 14 of the Third Schedule to the Companies Act i.e. contracts not entered into in the ordinary course of business carried on by the NSE) and there is no other agreement or arrangement concerning the Offer;
- 3.9 to the best of our knowledge, after due enquiry, save for the claims disclosed in section 13.17 of the Prospectus, there is no material litigation, prosecution or other civil or criminal legal action in which the NSE or its Directors as directors of the NSE are involved or any other material claims against the NSE that could result in a dispute to be resolved by arbitration or litigation; and
- 3.10 subject to the above, there are no other material items not mentioned in the Prospectus of which we are aware with regard to the legal status of the NSE and the Offer.

4. FURTHER OPINIONS

Based upon and subject as aforesaid, and without prejudice to the generality of the foregoing, we are also of the opinion that:

- 4.1 the Prospectus has been dated in accordance with section 43(4) of the Companies Act;
- 4.2 a copy of the Prospectus, together with the documents required under Section 43 of the Companies Act, have been delivered to the Registrar of Companies at Nairobi for registration in accordance with section 43(1) of the Companies Act, duly signed by every person named in the Prospectus as a director of the NSE or by his agent duly authorized in writing, and a statement to such effect appears on the face of the Prospectus in accordance with section 43 (3) of the Companies Act;
- 4.3 this Prospectus contains statements made by Messrs. Deloitte & Touche Certified Public Accountants and by ourselves, all of whom are experts for the purposes of Section 42(1) of the Companies Act. In accordance with Section 42(1) of the Companies Act, Deloitte & Touche and we have given, and have not before the delivery of this Prospectus for registration withdrawn, our consent to the issue of the Prospectus with the statements by us included in the form and context in which they are included;
- 4.4 the Shares subject to the Offer shall rank pari passu in all respects with the existing Ordinary Shares in the issued share capital of the NSE, including the right to participate in full in all dividends and/or other distributions declared in respect of such share capital with effect from the financial year of the NSE ending on 31st December 2014;

4.5 application has been duly made to, and permission duly granted by the NSE and by the Capital Markets Authority in respect of the Offer and the Self-Listing pursuant to the Capital Markets (Securities) (Public Offers, Listing and Disclosure) Regulations 2002 and the First Schedule thereto;

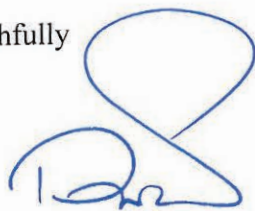
Based on the foregoing, we are of the opinion that the Offer is in conformity with all applicable laws and has received all necessary authorisations.

5. RESERVATIONS

This letter and the opinions given in it are governed by Kenyan law and relate only to Kenyan law as applied by the Kenyan courts as at today's date. We express no opinion in this letter on the laws of any other jurisdiction.

We as the legal advisors confirm that we have given and have not, prior to the date of the Prospectus, withdrawn our written consent to the inclusion of the legal opinion in the form and context in which it appears.

Yours faithfully

A handwritten signature in blue ink, consisting of a large, stylized loop followed by a smaller, more intricate flourish.

HAMILTON HARRISON & MATHEWS

Section 13

Statutory & General Information

13.1 The Company

13.1.1 Incorporation

The NSE was incorporated as a private company limited by shares with the name Nairobi Stock Exchange Limited on 29 November 1990 under Company Number C. 44655.

In 1994, the Capital Markets Legislation was amended to provide that a securities exchange would be required to be a company limited by guarantee or as may be prescribed by the CMA. Consequently, the NSE was re-registered as a company limited by guarantee on 27 April 1995 and issued with a new number C. 64609.

At an Extraordinary General Meeting of the NSE held on 6 July 2011, the members of the NSE by way of a special resolution resolved to change the name of the Company from Nairobi Stock Exchange Limited to Nairobi Securities Exchange Limited. A Certificate of Change of Name was duly issued to that effect by the Registrar of Companies on 5 August 2011.

Following an amendment to the Capital Markets Legislation that entered into force on 1 January 2011, a securities exchange would henceforth be required to be a company limited by shares or as may be prescribed by the CMA. Consequently, the NSE was re-registered as a company limited by shares on 21 September 2011 and issued with a new company number CPR/2011/56966.

At an Annual General Meeting of the NSE held on 25 April 2014 the shareholders of the NSE resolved by way of a special meeting to convert the NSE into a public company. The NSE was subsequently issued with a new company number CPU/2014/144920 by the Registrar of Companies.

13.1.2 Authorised and Issued Share capital

NSE's authorised share capital is Kshs 850,000,000/- divided into 212,500,000 ordinary shares with a par value Kshs 4.00 each.

The NSE's issued and fully paid up share capital is Kshs 514,500,000 divided into 128,625,000 ordinary shares with a par value Kshs 4.00 each.

NSE's unissued share capital is Kshs 335,500,000 divided into 83,875,000 ordinary shares with a par value of Kshs. 4.00 each.

The NSE's share capital is not divided into different classes of shares and all of the NSE Shares carry the same voting rights. At every general meeting of the NSE, every shareholder present has one vote on a show of hands, and on a poll, every shareholder present in person or by proxy has one vote for each share of which he is the holder.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the NSE may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the NSE may from time to time by ordinary resolution determine.

In accordance with the NSE's Articles of Association, the NSE Shares are freely transferable without pre-emptive rights in favour of any person.

13.1.3 Alterations to NSE's authorised and issued share capital during the three preceding years

13.1.3.1 Changes in share capital – years 2011 and 2012

Following changes to the provisions of the Capital Markets Legislation in January 2011 aforesaid, the NSE was re-registered as a company limited by shares with an authorised share capital of Kshs. 25,000,000/- divided into 25,000,000 ordinary shares of Kshs. 1/- on 21 September 2011.

For purposes of the aforesaid re-registration of the NSE as a company limited by shares in 2011, the members of the NSE resolved at an Extraordinary General Meeting on 6 July 2011 that each of the Twenty One (21) members of the Company at that time be allotted and issued with One Hundred (100) ordinary shares each of Kshs One (1/-) each. These allotments were made and a call made by the Company on these shares. The calls were duly paid by the members.

At the said Extraordinary General Meeting of the NSE on 6 July 2011, the members of the NSE also resolved to allot not more than 2,000,000 fully paid ordinary shares in the capital of the NSE to the Permanent Secretary, Treasury of Kenya and a similar number of fully paid ordinary shares in the capital of the NSE to the Investor Compensation Fund Board. Pursuant to this resolution, the Board on 28 August 2012 allotted and issued to the Permanent Secretary, Treasury of Kenya fully paid 1,250,000 ordinary shares at a par value of Kshs. 1/- each and a similar number of shares to the Investor Compensation Fund Board.

At a General Meeting of the NSE held on 15 March 2012, the NSE shareholders resolved to allot One Hundred (100) ordinary shares each of Kshs One (1/-) Francis Thuo & Partners Limited as part of a settlement under which Francis Thuo & Partners Limited agreed to pay to the NSE the debt it owed to the NSE. The debt has now been fully paid.

At the same General Meeting on 15 March 2012, the NSE shareholders further resolved to capitalize the sum of Kshs. 21,997,800/- out of the revenue reserves of the NSE, and that such sum be distributed as 21,997,800 bonus shares to the shareholders in the proportion of 9,999 new ordinary shares of Kshs. 1 each for every one share held as at the close of business on 30 March 2012. The said capitalisation was done and the said bonus shares issued to the shareholders.

13.1.3.2 Changes in share capital-year 2013-2014

There were no changes in NSE's share capital in the year 2013.

At an Annual General Meeting held on 25 April 2014, the NSE shareholders resolved:

1. THAT subject to the approval of the Capital Markets Authority, the authorized share capital of the Company be increased from Kshs. 25,000,000.00 divided into 25,000,000 ordinary shares of Kshs 1.00 each to Kshs 850,000,000.00 divided into 850,000,000 ordinary shares of Kshs 1.00 by the creation of 825,000,000 new ordinary shares of Kshs 1.00 each, such new shares to rank pari passu in all respects with the existing shares in the Company.

2. THAT following the increase in authorised share capital, each of the 850,000,000 ordinary shares of Kenya Shillings One (Kshs. 1.00) in the capital of the Company, both issued and unissued, be consolidated into 212,500,000 ordinary shares of Kenya Shillings Four (Kshs. 4.00) each.
- 3.
- (i) THAT subject to the approval of the Capital Markets Authority, the Company ceases to be a private company and forthwith be converted to a public company and accordingly new Articles of Association of the Company be adopted.
- (ii) THAT subject to the approval of the Capital Markets Authority and to the passing of the resolution in 3(i) above, the Articles of Association attached to the notice convening the Annual General Meeting be approved and adopted as the new Articles of Association of the Company in substitution for and to the exclusion of all the existing Articles of Association of the Company.
- (iii) THAT pursuant to the aforesaid conversion of the Company from a private company to a public company, the Company delivers to the Register of Companies a Statement in Lieu of Prospectus at the Companies Registry together with any other document as required under the Companies Act (Chapter 486 of the Laws of Kenya).
4. THAT pursuant to the Company's Articles of Association and subject to passing of the above resolutions and to approval by the relevant authorities (where applicable), the sum of Kenya Shillings Four Hundred Ninety Million (Kshs. 490,000,000.00) being part of the sum standing to the credit of the Company's revenue reserve account as at 31 December 2013, be capitalised and that the same be applied in making payment in full at par for 122,500,000 ordinary shares of Kshs 4.00 each in the capital of the Company. Such shares to be distributed as fully paid among the persons registered as holders of the ordinary shares in the capital of the Company at the close of business on a day to be fixed by the Directors in the proportion of twenty (20) shares of Kshs. 4.00 each for every one (1) ordinary share then held in the Company by such persons (fractions to be disregarded) and the shares so distributed to rank pari passu with the existing issued ordinary shares and that the Directors be also authorized generally to do and effect all acts and things required to give effect to this resolution and to deal with fractions in such manner as they should think fit.
5. THAT subject to the passing of the resolutions above and to approval by the relevant authorities (where applicable), the Directors be authorized and directed that up to 2,500,000 ordinary shares of Kshs 4.00 each in the capital of the Company be offered for subscription to the persons who are employees of the Company at the close of business on a day to be fixed by the Directors, and at a premium, on such date and upon such terms and conditions as the Directors shall think fit, and that the Directors be and are hereby also authorized generally to do and effect all acts and things required to give effect to this resolution and to deal with fractions in such manner as they should think fit and the
- Members agreed to waive their pre-emption rights in respect of such offer of subscription and consequent issue of shares to the Company's employees.
- 6.
- (i) THAT subject to approval by the relevant authorities including the Capital Markets Authority, up to 212,500,000 ordinary shares of Kshs 4.00 each in the capital of the Company be approved for listing on the Main Investment Market Segment of the Nairobi Securities Exchange.
- (ii) THAT subject to the passing of the resolutions above and to the approval of the relevant authorities including the Capital Markets Authority, the Directors be authorized and directed that up to 81,375,000 ordinary shares of Kshs 4.00 each in the capital of the Company, be offered for subscription to the public at a premium, on such a date and upon such terms and conditions as the Directors shall think fit (the "Offer"), and that the Directors be, and are hereby further authorized generally to do and effect all acts and things required to give effect to this resolution including allotting and issuing, crediting as fully paid upon payment in full, the shares subscribed for pursuant to the Offer, and to deal with fractions of shares resultant from the Offer and subscription thereof in such manner as they think fit subject to the Articles of Association of the Company.
- (iii) THAT as required by the Laws of Kenya in connection with and pursuant to the Offer the Company do issue an information memorandum and that the same be filed with the Registrar of Companies at Nairobi pursuant to the section 43 of the Companies Act and the dating thereof be determined by the Directors.
- (iv) THAT all other previous resolutions relating the listing of the Company and which contradict the present resolutions be hereby superseded and replaced to the extent of such contradiction.
- (v) THAT the Board of Directors be mandated to take all actions, make all applications and obtain all consents, approvals, authorizations and permissions required for this purpose;

13.2 Change in the shareholders in the last two financial years

As at 31 December 2013, the 22 Trading Participants shareholders each held 1,000,000 shares in the capital of the NSE while the Cabinet Secretary, Treasury of Kenya and the Investor Compensation Fund Board each held 1,250,000 shares in the capital of the NSE making a total of 24,500,000 million issued and fully paid shares of par value Kshs 1.00 each.

Following the consolidation of shares and the bonus shares issue mentioned above, the 22 Trading Participant Shareholders now hold 5,250,000 shares each in the capital of the NSE while the Cabinet Secretary, Treasury of Kenya and the Investor Compensation Fund Board each hold 6,562,500 shares in the capital of the NSE making a total of 128,625,000 issued and fully paid shares of par value Kshs 4.00 each.

The Cabinet Secretary, Treasury, the Investor Compensation Fund Board and the Trading Participant shareholders are major

shareholders but they will not have different voting rights from the other shareholders of the Company.

13.3 Auditors for the last three financial years

Deloitte & Touche, Certified Public Accountants (Kenya) of P.O. Box 40092-00100 Nairobi.

13.4 Board & Shareholders Authorisation for the Offer

The Offer has been duly authorized by the resolutions of the Directors and the shareholders dated 2 April 2014 and 25 April 2014 respectively.

13.5 CMA approval of the NSE as a securities exchange

By gazette notice number 2459 dated 25 February 2014 the CMA notified the public that the NSE is approved to conduct the business of a securities exchange in the year 2014. Annual notification in the Kenya Gazette by the CMA includes a list of approved institutions (including the Company) and as a result there is no annual approval required

13.6 Corporate Governance

The Company has independent directors, non-executive directors, a non-executive Chairman, audit committee, nominating committee and holds annual general meeting as required and in a timely fashion. More than one-third of the board consists of nonexecutive independent directors.

13.7 Extracts from the Memorandum of Association

The selected main objects of the Company are set out in clause 3 (1) to (5) and clause 3 (10) of the Memorandum of Association as follows:

- 1) To promote, establish, develop, support and carry on the business of a securities exchange and to discharge all the functions of a securities exchange.
- 2) To conduct business relating to a securities exchange and in particular:
 - (a) To provide, maintain and regulate suitable premises and facilities for conducting all the business of a securities exchange;
 - (b) To provide the platform for the trading of securities and other financial products;
 - (c) To carry on the business of providing, operating and maintaining a stock and securities clearing house and registry in compliance with the provisions of the capital markets laws, including to provide clearing and settlement services in respect of transactions in securities and to formulate, amend and administer, and take appropriate action pursuant to the rules governing the provision of such and other services;
 - (d) To provide the platform for the trading of derivatives including but not limited to swaps, futures and options;
 - (e) To carry on the business of providing, operating and maintaining clearing house facilities for a derivatives market in compliance with the capital markets laws, including to formulate, amend and administer, and take appropriate action pursuant to the rules regulating the provision by the company of such clearing house facilities;

- (f) To carry on the business of providing, operating and maintaining a platform for the trading of foreign exchange currency and products;
 - (g) To carry on the business of providing information services;
 - (h) To join or enter into any regional and international association of exchanges;
 - (i) To engage in sharing of trading platforms with other securities exchanges;
 - (j) To allow dissemination of information and sell informational products by electronic means or otherwise;
 - (k) To acquire, take-over or merge with any securities exchange for the purpose of maximizing international business competitiveness;
 - (l) To conduct the business of a training institute either by itself or in collaboration with other securities exchange or body;
 - (m) To facilitate the sale and purchase of any shares, stocks or securities on or for any monetary or mercantile transaction and as statutory managers, central depository agents, administrators and agents.
- 3) To promulgate, administer and enforce rules in furtherance of the business of the securities exchange including:
- (a) The creation, development and maintenance of a platform for listing and trading of securities;
 - (b) Creation, development and regulation of financial products including but not limited to, futures, tradeable and quoted price indices, swaps, options, exchange traded bonds, venture capital bonds and other financial products;
 - (c) Creation, development and regulation of an over-the-counter market (OTC) for securities;
 - (d) Facilitation of trading of infrastructure and municipal bonds as may be issued from time to time;
 - (e) Creation, development and regulation of a small and micro enterprises exchange (SMEX);
 - (f) Creation, development and regulation of a commodities exchange;
 - (g) Development of tradeable price indices;
 - (h) All other products that a securities exchange may develop and operate.
- 4) To exercise the functions of a self-regulatory organization and in this regard to formulate rules relating to:
- (a) the admission, regulation, supervision, inspection, surveillance, disciplining, sanctioning, suspension and expulsion of trading participants, listed entities and other issuers of securities;

- (b) the approval of chief executives, directors or other officers of trading participants as fit and proper persons for appointment to such offices;
 - (c) the development, implementation and maintenance of an effective market, system surveillance and early warning systems;
 - (d) information disclosure and information sharing by issuers of securities;
 - (e) the creation, implementation and enforcement of rules of conduct for listed entities and other issuers of securities, trading participants and investors;
 - (f) the establishment and functioning of dispute resolution mechanisms and appeal procedures for listed entities and other issuers of securities, trading participants and investors;
 - (g) the development and implementation of education programs, training and certification of listed entities and other issuers of securities, trading participants and investors as the case may be;
 - (h) the listing/de-listing of issuers of securities on/from the official list of the securities exchange;
 - (i) the imposition of fines, and/or such other penalties on listed entities and other issuers of securities, trading participants and investors as may be determined by the Company for the infringement of the rules of the Company;
 - (j) regulation of the scale or amount of commissions, brokerage and other fees to be charged by trading participants;
 - (k) Any other rules necessary for the Company to carry out its regulatory functions.
- 5) To represent, express and give effect to the opinions of the securities industry and the financial and business community on commercial and mercantile matters of all kinds and to promote and support all measures affecting the financial and business community.
- 10) To conduct an initial public offering and list on a securities exchange or exchanges.
- i. the holding of such shares in uncertified form;
 - ii. the transfer of title to such shares by means of a book-entry transfer; and
 - iii. any provision of the Central Depositories Act 2000
37. Transfers of Securities which have been immobilised or dematerialised under the Central Depositories Act 2000 shall be effected in the manner prescribed thereunder.
38. Where the Company refuses to register transfers of Securities required to be registered under Section 14 and 15 of the Central Depositories Act 2000, it shall serve the transferor and transferee with written notice of the reasons for such refusal in accordance with Section 14(5) of the Central Depositories Act 2000.
39. An instrument of transfer lodged with the Company pursuant to Section 14(1) of the Central Depositories Act 2000 shall be capable of registration in the name of a central depository or its nominee company if such instrument has been certified by a central depository agent instead of being executed by the central depository or its nominee Company.
40. With effect from the Dematerialization Date, any reference to a transfer of share or debentures shall be a reference to a book entry transfer performed by the central depository in accordance with Section 27(1) (b) of the Central Depositories Act 2000.
41. Any provisions in the Articles inconsistent with the requirements of the Central Depositories Act 2000 or as prescribed by the Authority under Regulations in respect of registration, transfer, immobilization or dematerialization of securities shall be deemed to be modified to the extent of such inconsistency in their application to securities which are in part or in whole immobilized or dematerialized or are required by the Central Depository Act 2000 or Regulations and Rules issued thereunder to be immobilized or dematerialized in part or whole as the case may be.
42. Subject to Article 93, where any securities of the Company are forfeited pursuant to these Articles after being immobilised or dematerialized, the Company shall be entitled to transfer such securities to a securities account designated by the Board for this purpose.

General Meetings

- 63. The Company shall in each Year hold a general meeting as its annual general meeting in addition to any other meetings in that year, and shall specify the meeting as such in the notices calling it. Not more than Fifteen months shall elapse between the date of one annual general meeting of the Company and that of the next. Annual and extraordinary general meetings shall be held at such times and places within Kenya as the Directors shall, from time to time, appoint.
- 64. All general meetings other than annual general meetings shall be called extraordinary general meetings.
- 65. The Directors may, whenever they think fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on such requisition, or, in default, may be convened by such requisitionists, as

13.8 Extracts from the Articles of Association

The following is a selected extract and is therefore not exhaustive:

Immobilization of Shares

- 35. Pursuant to and subject to the Central Depositories Act 2000, title to immobilised and materialised shares will be evidenced otherwise than by a certificate and title to such shares shall be transferred by means of a book-entry transfer in accordance with the provisions of the Central Depositories Act 2000.
- 36. No provision of these Articles shall apply or have effect in relation to any shares which have been immobilised or dematerialised under the Central Depositories Act 2000 to the extent that it is inconsistent in any respect with:

provided by Section 132 of the Act. If at any time there are not within Kenya sufficient Directors capable of acting to form a quorum, any Director or any ten members of the Company may convene an extraordinary general meeting in the same manner as nearly as possible as that in which meetings may be convened by the Directors.

Notice of General Meetings

66. Every general meeting shall be called by Twenty-one days' notice in writing at the least. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the place, the day and the hour of meeting and, in case of special business, the general nature of that business, and shall be given, in manner hereinafter mentioned or in such other manner, if any, as may be prescribed by the Company in general meeting, to such persons as are, under the regulations of the Company, entitled to receive such notices from the Company. Provided that a meeting of the Company shall, notwithstanding that it is called by shorter notice than that specified in this Article be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as the annual general meeting, by all members entitled to attend and vote thereat and otherwise in accordance with the provisions of Section 133(3) of the Act; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than Ninety-five per cent (95%) in nominal value of the shares giving that right.

Provided always that if the Company shall then be listed on any Securities Exchange a copy of such notice be sent to such Securities Exchange at the same time as notices are sent to the shareholders

67. In every notice calling a meeting of the Company there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote in his stead and that a proxy need not be a member.

68. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

Votes of Members

82. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands every member present in person shall have one vote, and on a poll every member present in person or by proxy or being a corporation, by a representative appointed in accordance with Article 92, shall have one vote for each share of which he is the holder.

83. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the Register.

84. A member incapable by reason of mental disorder of managing and administering his property and affairs may vote, whether on a show of hands or on a poll, by his receiver, or other person authorised by any Court of competent jurisdiction to act on his behalf, and such person may on a poll vote by proxy.

85. No Member shall be entitled to be present at any General Meeting or to vote on any question, either personally or by proxy or by a representative appointed in accordance with Article 92, at any General Meeting or on a poll or to be reckoned in a quorum whilst any call or other sum shall be due and payable to the Company in respect of any of the Shares held by him, whether alone or jointly with any other person.

86. No objection shall be raised to the qualification of any vote except at the meeting or adjourned meeting at which the vote objected to is given or tendered, and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman of the meeting, whose decision shall be final and conclusive.

87. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a Corporation, either under seal, or under the hand of an officer or attorney duly authorised. A proxy need not be a member of the Company.

88. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Office or at such other place within Kenya as is specified for that purpose in the notice convening the meeting, not less than Forty-eight hours before the time for holding the meeting or adjourned meeting, at which the person named in the instrument proposes to vote, or, in the case of a poll, not less than Twenty-four hours before the time appointed for the taking of the poll, and in default the instrument of proxy shall not be treated as valid.

Unclaimed Assets

93. The Company may, if required by law, deliver or pay to any prescribed regulatory authority any unclaimed assets including, but not limited to shares in the Company presumed to be abandoned or unclaimed in law and any dividends or interest thereon remaining unclaimed beyond prescribed statutory periods. Upon such delivery or payment the unclaimed assets shall cease to remain owing by the Company and the Company shall no longer be responsible to the owner or holder or his or her estate, for the relevant unclaimed assets.

Directors

94. Unless and until otherwise from time to time determined by an ordinary resolution of the Company, but always subject to the provisions of the Act and the Capital Markets Act, 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 these Articles. A maximum of two Directors shall be elected by

the members from among or to represent the Trading Participants. A further two Directors shall be elected by the members from among nominees of companies listed on the Nairobi Securities Exchange to represent the said listed companies. Any other directors shall be elected by the members in accordance with the Companies Act provided that at all times at least one third of the Directors must be Independent Non-executive Directors. If at any time the number of Directors falls below the minimum number fixed by or in accordance with these Articles, 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.

95. At every Annual General Meeting of the Company one third of the Directors other than the Chief Executive and any other Director being at the time in the employment of the Company or any of its Subsidiaries for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding one third shall retire from office. The Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became directors on the same day, those to retire shall (unless otherwise agreed amongst themselves) be determined by lot.
96. Notwithstanding the provisions of Article 95 above, any Director who retires from office shall be eligible for re-election.
97. 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 nor more than twenty one days before the day appointed for the meeting, there shall have been delivered to the Secretary of the Company notice in writing signed by the 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.
98. The Directors shall cause to be kept a Register of the Directors' holdings of shares and debentures of the Company and of its subsidiaries or holding Company (if any) required by the Act, and shall cause the same to be available for inspection during the period and by the persons prescribed, and shall produce the same at every annual general meeting as required by the Act.
99. The Directors shall be paid out of the funds of the Company by way of remuneration for their services such sums as the Company may from time to time by ordinary resolution determine and such remuneration shall be divided among them in such proportion and manner as the Directors may determine and, in default of such determination within a reasonable period, equally. Subject as aforesaid, a Director holding office for part only of a year shall be entitled to a proportionate part of a full year's remuneration. The Directors shall also be entitled to be repaid by the Company all such reasonable travelling (including hotel and incidental) expenses as they may incur in attending meetings of the Board, or of committees of the Board, or general meeting, or which they may otherwise properly incur in or about

the business of the Company.

100. Any Director who by request performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Directors may determine.
101. Directors shall not be required to hold any share qualification but shall be entitled to receive notice of and to attend and speak at all General Meetings of the Company or at any separate meeting of the holders of any class of Shares of the Company.

Disqualification of Directors

116. The office of Director shall be vacated if the Director:
 - (a) ceases to be or is prohibited from being a Director by virtue of any provision of the Act or the Capital Markets Act or the Regulations issued thereunder; or
 - (b) becomes bankrupt or makes any arrangement or composition with his creditors generally; or
 - (c) becomes incapable by reason of mental disorder of exercising his functions as Director; or
 - (d) resigns his office by notice in writing to the Company; or
 - (e) is called upon, in writing, to resign by all the remaining Directors; or
 - (f) is absent either in person or by his alternate, without the previous sanction of the Directors, for a period of more than Six months from meetings of the Directors held during such period and the Directors resolve that his office be vacated accordingly; or
 - (g) is absent either in person or by his alternate for three consecutive meetings of the Directors; or
 - (h) is requested to vacate his office as a Director by a unanimous vote of the Directors (other than the Director being requested to so vacate) on account of conduct which in the opinion of the Directors is inconsistent with the values of the Company.
117. The Directors shall have power at any time, and from time to time, to appoint a person as an additional 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 exceed the maximum authorised by these Articles; but any person so appointed shall retire from office at the next following ordinary general meeting, but shall be eligible for election by the Company at that meeting as an additional Director but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.
118. The Company may from time to time by ordinary resolution increase or reduce the number of Directors.
119. The Company may by ordinary resolution, remove any Director before the expiration of his period of office, and, without prejudice to the powers of the Directors

under Article 116 hereof, may by an ordinary resolution appoint another person in his stead; the person so appointed shall be subject to retirement at the same time as if he had become a Director on the day on which the Director in whose place he is appointed was last elected a Director. Such power of removal may be exercised notwithstanding anything in these Articles or in any agreement between the Company and such Director but without prejudice to any claim such Director may have for damages for breach of contract of service between him and the Company.

Executive Directors

131. Without prejudice to the power of the Board to appoint Executive Directors on such terms as they may think fit and subject to the provisions of the Capital Markets Act, the Board may from time to time appoint One (1) person of their body to the office of Chief Executive for such period and upon such terms as it thinks fit and, subject to the provisions of any agreement entered into in any particular case, may revoke such appointment. The appointment of a Director holding the office of Chief Executive or the executive office shall (without prejudice to any claim he may have for damages for breach of contract of service between him and the Company) ipso facto determine if he ceases from any cause to be a Director.
132. The Chief Executive must be qualified to hold such office as determined by the provisions of the Capital Markets Act.
133. Without prejudice to any provision of these Articles providing for the disqualification or removal of Directors, the Chief Executive shall hold office for a term of four years renewable once.
134. The Chief Executive and other Executive Directors shall receive such remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and either in addition to or in lieu of their remuneration as a Director.
135. The Board may entrust to and confer upon a Chief Executive and other Executive Directors any of the powers exercisable by it (other than the powers to borrow money, charge the property and assets of the Company and pay dividends) upon such terms and conditions and with such restrictions as it thinks fit and either collaterally with or to the exclusion of its own powers and may from time to time object to the terms of any agreement entered into in any particular case revoke, withdraw, alter or vary all or any of such powers.
136. When the office of Chief Executive or other Executive Director falls vacant, the Board may appoint a temporary replacement pending appointment of his successor.

Dividends and Reserve

142. The Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors.
143. The Directors may from time to time pay to the Members such interim dividends (including therein the fixed dividends payable upon any preference or other shares at stated

times) as appear to the Directors to be justified by the profits of the Company.

144. No dividend shall be paid otherwise than out of profits.
145. Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid or certified as paid on the shares, but if and so long as nothing is paid up on any of the shares in the Company dividends may be declared and paid according to the amounts of the shares. No amount paid or credited as paid on a share in advance of calls shall, while carrying interest, be treated for the purposes of this Article as paid on the share. All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the share during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms provided that it shall rank for dividend as from a particular date such share shall rank for dividend accordingly.
146. The Directors may, before recommending any dividend, set aside out of the profits of the Company such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for any purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company) as the Directors may from time to time think fit. The Directors may also without placing the same to reserve carry forward any profits which they may think prudent not to distribute.
147. Notice of any dividend that may have been declared shall be given in manner hereinafter mentioned to the persons entitled to share therein.
148. The Directors may deduct from any dividend payable to any Member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in relation to the shares of the Company.
149. Any general meeting declaring a dividend or bonus may direct payment of such dividend or bonus wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures or debenture stock of any other company or in any one or more of such ways, and the Directors shall give effect to such resolution, and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient, and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the footing of the value so fixed in order to adjust the rights of all parties and may vest any such specific assets in trustees as may seem expedient to the Directors.
150.
 - (a) Any dividend or other money payable in cash on or in respect of shares may be paid by electronic funds transfer or other automated system of bank transfer, electronic or mobile money transfer system, transmitted to such bank or electronic or mobile telephone address as shown in the

share register of the Company or by cheque or warrant payable at such place of business as the Company shall specify in writing, sent through the post to the address of the Member or person entitled to it as shown in the share register of the Company or if two or more persons are registered as joint holders of the shares, to the registered address of the joint holder who is first named in the share register of the Company or in the case of two or more persons being entitled thereto in consequence of the death or bankruptcy of the holder, to any one of such persons at such address as the persons being entitled to receive payment may in writing direct.

- b) Every such cheque or warrant or funds transfer shall be made payable to or to the order of the person to whom it is sent or to such person who may be entitled to the same (as described in Article 151 (a) aforesaid). Payment of the cheque or warrant, if purporting to be endorsed or encased, by the addressee or as the case may be, confirmation of payment having been made by the transmitting entity to the addressee of a direct debit, bank transfer or other automated system of bank transfer or via a mobile money transfer system, shall in each case be a good discharge to the Company. Every such payment whether by cheque or warrant or electronic funds transfer or mobile money payments system shall be sent at the risk of the person entitled to the money represented by it.

151. No dividend shall bear interest against the Company.

152. Subject to Article 94, all dividends, interest or other sum payable and unclaimed for 12 months after having become payable may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof.

Notices

162. Every notice or other document given by the Company shall be in writing. To the extent permissible by law, the Company may serve any notice to be given to its Members by:

- (a) publishing such notice in two daily newspapers with nationwide circulation; or
- (b) sending such notice through the post addressed to such Member at his postal address as appearing in the Register of Members or the Company's other records; or
- (c) by electronic mail to such member at his email address as appearing in the Company's records or as shall be notified by such Member to the Company from time to time. Provided that where the Company elects to send such notice to such Member at his email address, the Company shall ensure that such notice is also published in two daily newspapers with nationwide circulation.

Local Investors and Foreign Investors

166. In these Articles if not consistent with the subject or context the terms "Local Investor" and "Foreign Investor" shall have the same meaning as that defined in The Capital Markets (Foreign Investors) Regulations 2002 as from time to time amended.

167. For the purposes of enabling the Directors to determine whether or not any share is held by a Foreign Investor the Directors shall maintain a register of Local Investors pursuant to Section 4 (1) of The Capital Markets (Foreign Investors) Regulations 2002 which register shall be available for inspection by any person as if it were a part of the Register of Members.

168. For the purposes of enabling the Directors to determine whether or not any share is to be transferred to a Foreign Investor every share transfer shall contain a declaration as to whether or not the transferee shall be a Local Investor and the Directors may require such further evidence as they may properly require to establish that the transferee shall be Local Investor and in default the transferee may be deemed by the Directors to be a Foreign Investor.

Share Option Scheme

169. The Company may by resolution create such share option or ownership plans, schemes or schemes for its employees, directors, former directors, current and former committee members, as it may determine, and may further empower its directors to implement and in particular to allocate and issue shares to such plans, schemes or arrangements and to implement such plans, schemes or arrangements.

13.9 Statutory Approvals/ Licences

The Company has all the relevant approvals and business permits to operate as The Exchange.

13.10 Insurance Policies

The Company has various insurance policies in force to cover the usual risks, valid until 31 December 2014. The aggregate annual premiums payable on these policies were Kshs. 6,740,930.

13.11 Property bought and disposed in the last five years

By an agreement dated 12 July 2012 made between NSE and Tosica Limited of P.O. Box 1671-00600 Nairobi, the NSE acquired the property known as Land Reference No. 209/18851 (Original No. 209/2142) Nairobi, for Kshs. 360,000,000/-.

The Grant in respect of Land Reference No. 209/18851 is dated 19 September 2012 and is registered as No. I.R. 138748. The tenure of the property is leasehold for 50 years from 1 September 2008 at an annual rent of Kshs 38,000/- . The user of the property is commercial, offices and residential. An independent valuation report by Tysons Limited dated 11 May 2012 indicates that the market value of Land Reference No. 209/18851 as at that date was Kshs. 365,000,000/-. The valuation increased to Kshs 385,000,000/- following a further report dated 20 December 2013 by Tysons Limited.

Land Reference No. 209/18851 was purchased by the NSE subject to the existing tenancies and these are summarised below:

Table 13.1-Leases

No	Tenant	Area Let	Term
1.	Techmart East Africa Limited*	Ground Floor Office Units 1,2,3 and First Floor office unit 1 Licence for three (3) parking bays	Five (5) years and six (6) months from 1 November 2011.
2.	Africa Practice East Africa Limited	Centre office (office number 2) First Floor License for 3 parking bays	Six (6) years from 1 February 2012
3.	ITwenty Seven Limited	First Floor office unit 3 License for 2 parking bays	Six (6) years from 1 March 2011
4.	PFL Kenya Limited	Entire second floor- License for 4 parking bays	Six (6) years from 8 August 2011
5.	Sidel Beverages Africa Kenya Limited	Unit 2 (right hand side) representing 50% of the office space on the 4th Floor License for 2 parking bays	Six (6) years from 1 May 2011
6.	Africa Practice East Africa Limited	Unit 1 (Left hand side) representing 50% of the office space on the 4th Floor License for 4 parking bays	Six (6) years from 1 June 2011
7.	Panda Development Company Limited	50% of the Third floor License for 4 parking bays	Five (5) years and three (3) months from 1 January 2012

The execution, stamping and registration of the leases in respect of the above tenancies is ongoing.

The purchase of Land Reference No. 209/18851 was partly financed and details of this borrowing are set out in Section 13.14 below.

NSE has not disposed any immovable property in the last five years.

* Tenant vacated the premises in July 2013

13.12 Material Contracts entered into within the last two years

The Company has entered into the following material contracts namely:

- (a) Multi-Protocol Label Switching Wide Area Network Contract dated 26 January 2012 between NSE, Central Depository and Settlement Corporation Limited (CDSC) and MTN Business (MTN) to connect Trading Participants to the automated trading system,. Agreement is for a terms of 3 years.
- (b) Master Services Agreement dated 20 December 2010 between NSE and Chella Software Private Limited relating to the customisation, implementation, licensing and maintenance of certain broker back software. Agreement continues until terminated by either party. Either party may terminate the agreement by serving 30 days written notice where there is breach of the agreement. The NSE may also terminate for convenience upon giving 6 months' written notice.
- (c) Licence Agreement dated 20 December 2010 between NSE and Chella Software Private Limited granting NSE a perpetual non-exclusive fee-bearing non-transferable, limited sub-licensable licence in certain broker back software. Agreement continues until terminated at the instance of the parties. Either party may terminate the agreement by serving 30 days' written notice where there is breach of the agreement. The NSE may also terminate for convenience upon giving 6 months' written notice.
- (d) Broker Back Office Agreements- between NSE and various Trading Participants for varying dates in the years 2010-

2012. These agreements continue unlimited until terminated by the parties. NSE may terminate if a broker does not pay the subscription fees within 60 days from the date of the invoice provided NSE gives 14 days' notice prior to the expiry of the 60 days. NSE may also terminate if a broker's licence is revoked by the CMA or if the broker is suspended from trading in listed securities. The brokers may terminate if NSE's licence is revoked by the CMA. Either party may terminate for a breach of the contract not remedied by the other party after 14 days' notice. The contract shall be terminated if Chella Software Private Limited terminates the software licence with NSE. The parties may also terminate through mutual written consent if there is a force majeure situation which persists for 15 days or more.

- (d) Software Licence Agreement between Securities & Trading (Pty) Limited and NSE relating to fixed income securities and REITS trading. The agreement is for a term of 5 years. Either party may terminate by giving 12 months termination notice for breach of contract.
- (e) Software Licence Agreement between Securities & Trading (Pty) Limited and NSE relating to derivatives and futures trading. The agreement is for an indefinite period. Either party may terminate by giving 12 months termination notice.

13.13 Other material agreements

Save as disclosed in Section 13.12 above, the Company does not owe any royalties or other similar payment, nor is it dependent on any patent, licences or other agreements which would affect the profitability of the Company's business.

13.14 Material Indebtedness

The Company borrowed a sum of Kshs 300 Million from the Kenya Commercial Bank Limited in October 2012 to partly finance the purchase of Land Reference No. 209/18851. The loan is secured by a debenture and a charge issued by the NSE to the bank. The terms of the borrowing as set out in a facility Letter dated 9 October 2012 between NSE and Kenya Commercial Bank Limited and the supplementary Letter thereto dated 16 October 2012. The interest rate is minus 2 the bank's base rate. The tenure is 120 months inclusive of a 3 month moratorium period, the repayment is monthly and the prepayment is permitted without penalties.

13.15 Related Party Agreements

The Company does not currently have any material contracts with related third parties.

13.16 Onerous Covenants and Default

The Company has no material contracts with third parties that have onerous covenants which are not disclosed in this Prospectus. As at the date of this Prospectus, the Company is not in breach of any of the terms of its contracts or its loan covenants.

13.17 Material Litigation and Claims

- (a) Industrial Court Cause No 344 of 2010 - an unlawful termination claim for Kshs 5.28 million by a former employee.
- (b) Industrial Court Cause No 251 of 2010 - an unlawful termination claim by a former employee which is now dormant.

Although there can be no assurances, the Directors believe, based on the information currently available and legal advice, that the two claims can be successfully defended and therefore no provision has been made in the financial statements. Save for the above matters, the Company is not a party to any other material litigation.

13.18 Director Service Contract

NSE has executed a service contract with its Chief Executive Officer dated 19 December 2011 for a term of 3 years with effect from 24 November 2011. The contract provides that either party may terminate it by giving 3 months' notice to the other party or making payment in lieu of notice.

13.19 Aggregate Directors' Remuneration in the last financial year

The following represents the directors' remuneration for the year ended 31st December 2013: Non-Executive Directors (Kshs 7,297,000) and Executive Directors (Kshs 13,514,000).

There are no arrangements under which any of the Directors have waived or agreed to waive future emoluments and there has been no agreement for the waiver of such emoluments in the last financial year.

13.20 Directors Declaration

To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

13.21 Interests of Directors

As at the date of this Prospectus, the following Trading Participants shareholders held shares in the Company:

- (i) Faida Investment Bank Ltd and Kingdom Securities Ltd. Mr. Bob Karina is a shareholder and director of Faida Investment Bank Ltd and a director of the Company.
- (ii) Mr. Geoffrey Odundo is a director of Kingdom Securities Ltd and a director of the Company.

None of the Directors of the NSE directly or indirectly holds more than 5% of the NSE Shares in NSE.

13.22 Prospectus delivered to the Registrar of Companies

A copy of this Prospectus has been delivered to the Registrar of Companies for registration with the written consents, approvals, material contracts, Reporting Accountants' Report and Legal Opinion referred to in this Prospectus.

13.23 Control of Company's Shares

The Company has no contractual arrangement with a controlling shareholder required to ensure that the company is capable at all times of carrying on its business independently of any controlling shareholder.

13.24 Changes to Company and its Business

- (a) There have been no changes in the trading objectives of the Company or its subsidiaries over the last two years, nor is any new trading objective foreseen in the near future.
- (b) There have been no interruptions in the business of the Company or its subsidiaries affecting the financial position of the Company or its subsidiaries in the last five years.
- (c) Other than the share consolidation that took place (refer to Section 13.1.3 above) there has been no material change in the business, financial and trading position of the Company in the past five years.
- (d) Save as disclosed in this information memorandum, there has been no significant research and development of new products or processes over the last three financial years.

13.25 General Information

- (1) There are no founders', management or deferred shares in the capital of the Company;
- (2) The share capital of the Company is not divided into different classes of shares and all shares carry equal rights;
- (3) No unissued share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option;
- (4) No share or loan capital of the Company or its subsidiary is now proposed to be issued, fully or partly paid, for a consideration other than cash;
- (5) No commissions, discount, brokerage or other special terms have been granted by the Company on an issue or sale of any share or loan capital, within the period since incorporation and the Offer;
- (6) The members of the Company do not carry on widely differing operations resulting in substantially different contributions being made by each member of the Company;
- (7) As at the date of this Prospectus there are 83,875,000 unissued shares in the Company but there are no categories of persons having preferential subscription rights to such unissued shares;
- (8) The Company does not intend to carry on any other businesses that may be material with regard to the profit or loss, assets employed or any other factors affecting the current business;
- (9) Save as disclosed in Section 13, no significant material assets have been purchased by the Company in the last five years.
- (10) So far as the Directors of the Company are aware, there is no material litigation nor are there claims of material

importance pending or threatened against the Company save as disclosed in Section 13 of this Prospectus;

- (11) The Company's auditors have not resigned nor have they been removed since its incorporation and Deloitte & Touche, as the Company auditors, have not deposited with the Company a statement of circumstances which they believe should be brought to the attention of the members and creditors of the Company;
- (12) Save as disclosed in this Prospectus, there is no existing or proposed contract between any Director and the Company;
- (13) The Company's Articles of Association do not stipulate a minimum number of shares required by an individual to allow for qualification as a Director;
- (14) No amounts have been paid or agreed to be paid in cash or otherwise by any person to any present Director, or to any partnership, company, syndicate, or other association of which any Director is a member, either to induce him to become or to qualify him as a Director or for services rendered by any such Director or by any such partnership, company, syndicate or association in connection with the promotion or formation of the Company;
- (15) No amount has been paid or agreed to be paid within the three years preceding the date of this Prospectus to any director or to any company which he is beneficially interested, directly or indirectly, or of which he is a director, or to any partnership, syndicate or other association of which he is a member, in cash or securities or otherwise, by any person either to induce him to become or to qualify him as a director, or otherwise for services rendered by him or by the Company, partnership, syndicate or other association in connection with the promotion or formation of the Company;
- (16) Save as disclosed in this Section 13 and in this Prospectus, no amount or benefit has been paid or given within the three years preceding the date of this Prospectus or is intended to be paid or given to any promoter.
- (17) All shareholders have equal voting rights and no preferential voting rights attached to any shares.
- (18) No bankruptcy, receivership or similar proceedings have been taken against any member of the Company;
- (19) There is no property, plant or equipment that is expected to be replaced within two years of the closing date of this Offer except those resulting from any renovation and upgrading of existing equipment;
- (20) No options to purchase any securities of the Company have been granted to or exercised by any Director, its subsidiary or holding company within the period of one year prior to the date of this Prospectus;
- (21) There is no specific government protection and/or any investment encouragement law affecting the business, other than regulation of the exchange by CMA;
- (22) Save as disclosed in this Prospectus, there are no transactions which are or were unusual in their nature or conditions or significant to the business of the Company, effected during the current or immediately preceding year which remain outstanding or unperformed;
- (23) Save for the salaries and benefits received by the Chief Executive of the NSE under service contract with the Company and fees paid to non-executive directors no other cash, securities or benefits have been paid, issued or given to any Director in the last three years preceding the publication of this Prospectus or proposed to be paid, issued or given to any such persons, in his capacity as a Director;
- (24) The Company has contingent liabilities and has capital commitments and future rental commitments under operating leases as disclosed in the Reporting Accountants' Report;
- (25) The Board may exercise all the powers of the Company to borrow or raise money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue income notes, bonds, debentures and other securities.
- (26) None of the Directors have in the last two years been subject to bankruptcy proceedings nor have they been barred by any court of competent jurisdiction from being a director or acting as an investment adviser or as a director or employee of a stockbroker, dealer, or any other financial service institution or from engaging in any type of business practice or activity;
- (27) There have been no criminal proceedings in which any Director has been convicted of fraud or any criminal offence either within or outside Kenya and no Director is the subject of any pending criminal proceedings, or proceedings in respect of any other offence or action either within or outside Kenya;
- (28) There is no material intercompany finance between the Company and any of its members outside on normal operating business of Trading Participant;
- (29) There have been no material disposals of assets by the Company in the last five years;
- (30) There is no arrangement pursuant to which any future dividends of the Company have been waived or have been agreed to be waived;
- (31) There is no other information other than in this Prospectus that has been reviewed or audited by the Reporting Accountant.
- (32) There are no senior management changes planned or expected during twenty four months following the Offer and the Self-Listing.
- (33) The Company has not been notified of any shareholders, directors or members of the Company's supervisory or administrative bodies intention to subscribe in the Offer. The Company is aware of the intention of the Company's management and employees to subscribe in the Offer.
- (34) The Authorised Agents of the Company have been contracted to distribute the Prospectus and the Application Form for the Offer Shares to their customers and new investors via their wide networks. The Company will assist with general public relations and media advertising awareness prior to the opening of the Offer and during the Offer Period.

13.26 Consents

Deloitte & Touche and Hamilton Harrison & Mathews have given and have not withdrawn their respective consents to the issue of this Prospectus with the inclusion herein of their reports, the references to those reports, their names and the references to their names, as applicable, in the form and context in which the same, respectively, appear.

13.27 Expenses of the Offer

Table 13.3 - IPO Expenses

Expense	Kshs
Lead Transaction Advisory Fees, Lead Sponsoring Stockbroker Fees, Sponsoring Stockbroker Fees, Legal Advisor Fees, Reporting Accountant Fees, Receiving Agent Fees, Registrar Fees, Receiving Bank costs	24,000,000
CMA Fees	900,000
The Exchange Fees	500,000
Placement Commission*	9,405,000
Printing Costs plus Contingency / Miscellaneous	6,000,000
Total	40,805,000

These figures are exclusive of VAT (where applicable), are indicative and are subject to change.

* Maximum possible. Placing commission of 1.5% is payable to members of the NSE and 1% to non-members of the NSE (subject where necessary to a minimum of Kshs 100 per application) appointed as Authorised Agents, and is computed on the value of each successful application accepted in respect of the Application Form completed and signed by investors bearing the stamp of a single Authorised Agent.

Additional NSE Awareness Campaign, Pre-Offer & Offer Marketing, Public Relations, Media Design & Buying and miscellaneous related expenses is estimated at Kshs 38 million (exclusive of VAT) and is indicative and subject to change.

Payment to the Investor Compensation Fund Board – the applicable rate for the interest deemed to accrue on the gross proceeds of the IPO between the Closing Date and the Refund Date/crediting of securities shall be the average Central Bank of Kenya interbank overnight lending rate.

13.28 Inspection

The following documents, or copies thereof, may be inspected at the NSE's registered office during normal working hours on any working day during the Offer Period:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the audited financial statements of the Company in respect of the financial years ended 31 December 2009, 2010, 2011, 2012 and 2013;
- (c) extract of the minutes of the meeting of the Board and the Shareholders' meeting held on 2 April 2014 and 25 April 2014 authorising the Offer and the Self Listing;
- (d) the material contracts referred to in Section 13.12 above;
- (e) the Reporting Accountants' Report as reproduced in this Prospectus and their written consent to the issue of this Prospectus with their report included herein in the form and context in which it is so included;
- (f) the Legal Opinion of Legal Advisor to the Offer as reproduced in this Prospectus and their written consent to the issue of this Prospectus with their opinion included herein in the form and context in which it is so included;
- (g) a copy of this Prospectus;
- (h) approval of the Capital Markets Authority in respect of the Offer;
- (i) approval of The Exchange in respect of the Self-Listing of the NSE Shares on the Main Investment Market Segment;
- (j) the Management Accounts for the Four Months Period Ended 30 April 2014;
- (k) Offer Price report.

Section 14 Authorised Agents

Trading Participants of the Nairobi Securities Exchange (NSE)

Standard Investment Bank Limited

ICEA Building, 16th Floor,
Kenyatta Avenue
P. O. Box 13714 - 00800, Nairobi, Kenya.
Tel: 2228963/2228967
info@sib.co.ke

Renaissance Capital (Kenya) Limited

6th floor, Purshottam Place
Westlands Road, Westlands
P. O. Box 40560 - 00100, Nairobi, Kenya.
Tel: 3682000
info@renca.com

Dyer & Blair Investment Bank Limited

Pension Towers, 10th floor,
P.O. Box 45396 00100, Nairobi, Kenya.
Tel: 3240000/ 3240136
Fax: 2218633
shares@dyerandblair.com
www.dyerandblair.com

Investment Banks

African Alliance Kenya Investment Bank Limited

Transnational Plaza, 1st Floor, Wing B,
Mama Ngina Street,
P. O. Box 27639 - 00506, Nairobi, Kenya.
Tel: 2762000
securities@africanalliance.co.ke

CBA Capital Limited

CBA Centre
Mara Ragati Road Junction, Upper Hill,
P.O. Box 30437-00100, Nairobi, Kenya.
Tel: 0202884000/+254 20 2884000 / 365
Mobile +254 711 056365
Fax: 020 2734616

Equity Investment Bank Limited

Equity Centre,
Hospital Road, Upper Hill,
P.O Box 75104 – 00200, Nairobi, Kenya.
Tel: +254-20-2262477
Mobile: +254719-056515, 719-056511, 719-056513
Fax: +254 20 2711439
www.equitybankgroup.com

Faida Investment Bank Limited

Crawford Business park,
Ground Floor, State House Road,
P. O. Box 45236-00100, Nairobi, Kenya.
Tel: +254-20-7606026-35
Fax: 2243814
info@fib.co.ke
www.fib.co.ke

Genghis Capital Limited

4th Floor, PwC Tower,
Westlands, Nairobi.
P.O.Box 9959 - 00100, Nairobi, Kenya.
Phone: +254 202 774 760/1/2
www.genghis-capital.com
Twitter: @GenghisCapital

SBG Securities Limited

Cfc Stanbic Centre,
58 Westlands Road,
P. O. Box 47198 – 00100, Nairobi, Kenya.
Tel: 3638900
Fax: 3752950
sbgs@stanbic.com
www.sbgsecurities.co.ke

Stockbrokers

ABC Capital Limited

IPS Building, 5th Floor,
Kimathi Street
P. O. Box 34137 - 00100, Nairobi, Kenya.
Tel: 2246036/2245971
headoffice@abccapital.co.ke

AIB Capital Limited

Finance House, 9th Floor,
Loita Street
P. O. Box 11019 - 00100, Nairobi, Kenya.
Tel: 2210178/2212989
info@aibcapital.com

Apex Africa Capital Limited

Rehani House, 4th Floor,
Koinange Street
P. O. Box 43676 - 00100, Nairobi, Kenya.
Tel: 242170/2220517
invest@apexafrica.com

Francis Drummond & Company Limited

Hughes Building, 2nd floor, Kenyatta Avenue
P.O. Box 45465 00100, Nairobi, Kenya.
Tel: +254 20 3318689/90 and 0724 256815
Fax: 2223061
Email: info@drummond.co.ke

Kestrel Capital (East Africa) Limited

ICEA Building, 5th Floor,
Kenyatta Avenue
P. O. Box 40005 - 00100, Nairobi, Kenya.
Tel: 2251758/2251893
info@kestrelcapital.com

Kingdom Securities Limited

Co-operative Bank House, 5th Floor,
P.O Box 48231 00100, Nairobi, Kenya.
Tel: 3276940/3276256/3276154
Fax: 3276156
info@kingdomsecurities.co.ke

NIC Securities Limited

NIC House, Ground Floor, Masaba Road,
P. O. Box 44599 - 00100, Nairobi, Kenya.
Tel: 2888444 / 0711041444
info@nic-securities.com

Old Mutual Securities Limited

IPS Building, 6th Floor,
P.O. Box 50338-00200, Nairobi, Kenya.
Tel: 2241379/2241408
Fax: 2241392
info.oms@oldmutualkenya.com
www.oldmutual.co.ke

Sterling Capital Limited

Barclays Plaza, 11th Floor, Loita Street.
P.O. Box 45080- 00100, Nairobi, Kenya.
Tel: 2213914/ 244077/ 0723153219/ 0734219146
Fax: 2218261
Email: info@sterlingib.com
www.sterlingib.com

Suntra Investments Limited

10th Floor, Nation Centre,
Kimathi Street
P. O. Box 74016 - 00200, Nairobi, Kenya.
Tel: 2870000
info@suntra.co.ke

Annexures

Annexure A

Nairobi Securities Exchange Limited - Financial Information

Annexure A1

Management Accounts for the Four Months Period Ended 30 April 2014

Annexure A2

Reporting Accountants' Report for 5 years ended 31 December 2013

Annexure B

Application Form

Annexure A1

Management Accounts for the Four Months Period Ended 30 April 2014.

NAIROBI SECURITIES EXCHANGE LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FOUR MONTHS TO 30 APRIL 2014

	2014 Sh'000
OPERATING INCOME	181,228
INTEREST INCOME	9,592
OTHER INCOME	24,567
	<hr/>
TOTAL INCOME	215,387
ADMINISTRATIVE EXPENSES	(121,081)
FINANCE COSTS	(7,019)
	<hr/>
PROFIT BEFORE TAXATION	87,287
TAXATION CHARGE	(27,928)
	<hr/>
NET PROFIT FOR THE PERIOD	59,359
	<hr/> <hr/>

NAIROBI SECURITIES EXCHANGE LIMITED
 STATEMENT OF FINANCIAL POSITION
 AS AT 30TH APRIL 2014

	2014 Sh'000
ASSETS	
Non current assets	
Property and equipment	187,723
Investment property	294,628
Intangible assets	104,348
Investment in associate company	60,940
Corporate bonds held to maturity	35,237
Government securities held to maturity	156,730
Deferred taxation asset	15,147
	<hr/> 854,753
Current assets	
Trade and other receivables	148,094
Tax recoverable	-
Short term deposits	126,984
Bank and cash balances	36,886
	<hr/> 311,965
TOTAL ASSETS	<hr/> 1,166,717 <hr/> <hr/>
EQUITY AND LIABILITIES	
Equity	
Share capital	24,500
Retained earnings	716,141
Revaluation reserve	528
	<hr/> 741,169
Non current liabilities	
Borrowings	90,771
Tenant deposits	7,777
	<hr/> 98,548
Current liabilities	
Trade and other payables	210,654
Dividends payable	53,988
Borrowings	41,515
Tax payable	20,843
	<hr/> 327,000
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES	<hr/> 1,166,717 <hr/> <hr/>

NAIROBI SECURITIES EXCHANGE LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE FOUR MONTHS PERIOD ENDED 30 APRIL 2014

	Share capital Sh'000	Retained earnings Sh'000	Revaluation reserve Sh'000	Total Sh'000
At 1 January 2013	24,500	468,018	-	492,518
2012 dividend declared in the year	-	(24,500)	-	(24,500)
Total comprehensive income for the year	-	262,264	528	262,792
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2013	24,500	705,782	528	730,810
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2014	24,500	705,782	528	730,810
2013 dividend declared in the year	-	(49,000)	-	(49,000)
Total comprehensive income for the year	-	59,359	-	59,359
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 April 2014	24,500	716,141	528	741,169
	<hr/>	<hr/>	<hr/>	<hr/>

NAIROBI SECURITIES EXCHANGE LIMITED

STATEMENT OF CASH FLOWS
FOR THE FOUR MONTHS PERIOD ENDED 30 APRIL 2014

	2014 Sh'000
Cash flows from operating activities	
Cash generated from operations	103,023
Tax paid	(76,544)

Net cash generated from operating activities	26,479

Cash flows from investing activities	
Purchase of equipment	(1,577)
Purchase of intangible assets	(1,281)
Interest received	9,592
Dividends paid	(63)
Proceeds on disposal of equipment	32

Net cash used in investing activities	6,703

Cash flows from financing activities	
Loan paid	(32,139)
Loan interest paid	(7,221)

Net cash used in financing activities	(39,360)

Decrease in cash and cash equivalents	(6,178)
Cash and cash equivalents at the beginning of the period	170,048

Cash and cash equivalents at the end of the period	163,870
	=====



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27 June 2014

The Directors
Nairobi Securities Exchange Limited
The Exchange,
55 Westlands Road, 5th Floor
P O Box 43633 - 00100
Nairobi

Dear Sirs,

REPORTING ACCOUNTANTS' REPORT ON NAIROBI SECURITIES EXCHANGE LIMITED

A. INTRODUCTION

We have examined the audited financial statements of Nairobi Securities Exchange Limited (the "Company") for the 5 years ended 31 December 2013.

The financial information set out in this report was compiled in accordance with International Standard on Related Services 4410 – Engagements to compile Financial Statements ("ISRS 4410") and is based on the audited financial statements of the company. We have acted as auditors of the company for the five financial periods ended 31 December 2009 to 31 December 2013. For each of the relevant years, unqualified audit reports were issued on the annual financial statements.

To enable us prepare the Accountants' Report, we carried out procedures to satisfy ourselves that the information presented in the financial statements was in accordance with Section 19 of the Third Schedule of the Companies Act 486, and Part D of the Third Schedule of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002. To this end we carried out the following procedures:

- (i) reviewed the financial statements of the company for each of the five years 31 December 2009, 2010, 2011, 2012 and 2013 for compliance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act and consistency of application of accounting policies;
- (ii) made enquiries of the company's management with respect to significant matters relevant to the financial information;
- (iii) reviewed other evidence relevant to the company's financial statements.

The accompanying financial information is based on the audited financial statements of the company, after making the adjustments considered appropriate to make all the financial statements compliant with International Financial Reporting Standards and accounting policies applicable for the financial period ended 31 December 2013. A summary of these adjustments is provided in section D of this report.

We are not aware of any material items not mentioned in the Information Memorandum regarding The Offer, which could influence the evaluation by the investors' view of the assets, liabilities and financial performance of the company. The audited financial statements have been prepared on the basis of the accounting policies set out in section F of this report. For all the accounting periods dealt with in this report, the financial statements have, in all material respects, been prepared in accordance with the applicable International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

B. COUNTRY OF INCORPORATION AND PRINCIPAL ACTIVITIES

Nairobi Securities Exchange Limited is domiciled and incorporated in Kenya under the Companies Act (Cap. 486) and its principal activities are that of promoting, developing, supporting and carrying on the business of a securities exchange and to discharge all the functions of a securities exchange.

C. CURRENCY

The financial statements are expressed in Kenya Shillings Thousands (Sh'000).

D. STATEMENT OF ADJUSTMENTS

There were no adjustments made to the financial statements.

The following changes in presentation and additional disclosures were made to the audited financial statements to conform to International Financial Reporting Standards:

(i) Introduction of International Accounting Standard No. 1 (IAS 1) (revised) disclosures.

These disclosures include capital risk disclosures, changes to the titles of financial statements, presentation of a statement of comprehensive income and a statement of changes in equity respectively, with no impact on earnings per share.

(ii) Adoption of new terminology per amendments to IAS 1

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'.

E. DIRECTORS' RESPONSIBILITY

The directors of Nairobi Securities Exchange Limited are responsible for the preparation of the Information Memorandum and all information contained therein and for the financial statements and financial information to which the Accountants' Report relates and from which it has been prepared. Our responsibility is to compile the financial information set out in our report from the financial statements.

F. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out in this section. These policies have been consistently applied for all the periods covered by this report.

1. Statement of compliance

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

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

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

F. ACCOUNTING POLICIES

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

(i) New and revised standards affecting amounts reported and/or disclosures in the financial statements

In the current year, the Company has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.
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The application of the amendment had no effect on the company's financial statements as the company did not have any offsetting arrangements in place.

New and revised standards on consolidation joint arrangements, associates and disclosures

In May 2011, a package of five standards in consolidation joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IASs 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Specifically, the Company has a 22.5% ownership interest in Central Depository and Settlement Corporation (CDSC) Limited. The Company's 22.5% ownership interest in CDSC Limited gives it the same percentage of the voting rights in CDSC Limited. The remaining 77.5% of the ordinary shares of CDSC Limited are owned by four other shareholders, owning 50%, 18%, 7% and 2.5% respectively.

The directors of the Company made an assessment as at the date of initial application of IFRS 10 (i.e. 1 January 2013) as to whether or not the Company has control over CDSC Limited in accordance with the new definition of control and the related guidance set out in IFRS 10.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

F. ACCOUNTING POLICIES (Continued)

2. Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC) (continued)

(i) New and revised standards affecting amounts reported and/or disclosures in the financial statements (Continued)

New and revised standards on consolidation joint arrangements, associates and disclosures (continued)

The directors concluded that the Company has had no control over CDSC Limited since the acquisition in June 2010 on the basis of the Company's size of holding in CDSC Limited and the relative size of and dispersion of the shareholdings owned by the other shareholders. Therefore, in accordance with the requirements of IFRS 10, CDSC Limited has been a associate of the Company since June 2010. As the Company has previously treated CDSC Limited as an associate of the Company and accounted for it using the equity method of accounting, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the financial statements.

As the Company does not have any joint venture arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the financial statements.

IFRS 13 Fair Value Measurements

The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see note 29 for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amount recognized in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The company has applied the amendments to IAS 1, Presentation of Items of Other Comprehensive Income, for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' (and the 'income statement' is renamed as the 'statement of profit or loss'). The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

F. ACCOUNTING POLICIES (Continued)

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

(i) *New and revised standards affecting amounts reported and/or disclosures in the financial statements (Continued)*

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (Continued) Subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The new terminology have been adopted in these financial statements in other respects the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012) The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

Application of these amendments have not had any impact on the disclosures or amounts recognised in these financial statements as the company did not restate its prior year period's financial statements.

IAS 19 Employee Benefits (as revised in 2011) IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

The application of the amendment had no effect on the company's financial statements as the company does not have defined benefit obligations and plan assets.

NAIROBI SECURITIES EXCHANGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

F ACCOUNTING POLICIES (Continued)

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

(ii) New and Amendments to standards in issue but not effective

	<i>Effective for annual periods beginning on or after</i>
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1 January 2014 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments – Classification and Measurement (2010)	1 January 2015
IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition	1 January 2015
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss. The application of this standard is likely to have an impact on amounts reported in these financial statements. However it is not practicable to provide a reasonable estimate on the effects of IFRS 9 until a detailed review has been completed.

NAIROBI SECURITIES EXCHANGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

F ACCOUNTING POLICIES (Continued)

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

iii) *Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods (Continued)*

• Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the company's financial statements as the Company is not an investment entity.

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

• Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the Company do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Company's financial statements as the Company does not have any financial assets and financial liabilities that qualify for offset.

iv) *Early adoption of standards*

The company did not early-adopt new or amended standards in 2013.

3. Basis of preparation

The financial statements are prepared under the historical cost basis of accounting as modified to include revaluation of certain assets. The principal accounting policies are set out below.

Revenue recognition

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

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

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

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

F. ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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.

Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to one of the companies in the company as a lessee. All other leases are classified as operating leases.

Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Translation of foreign currencies

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

Property and equipment

Property, plant and equipment is stated at cost or as professionally revalued less accumulated depreciation and any impairment losses.

Professional valuations are carried out in accordance with the company policy of revaluing buildings. 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:

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

F. ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

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

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

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

Intangible assets

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

Impairment of tangible and intangible assets

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

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 period in which they arise net of deferred taxes.

Financial instruments

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

Receivables

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

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

F. ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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

Financial assets at fair value through profit or loss are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments classified as at 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 investments classified as held for trading is reported as investment income.

Held to maturity investments

Held to maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the company has the intention and ability to hold to maturity.

After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowances for impairment.

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

Available for sale financial assets

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

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

Derecognition of financial assets

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

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.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

F. ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

Investments in associate

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

Employee entitlements

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

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill 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.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

F. ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax (Continued)

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

Current and deferred tax for the year

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

Retirement benefit obligations

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

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

Segmental reporting

The company is the sole securities exchange, licensed by the Capital Markets Authority to promote, develop, support and carry on the business of a securities exchange and to discharge all the functions of a securities exchange. It operates as one single operating entity with no separately identifiable reportable segments. In identifying the entire Company as the single reportable segment, the directors considered the fact that reports regularly reviewed by them in order to allocate resources and to assess performance are based on the operations of the company as a whole.

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.

Comparatives

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

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

G. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

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

The key areas of judgment in applying the entity's accounting policies are dealt with below:

(a) Critical judgements in applying accounting policies

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

Held-to-maturity financial assets

The directors have reviewed the company's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the company's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is Sh 328.14 million (31 December 2012: Sh 227.98 million). Details of these assets are set out in note 14, 15 and 18.

(a) Key sources of estimation uncertainty

Impairment losses

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

Property, equipment and software

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

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

H. STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2013, 31 DECEMBER 2012, 31 DECEMBER 2011, 31 DECEMBER 2010 AND 31 DECEMBER 2009

	Notes	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
OPERATING INCOME	2	488,766	329,961	301,946	292,795	164,387
INTEREST INCOME	5	21,420	21,184	20,488	12,679	9,802
OTHER INCOME	6	112,527	33,184	16,540	13,655	10,340
		<u>622,713</u>	<u>384,329</u>	<u>338,974</u>	<u>319,129</u>	<u>184,529</u>
ADMINISTRATIVE EXPENSES	7	(333,838)	(258,800)	(239,465)	(207,562)	(175,299)
FINANCE COSTS	8	(39,360)	(1,521)	-	-	-
SHARE OF PROFIT OF ASSOCIATE COMPANY	13	14,252	3,479	6,190	3,019	1,639
RECOVERY OF/ (PROVISIONS FOR) DOUBTFUL DEBTS	17(c)	115,574	(100)	(675)	(300)	(42,623)
PROFIT/(LOSS) BEFORE TAXATION	3	379,341	127,387	105,024	114,286	(31,754)
TAXATION CHARGE	9(a)	(117,077)	(42,606)	(19,401)	(35,081)	(4,050)
PROFIT/(LOSS) FOR THE YEAR		<u>262,264</u>	<u>84,781</u>	<u>85,623</u>	<u>79,205</u>	<u>(35,804)</u>
OTHER COMPREHENSIVE INCOME						
<i>Items that may not be subsequently reclassified to profit or loss</i>						
Revaluation surplus arising from revaluation of buildings		755	-	-	-	-
Deferred taxation on revaluation surplus		(227)	-	-	-	-
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		<u>528</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		<u>262,792</u>	<u>84,781</u>	<u>85,623</u>	<u>79,205</u>	<u>(35,804)</u>
EARNINGS PER SHARE						
-Basic and diluted (Sh)	24	<u>10.70</u>	<u>3.46</u>	<u>-</u>	<u>-</u>	<u>-</u>

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

I. STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013, 31 DECEMBER 2012, 31 DECEMBER 2011, 31 DECEMBER 2010 AND 31 DECEMBER 2009

	Notes	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
ASSETS						
Non-current assets						
Equipment	10	194,162	161,054	26,597	18,210	32,911
Investment property	11	294,628	242,485	-	-	-
Intangible assets	12	106,904	79,947	61,783	26,118	41,549
Investment in associate	13	60,940	46,688	43,209	33,025	30,006
Corporate bonds	14	35,509	35,509	35,507	35,276	-
Government securities	15	156,889	157,445	157,537	157,208	-
Deferred tax asset	16	15,148	16,221	19,573	4,142	-
		<u>864,180</u>	<u>739,349</u>	<u>344,206</u>	<u>273,979</u>	<u>104,466</u>
Current assets						
Trade and other receivables	17	114,908	49,284	45,658	48,261	36,292
Tax recoverable	9(c)	-	14,485	11,978	-	16,593
Government securities	15	-	-	-	-	34,554
Term deposits	18	135,744	35,026	60,994	-	69,064
Bank and cash balances	18	34,304	44,546	12,483	80,813	42,002
		<u>284,956</u>	<u>143,341</u>	<u>131,113</u>	<u>129,074</u>	<u>198,505</u>
TOTAL ASSETS		<u>1,149,136</u>	<u>882,690</u>	<u>475,319</u>	<u>403,053</u>	<u>302,971</u>
EQUITY						
Equity						
Share capital	19	24,500	24,500	2	-	22,240
Members' fund		-	-	22,240	22,240	22,240
Retained earnings		705,782	468,018	407,495	321,872	242,667
Revaluation reserve		528	-	-	-	-
		<u>730,810</u>	<u>492,518</u>	<u>429,737</u>	<u>344,112</u>	<u>264,907</u>
Non current liabilities						
Deferred tax liability	16	-	-	-	-	732
Borrowings	20	128,060	285,982	-	-	-
Tenant deposits	21 (a)	8,220	-	-	-	-
		<u>136,280</u>	<u>285,982</u>	<u>-</u>	<u>-</u>	<u>732</u>
Current liabilities						
Borrowings	20	36,568	15,539	-	-	-
Trade and other payables	21(b)	170,968	66,651	45,582	37,345	37,332
Tax payable	9(c)	69,460	-	-	21,596	-
Dividends payable	22	5,050	22,000	-	-	-
		<u>282,046</u>	<u>104,190</u>	<u>45,582</u>	<u>58,941</u>	<u>37,332</u>
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		<u>1,149,136</u>	<u>882,690</u>	<u>475,319</u>	<u>403,053</u>	<u>302,971</u>

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

J. STATEMENTS OF CHANGES IN EQUITY

	Share capital Shs'000	Members' fund Shs'000	Retained earnings Shs'000	Revaluation reserve Shs'000	Total Shs'000
At 1 January 2009	-	22,240	278,471	-	300,711
Total comprehensive loss for the year	-	-	(35,804)	-	(35,804)
At 1 January 2010	-	22,240	242,667	-	264,907
Total comprehensive income for the year	-	-	79,205	-	79,205
At 1 January 2011	-	22,240	321,872	-	344,112
Issue of share capital	2	-	-	-	2
Total comprehensive income for the year	-	-	85,623	-	85,623
At 1 January 2012	2	22,240	407,495	-	429,737
Bonus issue of shares	21,998	(21,998)	-	-	-
Member's funds transferred	-	(242)	242	-	-
Shares issued in the year	2,500	-	(2,500)	-	-
2011 dividend declared in the year	-	-	(22,000)	-	(22,000)
Total comprehensive income for the year	-	-	84,781	-	84,781
At 1 January 2013	24,500	-	468,018	-	492,518
2012 dividend declared	-	-	(24,500)	-	(24,500)
Total comprehensive income for the year	-	-	262,264	528	262,792
At 31 December 2013	24,500	-	705,782	528	730,810

Members' fund related to a pool of membership fees paid by members of the Nairobi Securities Exchange when they joined the Exchange. During the year ended 31 December 2012 bonus shares were issued. The balance in the members' funds after the bonus issue was transferred to retained earnings as the company no longer had members but shareholders as at the end of that year.

Pursuant to a Special Resolution passed at an Extra Ordinary General meeting held on 6 July 2011 to issue no more than 2,000,000 shares each to the Permanent Secretary, Treasury and the Investor Compensation Fund Board, the Company's Board resolved on the 28th August 2012 to allot and issue 1,250,000 shares each to each of the two parties as fully paid up. These shares rank pari passu with all other shares except that they were not eligible for the bonus issue as approved above neither were they eligible for the payment of the first and final dividend declared in the financial year ended 31 December 2011.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

K. STATEMENTS OF CASH FLOWS
FOR THE 5 YEARS ENDED 31 DECEMBER 2013

	Notes	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Cash flows from operating activities						
Cash generated from operations	23	457,253	140,625	114,392	117,477	33,408
Tax paid	9(c)	(32,286)	(41,761)	(68,399)	(1,766)	(1,455)
Net cash generated from operating activities		424,967	98,864	45,993	115,711	31,953
Cash flows from investing activities						
Purchase of equipment	10	(99,346)	(144,537)	(23,223)	(435)	(7,921)
Purchase of investment property	11	-	(242,485)	-	-	-
Purchase of intangible assets	12	(39,501)	(27,021)	(48,133)	(278)	(14,712)
Proceeds from disposal of equipment		1,533	-	-	-	2,800
Net proceeds from maturing government securities		-	-	-	-	60,000
Interest received		20,526	21,274	18,027	10,229	9,802
Purchase of government securities		-	-	-	(155,034)	-
Purchase of corporate bonds		-	-	-	(35,000)	-
Net cash (used in)/generated from investing activities		(116,788)	(392,769)	(53,329)	(180,518)	49,969
Cash flows from financing activities						
Borrowings received	20	-	300,000	-	-	-
Borrowings repaid	20	(136,046)	-	-	-	-
Interest paid on borrowings	20	(40,207)	-	-	-	-
Dividend paid	22	(41,450)	-	-	-	-
Net cash (used in)/generated from financing activities		(217,703)	300,000	-	-	-
Increase/(decrease) in cash and cash equivalents		90,476	6,095	(7,336)	(64,807)	81,922
Cash and cash equivalents at the beginning of the year		79,572	73,477	80,813	145,620	63,698
Cash and cash equivalents at the end of the year		170,048	79,572	73,477	80,813	145,620

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 SEGMENTAL INFORMATION

The company is the sole securities exchange, licensed by the Capital Markets Authority to promote, develop, support and carry on the business of a securities exchange and to discharge all the functions of a securities exchange. It operates as one single operating entity with no separately identifiable reportable segments. In identifying the entire Company as the single reportable segment, the directors considered the fact that reports regularly reviewed by them in order to allocate resources and to assess performance are based on the operations of the company as a whole.

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
2 OPERATING INCOME					
Transactions levy	405,777	248,256	221,429	216,795	91,595
Annual listing fees	73,715	71,179	70,039	64,103	64,460
Initial listing fees	8,651	7,424	9,075	9,443	7,832
Application and additional listing fees	623	3,102	1,403	2,454	500
	<u>488,766</u>	<u>329,961</u>	<u>301,946</u>	<u>292,795</u>	<u>164,387</u>
3 PROFIT/(LOSS) BEFORE TAXATION					
The profit/(loss) before taxation is arrived at after charging/(crediting):					
Staff costs (note 4)	115,047	87,057	89,864	84,365	59,937
Operating lease rentals	8,216	22,731	19,200	18,332	17,234
Amortisation of intangible assets	12,545	8,857	12,468	15,709	10,672
Depreciation on equipment	11,143	10,024	14,836	15,136	16,380
Directors' emoluments:					
- Executive	13,514	13,281	11,691	11,366	10,090
- Non – executive	7,297	4,896	5,702	5,817	5,857
Auditors' remuneration	1,950	1,300	1,200	1,100	950
(Net recoveries)/provision for doubtful debts (note 17(b))	(115,574)	100	675	300	42,623
Loss/(gain) on disposal of assets	3,502	56	-	-	(2,283)
	<u>115,047</u>	<u>87,057</u>	<u>89,864</u>	<u>84,365</u>	<u>59,937</u>
4 STAFF COSTS					
Salaries and wages	88,094	68,489	71,184	58,228	53,639
Staff structure reorganization costs	-	-	-	10,242	-
Staff bonus	17,133	10,320	10,072	8,671	-
Leave pay expense	1,754	1,358	1,456	1,350	903
Provident fund contribution	7,975	6,809	7,074	5,795	5,247
Social security costs (NSSF)	91	81	78	79	94
	<u>115,047</u>	<u>87,057</u>	<u>89,864</u>	<u>84,365</u>	<u>59,937</u>

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

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
5 INTEREST INCOME					
Held to maturity investments					
- interest on treasury bonds	11,468	11,580	12,433	7,362	-
- interest on corporate bonds	3,017	2,251	2,885	324	-
- interest on treasury bills	-	-	-	1,011	7,310
- interest on term deposits	6,784	7,292	5,064	3,879	2,292
Interest on staff loans and advances	151	61	106	103	200
	<u>21,420</u>	<u>21,184</u>	<u>20,488</u>	<u>12,679</u>	<u>9,802</u>
6 OTHER INCOME					
Data vending	15,843	13,086	9,394	7,504	6,684
Broker back office subscription	21,240	12,360	-	-	-
Members subscription fee	1,800	1,800	1,800	1,800	-
Advertisement fee on NSE journal	453	495	1,023	1,067	614
Sale of publications and merchandising items	2,318	1,483	754	245	345
Sale of magazine	-	1	38	221	414
Gain on CDSC shares acquired from DSE	-	-	1,494	-	-
Rental income	25,755	-	-	-	-
Write back of provision for bad debts	-	-	640	-	-
Gain on sale of equipment	-	-	-	-	2,283
Miscellaneous income	2,904	3,959	1,397	2,818	-
Private transfer fee	1,006	-	-	-	-
Surplus on revaluation of investment property	1,208	-	-	-	-
Market access fee	40,000	-	-	-	-
	<u>112,527</u>	<u>33,184</u>	<u>16,540</u>	<u>13,655</u>	<u>10,340</u>
7 ADMINISTRATIVE EXPENSES					
Staff costs (note 4)	115,047	87,057	89,864	84,365	59,937
Rent	8,216	22,731	19,200	18,417	17,234
Amortisation	12,545	8,857	12,468	15,709	10,672
Depreciation	11,143	10,024	14,836	15,136	16,380
Equipment hire	3,793	3,815	2,668	2,075	966
Directors' remuneration					
- Executive	13,514	13,281	11,691	11,366	10,090
- Non executive	7,297	4,896	5,702	5,817	5,857
Advertising, promotional and printing	22,810	12,980	5,957	5,808	2,871
Staff medical	7,177	5,364	4,373	5,081	4,039
Postage and telephone	8,475	5,678	4,982	4,737	5,502
Training	10,638	5,218	5,864	3,887	3,282
Seminars for public education	15,129	9,206	4,898	3,458	2,662
Insurance	5,624	3,515	3,208	3,204	3,156

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
7 ADMINISTRATIVE EXPENSES (CONTINUED)					
Conferences	14,201	5,686	6,612	3,039	4,822
Bad debts written off	-	-	-	-	7
General	2,629	2,229	2,167	2,518	2,426
Repairs and maintenance	768	1,317	1,293	2,174	703
Professional fees/consultancy	(3,195)	11,840	5,402	2,038	4,119
Committees	1,237	2,286	1,981	1,800	1,386
Auditors' remuneration	1,950	1,300	1,200	1,100	950
Office cleaning	1,370	1,125	1,189	1,127	1,103
Subscriptions and newspapers	2,166	1,998	2,280	1,115	951
Stationery and photocopying	717	1,398	935	992	873
Travel and entertainment	6,174	5,450	7,937	1,856	3,130
Tax penalties	14,751	10,776	10,839	-	-
Security	797	865	873	891	828
CMA fees and other software licenses	1,982	2,355	779	736	936
Motor vehicle running	706	685	548	446	296
Recruitment	219	772	249	190	127
Foreign exchange loss	82	-	-	172	(166)
Bank charges	275	173	145	156	138
Automatic Trading System maintenance	12,562	11,055	9,325	8,152	10,022
Broker Back Office maintenance	23,944	4,812	-	-	-
Loss on disposal of asset	3,502	56	-	-	-
Property management expenses	5,593	-	-	-	-
	<u>333,838</u>	<u>258,800</u>	<u>239,465</u>	<u>207,562</u>	<u>175,299</u>
8 FINANCE COSTS					
Interest expense on borrowings	<u>39,360</u>	<u>1,521</u>	<u>-</u>	<u>-</u>	<u>-</u>

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
9 TAXATION					
(a) Taxation charge					
Current taxation based on adjusted profit for the year at 30%	115,280	39,254	34,825	39,955	5,780
Prior year current tax under provision	951	-	7	-	-
Deferred taxation charge/(credit) (note 16)	846	3,352	(2,644)	(4,874)	(2,238)
Prior year deferred tax (over)/under-provision	-	-	(12,787)	-	508
	<u>117,077</u>	<u>42,606</u>	<u>19,401</u>	<u>35,081</u>	<u>4,050</u>
(b) Reconciliation of taxation charge to the expected tax based on accounting profit/(loss)					
Profit/(loss) before tax	<u>379,341</u>	<u>127,387</u>	<u>105,024</u>	<u>114,286</u>	<u>(31,754)</u>
Tax calculated at a tax rate of 30%	113,802	38,216	31,507	34,286	(9,526)
Tax effects on expenses not deductible for tax	2,324	4,390	2,574	1,701	14,118
Tax effects on incomes not subject to tax	-	-	(1,900)	(906)	(1,050)
Prior year deferred tax (over)/under- provision	-	-	(12,787)	-	508
Prior year current tax (over)/under- provision	951	-	7	-	-
	<u>117,077</u>	<u>42,606</u>	<u>19,401</u>	<u>35,081</u>	<u>4,050</u>
(c) Tax movement					
Balance at 1 January	(14,485)	(11,978)	21,596	(16,593)	(20,918)
Charge to profit or loss	116,231	39,254	34,825	39,955	5,780
Tax paid	(32,286)	(41,761)	(68,399)	(1,766)	(1,455)
	<u>69,460</u>	<u>(14,485)</u>	<u>(11,978)</u>	<u>21,596</u>	<u>(16,593)</u>

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 EQUIPMENT

	Building Sh'000	Motor vehicles Sh'000	Furniture & fittings Sh'000	Office equipment Sh'000	Computer equipment Sh'000	WIP Sh'000	Total Sh'000
COST							
At 1 January 2009	-	7,740	16,208	12,606	69,395	-	105,949
Additions	-	6,868	469	164	420	-	7,921
Disposals	-	(5,737)	-	(60)	(308)	-	(6,105)
At 1 January 2010	-	8,871	16,677	12,710	69,507	-	107,765
Additions	-	-	157	58	220	-	435
At 1 January 2011	-	8,871	16,834	12,768	69,727	-	108,200
Additions	-	-	1,755	1,073	20,395	-	23,223
Write offs	-	-	-	(2,250)	(21,579)	-	(23,829)
At 1 January 2012	-	8,871	18,589	11,591	68,543	-	107,594
Additions	140,552	-	-	315	3,670	-	144,537
Disposals	-	-	-	(65)	(6,483)	-	(6,548)
Write off	-	-	(29)	42	161	-	174
At 31 December 2012	140,552	8,871	18,560	11,883	65,891	-	245,757
At 1 January 2013	140,552	8,871	18,560	11,883	65,891	-	245,757
Additions	-	-	71,613	12,348	13,345	2,040	99,346
Transfers	-	-	(23,480)	(4,649)	(6,406)	-	(34,535)
Disposals	-	-	5,403	75	4,708	-	10,186
Transfer to Investment property (note 11)	(50,935)	-	-	-	-	-	(50,935)
Revaluation surplus	755	-	-	-	-	-	755
At 31 December 2013	90,372	8,871	72,096	19,657	77,538	2,040	270,574
COMPRISING							
Cost	-	8,871	72,096	19,657	77,538	2,040	180,202
Valuation	90,372	-	-	-	-	-	90,372
	90,372	8,871	72,096	19,657	77,538	2,040	270,574

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 EQUIPMENT (CONTINUED)

	Building Sh'000	Motor Vehicles Sh'000	Furniture & fittings Sh'000	Office equipment Sh'000	Computer equipment Sh'000	Work in progress Sh'000	Total Sh'000
DEPRECIATION							
At 1 January 2009	-	7,381	6,405	10,107	40,169	-	64,062
Charge for the year	-	1,559	1,534	1,320	11,967	-	16,380
Eliminated on disposal	-	(5,379)	-	(30)	(179)	-	(5,588)
At 1 January 2010	-	3,561	7,939	11,397	51,957	-	74,854
Charge for the year	-	1,717	2,377	804	10,238	-	15,136
At 1 January 2011	-	5,278	10,316	12,201	62,195	-	89,990
Charge for the year	-	1,717	1,759	657	10,703	-	14,836
Eliminated on write off	-	-	-	(2,250)	(21,579)	-	(23,829)
At 1 January 2012	-	6,995	12,075	10,608	51,319	-	80,997
Charge for the year	-	1,717	1,734	399	6,174	-	10,024
Eliminated on disposal	-	-	-	(9)	(6,483)	-	(6,492)
Write off	-	159	(159)	18	156	-	174
At 31 December 2012	-	8,871	13,650	11,016	51,166	-	84,703
At 1 January 2013	-	8,871	13,650	11,016	51,166	-	84,703
Charge for the year	-	-	3,275	1,271	6,597	-	11,143
Eliminated on disposal	-	-	(19,392)	(4,601)	(5,507)	-	(29,500)
Write off	-	-	5,403	-	4,663	-	10,066
At 30 December 2013	-	8,871	2,936	7,686	56,919	-	76,412
NET BOOK VALUE (Revaluation basis)							
At 31 December 2013	90,372	-	69,160	11,971	20,619	2,040	194,162
At 31 December 2012	140,552	-	4,910	867	14,725	-	161,054
At 31 December 2011	-	1,876	6,514	983	17,224	-	26,597
At 31 December 2010	-	3,593	6,518	567	7,532	-	18,210
At 31 December 2009	-	5,310	8,738	1,313	17,550	-	32,911

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 EQUIPMENT (CONTINUED)

	Building Sh'000	Motor Vehicles Sh'000	Furniture & fittings Sh'000	Office equipment Sh'000	Computer equipment Sh'000	Work in progress Sh'000	Total Sh'000
NET BOOK VALUE (Cost basis)							
At 31 December 2013	89,617	-	69,160	11,971	20,619	2,040	193,407
At 31 December 2012	140,552	-	4,910	867	14,725	-	161,054
At 31 December 2011	-	1,876	6,514	983	17,224	-	26,597
At 31 December 2010	-	3,593	6,518	567	7,532	-	18,210
At 31 December 2009	-	5,310	8,738	1,313	17,550	-	32,911

The building is stated at its revalued amounts, being the fair value at the date of revaluation. The revaluation was done on the basis of the highest and best use by Tysons Ltd, a duly registered valuer on 20 December 2013.

The work in progress relates to an air-conditioning system which had not yet been commissioned as at 31 December 2013.

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

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
11 INVESTMENT PROPERTY					
As at 1 January	242,485	-	-	-	-
Additions	-	242,485	-	-	-
Transfer from building	50,935	-	-	-	-
Revaluation surplus	1,208	-	-	-	-
As at 31 December	294,628	242,485	-	-	-

The fair value of the Company's investment property as at 31 December 2013 and 31 December 2012 has been arrived at on the basis of a valuation carried out on the respective dates by Tysons Limited, independent valuers. 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 investment property was partly financed by a loan of Sh 300 million from Kenya Commercial Bank Limited and is charged as security for the loan as disclosed in Note 20.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 INTANGIBLE ASSETS

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
COST					
At 1 January	152,988	125,967	77,834	77,556	62,844
Additions	39,501	27,021	48,133	278	14,712
Write off	(173)	-	-	-	-
Disposals	(807)	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	191,509	152,988	125,967	77,834	77,556
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
AMORTISATION					
At 1 January	73,041	64,184	51,716	36,007	25,335
Charge for the year	12,545	8,857	12,468	15,709	10,672
Elimination on write off	(174)	-	-	-	-
Eliminated on disposal	(807)	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	84,605	73,041	64,184	51,716	36,007
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUE	<u>106,904</u>	<u>79,947</u>	<u>61,783</u>	<u>26,118</u>	<u>41,549</u>

As at 31 December 2013, the company has work in progress amounting to Sh 37,369,000. The work in progress relates to costs incurred on futures software, bonds software and preliminary costs on ATS upgrade.

13 INVESTMENT IN ASSOCIATE COMPANY

The investment in associate company represents an investment in Central Depository and Settlement Corporation (CDSC) Limited. The company held an ownership percentage of 22.5 % as at 31 December 2013 (2012 - 22.5%). The proportion of the voting rights in the associate held by the parent company does not differ from the proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of the associate and is represented by only 1 director on the board of CDSC Limited. Therefore, the directors of the Company concluded that the Company has no control over CDSC Limited which has therefore not been consolidated in these financial statements.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 INVESTMENT IN ASSOCIATE COMPANY

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
(a) The movement in the balance is as follows;					
At 1 January	46,688	43,209	33,025	30,006	28,367
Share of profit for the year	14,252	3,479	6,190	3,019	1,639
Additional Shares acquired	-	-	3,994	-	-
	<u>60,940</u>	<u>46,688</u>	<u>43,209</u>	<u>33,025</u>	<u>30,006</u>
At 31 December	<u>60,940</u>	<u>46,688</u>	<u>43,209</u>	<u>33,025</u>	<u>30,006</u>
(b) Summarised financial information in respect of the associate company					
Total assets	304,550	233,398	213,214	191,219	172,719
Total liabilities	(33,705)	(25,893)	(21,170)	(26,093)	(22,690)
	<u>270,845</u>	<u>207,505</u>	<u>192,044</u>	<u>165,126</u>	<u>150,029</u>
Company's share of net assets of associate	<u>60,940</u>	<u>46,688</u>	<u>43,209</u>	<u>33,025</u>	<u>30,006</u>
Total revenue	<u>243,307</u>	<u>172,523</u>	<u>190,311</u>	<u>154,663</u>	<u>125,448</u>
Total profit for the year	<u>63,340</u>	<u>15,630</u>	<u>27,270</u>	<u>15,095</u>	<u>8,192</u>
Company's share of profit of the associate	14,407	3,517	6,271	3,019	1,639
Company's share of other comprehensive income	(155)	(38)	(81)	-	-
	<u>14,252</u>	<u>3,479</u>	<u>6,190</u>	<u>3,019</u>	<u>1,639</u>

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

	2013	2012	2011	2010	2009
Number of shares held by the company @ Sh 100 per share	<u>225,000</u>	<u>225,000</u>	<u>225,000</u>	<u>200,000</u>	<u>200,000</u>
Proportion of ownership interest and voting power held by the company	<u>22.5%</u>	<u>22.5%</u>	<u>22.5%</u>	<u>20%</u>	<u>20%</u>

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

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 CORPORATE BONDS – held to maturity

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Safaricom Limited	20,232	20,232	20,233	20,043	-
Housing Finance Company of Kenya Limited	15,277	15,277	15,274	15,233	-
	<u>35,509</u>	<u>35,509</u>	<u>35,507</u>	<u>35,276</u>	<u>-</u>
Maturity analysis:					
Maturing within 5 years	35,509	35,509	15,274	15,233	-
Maturing after 5 years	-	-	20,233	20,043	-
	<u>35,509</u>	<u>35,509</u>	<u>35,507</u>	<u>35,276</u>	<u>-</u>

The effective interest rate on the corporate bonds as at 31 December 2013 was 8.1%p.a (2012: 8.13%, 2011: 8.1%, 2010: 8.1% p.a.).

15 GOVERNMENT SECURITIES HELD TO MATURITY

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Treasury bonds maturing:					
After 1 to 10 years	<u>156,889</u>	<u>157,445</u>	<u>157,537</u>	<u>157,208</u>	<u>-</u>

The weighted average interest rate of the treasury bonds was 7.5% p.a (2012: 7.5%, 2011: 8% p.a, 2010: 3.7% p.a.).

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Held to maturity					
Treasury bills maturing within 91 days at face value	-	-	-	-	35,000
Less unearned discount	-	-	-	-	(446)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,554</u>
Treasury bills maturing within 182 days at face value	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,554</u>

The treasury bills as at 31 December 2009 matured within 91 and 182 days after the date of acquisition. The weighted average interest rate on the treasury bills as at 31 December 2009 was 7.84% (2008 – 7.62%).

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 DEFERRED TAX (ASSET)/LIABILITY

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

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Accelerated capital allowances/(excess depreciation over capital allowances)	(3,557)	279	3,510	3,489	(1,333)
Leave provision	872	479	601	653	601
General bad debts provision	15,463	15,463	15,462	-	-
Bonus provision	3,932	-	-	-	-
Straight-lined rental income	(974)	-	-	-	-
Deferred tax on revaluation surplus	(588)	-	-	-	-
	<u>15,148</u>	<u>16,221</u>	<u>19,573</u>	<u>4,142</u>	<u>(732)</u>

The movement in the deferred tax asset is as follows:

At 1 January	16,221	19,573	4,142	(732)	(2,462)
Charge/(credit) to profit (note 9(a))	(846)	(3,352)	2,644	4,874	2,238
Prior year (over)/under provision	-	-	12,787	-	(508)
Charge dealt through building revaluation reserve	(227)	-	-	-	-
At 31 December	<u>15,148</u>	<u>16,221</u>	<u>19,573</u>	<u>4,142</u>	<u>(732)</u>

17 a) TRADE AND OTHER RECEIVABLES

Trade receivables	52,842	47,148	43,722	34,025	23,283
Prepayments and deposits	20,531	13,514	13,131	11,098	14,180
Other receivables	11,428	4,796	4,879	16,037	11,428
Receivable from Dar es Salaam Securities Exchange	-	-	-	2,500	2,500
Receivable from non- trading brokers	141,938	302,607	302,607	303,247	303,247
IPO costs	42,567	-	-	-	-
	<u>269,306</u>	<u>368,065</u>	<u>364,339</u>	<u>366,907</u>	<u>354,638</u>
Provision for doubtful debts (note 17b)	(154,398)	(318,781)	(318,681)	(318,646)	(318,346)
	<u>114,908</u>	<u>49,284</u>	<u>45,658</u>	<u>48,261</u>	<u>36,292</u>

The amount receivable from Dar-es-Salaam Securities Exchange (DSE) as at 31 December 2010 and 2009 represented an amount paid by the company on behalf of Dar-es-Salaam Securities Exchange for their proportionate called up shareholding in CDSC. During the year ended 31 December 2011, the DSE divested from the CDSC and Nairobi Securities Exchange took up these shares thereby increasing its shareholding with the same amount of shares, hence clearing the receivable balance.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

b) PROVISION FOR DOUBTFUL DEBTS

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Movements in the provisions bad debts were as follows:					
At 1 January	318,781	318,681	318,646	318,346	275,723
Charge to profit or loss	342	100	675	300	42,623
Recoveries credited to profit or loss	(120,000)	-	(640)	-	-
Write back during the year	(119,658) (44,725)	100 -	35 -	300 -	42,623 -
At 31 December (note 17a)	154,398	318,781	318,681	318,646	318,346

The provision charged to profit or loss in 2009 relate to funds advanced to two members who have been placed under statutory management.

c) (CREDIT)/CHARGE TO PROFIT OR LOSS

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Recoveries in the year (note 17 (b))	(120,000)	-	-	-	-
Charge to profit or loss (note 17 (b))	342	100	675	300	42,623
Write offs during the year	4,084	-	-	-	-
	(115,574)	100	675	300	42,623

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 CASH AND CASH EQUIVALENTS

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

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Bank and cash balances	34,304	44,546	12,483	80,813	42,002
Term deposits	-	-	60,994	-	69,064
Call deposit	135,744	35,026	-	-	-
Treasury bills maturing within 91 days (note 15)	-	-	-	-	34,554
	<u>170,048</u>	<u>79,572</u>	<u>73,477</u>	<u>80,813</u>	<u>145,620</u>

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

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
CfC Stanbic Bank Limited	-	-	-	-	41,525
National Bank of Kenya Limited	-	-	-	-	15,300
Kenya Commercial Bank Limited	135,744	35,026	60,994	-	12,239
	<u>135,744</u>	<u>35,026</u>	<u>60,994</u>	<u>-</u>	<u>69,064</u>

The effective weighted average interest rates of the term deposits as of 31 December 2011 was 20% p.a (2009: 7.58% p.a.).

The effect weighted average interest rate on the call deposit as at 31 December 2013 was 7.3% p.a (2012 - 8% p.a.).

19 SHARE CAPITAL

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Authorised					
25,000,000 ordinary shares of Sh 1 each	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>-</u>
Issued and fully paid:					
24,500,000 ordinary shares of Sh 1 each	<u>24,500</u>	<u>24,500</u>	<u>2</u>	<u>-</u>	<u>-</u>

During the year ended 31 December 2012 bonus shares were issued out of the members' fund balance. The proceeds of the total shares issued amounted to Kshs 21,997,800. The bonus shares issue was approved by the shareholders at an Extraordinary General Meeting held on 15th March 2012.

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

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 BORROWINGS

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Current portion	36,568	15,539	-	-	-
Non current portion	128,060	285,982	-	-	-
	<u>164,628</u>	<u>301,521</u>	<u>-</u>	<u>-</u>	<u>-</u>
Borrowings received	163,954	300,000	-	-	-
Accrued interest	674	1,521	-	-	-
	<u>164,628</u>	<u>301,521</u>	<u>-</u>	<u>-</u>	<u>-</u>
The movement in borrowings during the year is as shown below:					
At beginning of year	301,521	-	-	-	-
Proceeds in the year	-	300,000	-	-	-
Interest charged	39,360	1,521	-	-	-
Interest paid	(40,207)	-	-	-	-
Borrowings repaid	(136,046)	-	-	-	-
	<u>164,628</u>	<u>301,521</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

During the year ended 31 December 2013, there was an accelerated repayment of Sh 120 Million while another accelerated repayment of Sh 20 Million was made subsequently in January 2014.

21 TRADE AND OTHER PAYABLES

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
(a) Non current portion					
Tenant deposits	8,220	-	-	-	-
	<u>8,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(b) Current portion					
Trade payables	9,915	8,394	6,425	3,921	12,383
Annual listing fees received in advance	25,500	11,672	11,521	24,900	12,314
Accrued expenses	97,264	21,656	2,802	2,678	2,242
Staff leave provision	2,911	1,596	2,002	2,177	2,004
Capital Markets Authority	2,103	1,270	865	980	2,653
Data vendors deposit	-	633	513	646	1,158
Tax Penalties payable	24,406	9,655	10,839	-	-
Other payables	8,869	11,775	10,615	2,043	4,578
	<u>170,968</u>	<u>66,651</u>	<u>45,582</u>	<u>37,345</u>	<u>37,332</u>

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 DIVIDENDS PAYABLE

The dividends payable represents the first and final dividend for the years ended 31 December 2012 and 31 December 2011 respectively not paid as at year end. The movement in dividends payable during the year was as follows:

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
At the beginning of year	22,000	-	-	-	-
Declared during the year	24,500	22,000	-	-	-
Paid during the year	(41,450)	-	-	-	-
	<u>5,050</u>	<u>22,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

23 NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit/(loss) before tax to cash generated from/(used in) operations:

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Profit/(loss) before tax	379,341	127,387	105,024	114,286	(31,754)
Adjustments for:					
Depreciation	11,143	10,024	14,836	15,136	16,380
Amortisation	12,545	8,857	12,468	15,709	10,672
Share of results of associate (note 13)	(14,252)	(3,479)	(6,190)	(3,019)	(1,639)
Interest income (note 5)	(21,420)	(21,184)	(20,488)	(12,679)	(9,802)
Interest expense	39,360	1,521	-	-	-
Loss/(gain) on disposal of assets	3,502	56	-	-	(2,283)
Write off of assets	121	-	-	-	-
Working capital changes:					
(Increase)/decrease in trade and other receivables	(65,624)	(3,626)	505	(11,969)	51,205
Increase/(decrease) in trade and other payables	112,537	21,069	8,237	13	629
Cash generated from operations	<u>457,253</u>	<u>140,625</u>	<u>114,392</u>	<u>117,477</u>	<u>33,408</u>

24 EARNINGS PER SHARE

	2013	2012	2011	2010	2009
Profit/(loss) attributable to owners of the company (Sh'000)	<u>262,264</u>	<u>84,781</u>	<u>85,623</u>	<u>79,205</u>	<u>(35,804)</u>
Weighted average number of shares during the year	<u>24,500,000</u>	<u>24,500,000</u>	<u>2,000</u>	<u>-</u>	<u>-</u>
Basic earnings per share – Sh	<u>10.70</u>	<u>3.46</u>	<u>-</u>	<u>-</u>	<u>-</u>

The basic earnings per share is the same as the diluted earnings per share as there were no potentially dilutive shares.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 RELATED PARTY TRANSACTIONS

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

As at 2013, 2011, 2010 and 2009 the company had 10 member stock brokers and 12 licensed investment banks. The following transactions were carried out with related parties:

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
(a) Directors' emoluments					
Non – executive	7,297	4,896	5,702	5,817	5,857
As executives	13,514	13,281	11,691	11,366	10,090
	<u>13,514</u>	<u>13,281</u>	<u>11,691</u>	<u>11,366</u>	<u>10,090</u>
(b) Key management compensation					
Salaries and other short-term employment benefits	22,309	20,968	33,275	29,580	31,577
	<u>22,309</u>	<u>20,968</u>	<u>33,275</u>	<u>29,580</u>	<u>31,577</u>
(c) Transactions with shareholders					

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

The company charges investors, through the brokers, a transaction levy of 0.12 % (31 December 2012: 0.12%) of the value of equity securities traded at the Exchange. During the 12 month period, the total turnover was Sh 311,498 (31 December 2012: Sh. 173,589 million) resulting in a transaction levy of Sh. 374 million (31 December 2012: Sh. 208 million). NSE also charges investors through brokers a transaction levy of 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 2013 was Sh 913,969 million (31 December 2012 - 12 months Sh. 1,141,410 million), resulting in transaction levy of Sh.31.99 million (31 December 2012 - 12 months Sh 39.95 million).

	2013 Sh'000	2012 Sh'000	2011 Sh'000	2010 Sh'000	2009 Sh'000
Transaction levy on - equity securities	373,798	208,307	187,340	215,395	91,595
Transaction levy on - fixed income securities	31,979	39,949	34,089	1,400	-
Subscription fees	1,800	1,800	1,800	1,800	-
Broker back office subscriptions	21,240	12,360	-	-	-
	<u>428,817</u>	<u>262,416</u>	<u>223,229</u>	<u>218,595</u>	<u>91,595</u>

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 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 have two representatives each on the Board. The following transactions were carried out during the period with companies who the aforementioned representatives are directors.

Stockbrokers and investment bank representatives

	2013 Sh'000	2012 Sh'000	2011 Sh'000	2010 Sh'000	2009 Sh'000
Transaction levy on - equity securities	28,754	16,308	76,777	92,156	41,337
Transaction levy on - fixed income securities	3,239	6,198	15,932	984	-
Members subscription fees	200	200	1,800	1,800	-
Broker back office subscriptions	2,880	2,280	-	-	-
NOMAD registration & training	55	195	-	-	-
Purchase of data	120	5	10	3	-
	<u>35,248</u>	<u>25,186</u>	<u>94,519</u>	<u>94,943</u>	<u>41,337</u>

Allowances to Broker Directors sitting on Committees but are not NSE Directors	391	659	414	557	157
	<u>391</u>	<u>659</u>	<u>414</u>	<u>557</u>	<u>157</u>

Listed companies related to directors

Annual listing fee	4,000	4,000	4,000	4,000	4,000
Advertising on Exchange magazine	151	252	-	-	-
Purchase of data	3	3	-	-	-
	<u>4,154</u>	<u>4,255</u>	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>

Allowances to listed company directors sitting on Committees but are not NSE Directors	39	43	29	-	86
	<u>39</u>	<u>43</u>	<u>29</u>	<u>-</u>	<u>86</u>

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 RELATED PARTY TRANSACTIONS (Continued)

(e) Transactions with associate company

During the period transactions with CDSC Ltd were as follows:-

	2013 Sh'000	2012 Sh'000	2011 Sh'000	2010 Sh'000	2009 Sh'000
Committee sitting allowance paid to CDSC director	71	100	71	14	29
Amounts owed by associate company	12	12	12	4	-
Amounts payable to associate company	506	-	-	-	-

26 OPERATING LEASE COMMITMENTS

The Company as a lessee:

Charges under operating lease	8,216	22,731	19,200	18,417	17,234
-------------------------------	-------	--------	--------	--------	--------

At the end of the reporting period the company had outstanding rental commitments under non- cancellable operating leases which fall due as follows:

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Rent expense payable					
One within 1 year	-	6,042	17,846	17,139	7,526
One after 1 year but within 5 years	-	-	53,538	43,187	34,063
Falling after 5 years	-	-	-	-	-
	-	6,042	71,384	60,326	41,589

Rental expense relates to the lease rentals payable for the offices where the Exchange was situated. The Exchange moved to its own premises in June 2013.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 OPERATING LEASE COMMITMENTS (Continued)

The Company as a lessor:

Lease rental income earned during the 6 months period ended 30 June 2013 was Sh 14.3 Million (2012 - 12 months period Sh Nil). At the end of the reporting period the Company had existing contracts with tenants for the following minimum lease payments:

	31 December 2013 12 months Shs'000	31 December 2012 12 months Shs'000	31 December 2011 12 months Shs'000	31 December 2010 12 months Shs'000	31 December 2009 12 months Shs'000
Receivable within 1 year	22,739	22,742	-	-	-
Receivable after 1 year but within 5 years	69,199	99,840	-	-	-
	<u>91,938</u>	<u>122,582</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

27 CAPITAL COMMITMENTS

	2013 Shs'000	2012 Shs'000	2011 Shs'000	2010 Shs'000	2009 Shs'000
Commitments at the end of the reporting period for which no provision has been made in these financial statements					
Authorised and contracted for	<u>269,426</u>	<u>141,790</u>	<u>-</u>	<u>74,975</u>	<u>-</u>

The capital commitments as at 31 December 2013 relate mainly to planned ATS acquisition and other system infrastructure and support.

The capital commitments as at 31 December 2012 relate to planned upgrades in respect of broker back office software, ATS Software upgrade, installation and implementation of the futures exchange software as well as fit out for the office premises located at the investment property purchased during the year ended 31 December 2012. The capital commitments as at 31 December 2010 relate to purchase and installation costs of the broker back office hardware and software.

28 CONTINGENT LIABILITIES

During the year ended 31 December 2012, the Kenya Revenue Authority (KRA) carried out Corporation tax, Withholding tax, Value Added Tax (VAT) and Pay As You Earn (PAYE) tax audits covering the years 2008 to 2012 and issued a tax assessment for additional tax payable, penalties and interest. The principal tax balances were agreed with KRA at Sh 19,565,930 out of which Sh 15,400,955 was paid in 2013. The principal balance not paid of Sh 4,164,985 relates to VAT assessed by KRA on data vending income which is still in dispute.

50% of the total penalties and arrears of Sh 19,309,624, amounting to Sh 9,654,812, has been provided. In 2013, a final assessment by KRA was made on data vending income and other incomes resulting in additional VAT payable of Sh 9,947,804 and penalties of Sh 4,803,392 all of which has been provided for. The final VAT payable amount of Sh 9,947,804 has subsequently been paid in June 2014 and an application for waiver and penalties is being made.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 CONTINGENT LIABILITIES (Continued)

In the opinion of the directors, the company has good grounds for the waiver of the balance on penalties and interest and expect it be resolved and a waiver of the arrears given.

29 RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Market risk

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

(i) Interest rate risk

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

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

	1 month Sh '000	1-3 months Sh '000	3-6 months Sh '000	1-5 years Sh '000	5+ years Sh '000	Total Sh '000
31 December 2013						
Assets						
Bank deposits	135,744	-	-	-	-	135,744
Liabilities						
Bank borrowings	(2,751)	(5,804)	(8,754)	(146,645)	-	(163,954)
Net position	<u>132,993</u>	<u>(5,804)</u>	<u>(8,754)</u>	<u>(146,645)</u>	<u>-</u>	<u>(28,210)</u>
31 December 2012						
Assets						
Bank deposits	35,026	-	-	-	-	35,026
Liabilities						
Bank borrowings	(1,091)	(2,221)	(10,707)	(112,072)	(173,909)	(300,000)
Net position	<u>33,935</u>	<u>(2,221)</u>	<u>(10,707)</u>	<u>(112,072)</u>	<u>(173,909)</u>	<u>(264,974)</u>

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (Continued)

(i) Interest rate risk (Continued)

	1 month Sh '000	1-3 months Sh '000	3-6 months Sh '000	1-5 years Sh '000	5+ years Sh '000	Total Sh '000
31 December 2011						
Assets						
Bank deposits	60,994	-	-	-	-	60,994
31 December 2009						
Assets						
Bank deposits	69,064	-	-	-	-	69,064

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

A 5% increase/decrease in interest yields on the call and term deposits would result in additional profit/loss for the period of Shs 1,061 (2012 : Shs 983,000, 2011: Sh 253,000, 2009: Sh 114,600).

(ii) Foreign currency exchange risk

The company undertakes certain transactions denominated in foreign currencies mainly the US Dollar. Therefore, exposures to exchange rate fluctuations arise. The balances that are subject to exchange rate fluctuation exposure are listed below:

	31 December 2013 Shs'000	31 December 2012 Shs'000	31 December 2011 Shs'000	31 December 2010 Shs'000	31 December 2009 Shs'000
Assets					
Cash and bank balances	2,359	515	2,935	-	-
Trade receivables	401	720	124	-	-
	2,760	1,235	3,059	-	-
Liabilities					
Trade payables	3,446	(7,124)	-	-	(6,441)
Net position	(686)	(5,889)	3,059	-	(6,441)

As at 31 December 2013, 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 68,600 (31 December 2012: Sh 588,900, 31 December 2011: Sh 305,900, 31 December 2010: Nil, 31 December 2009: Sh 644,100) lower/higher mainly as a result of translations of US Dollar denominated balances.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (Continued)

(iii) Price risk

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

(b) Credit risk

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

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

The amount that best represents the company's maximum exposure to credit risk as at 31 December 2013, 2012, 2011, 2010 and 2009 is made up as follows:

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
31 December 2013				
Trade receivables	40,610	-	12,232	52,842
Due from non-trading brokers	-	-	141,938	141,938
Bank balances	34,283	-	-	34,283
Term Deposits	135,744	-	-	135,744
	<u>210,637</u>	<u>-</u>	<u>154,170</u>	<u>364,807</u>
31 December 2012				
Trade receivables	30,974	-	16,174	47,148
Due from non-trading brokers	-	-	302,607	302,607
Bank balances	44,518	-	-	44,518
Term Deposits	35,026	-	-	35,026
	<u>110,518</u>	<u>-</u>	<u>318,781</u>	<u>429,299</u>
31 December 2011				
Trade receivables	27,648	-	16,074	43,722
Due from non-trading brokers	-	-	302,607	302,607
Bank balances	12,250	-	-	12,250
Term Deposits	60,994	-	-	60,994
	<u>100,892</u>	<u>-</u>	<u>318,681</u>	<u>419,573</u>

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Credit risk (Continued)

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
31 December 2010				
Term deposits	35,276	-	-	35,276
Trade receivables	15,336	3,290	15,399	34,025
Due from non-trading brokers			303,247	303,247
Bank balances	80,196	-	-	80,196
	<u>130,808</u>	<u>3,290</u>	<u>318,646</u>	<u>452,744</u>
31 December 2009				
Term deposits	69,064	-	-	69,064
Trade receivables	8,184	-	15,099	23,283
Bank balances	41,793	-	-	41,793
Due from non-trading brokers	-	-	303,247	303,247
	<u>119,041</u>	<u>-</u>	<u>318,346</u>	<u>437,387</u>

(c) Liquidity risk

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

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

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Total Sh'000
At 31 December 2013					
Trade payables	9,915	-	-	-	9,915
Borrowings	4,840	9,680	43,560	156,455	214,535
	<u>14,755</u>	<u>9,680</u>	<u>43,560</u>	<u>156,455</u>	<u>224,450</u>
At 31 December 2012					
Trade payables	8,394	-	-	-	8,394
Borrowings	4,840	9,680	43,560	522,725	580,805
	<u>13,234</u>	<u>9,680</u>	<u>43,560</u>	<u>522,725</u>	<u>589,199</u>

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk (Continued)

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Total Sh'000
At 31 December 2011					
Trade payables	6,425	-	-	-	6,425
At 31 December 2010					
Trade payables	3,921	-	-	-	3,921
At 31 December 2009					
Trade payables	12,383	-	-	-	12,283

(d) Fair value of financial assets and liabilities

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability

This note provides information about how the Company determines fair values of various financial assets and liabilities.

Fair value of the Company's financial assets and liabilities that are measured at fair value on a recurrent basis

Some of the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

Financial assets/liabilities	Fair value as at		Fair value hierarchy	Valuation technique (s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31/12/13 Sh'000	31/12/12 Sh'000				
Investment property	294,628	242,485	Level 2	Market comparable approach-Highest and best use	N/A	N/A
Buildings	90372	140,552	Level 2	Market comparable approach-Highest and best use	N/A	N/A

There were no transfers between levels 1, 2 and 3 in the period (2012: none). There were no financial assets or financial liabilities measured at fair value on level 3 fair value measurement. (2012: none).

Fair value of financial assets and liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

30 CAPITAL RISK MANAGEMENT

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

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

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. Information on the company's capital and borrowings as at 31 December is provided below.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

L. NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 CAPITAL RISK MANAGEMENT (Continued)

	31 December 2013 Shs'000	31 December 2012 Shs'000	31 December 2011 Shs'000	31 December 2010 Shs'000	31 December 2009 Shs'000
Share capital	24,500	24,500	2	-	-
Members' funds	-	-	22,240	22,240	22,240
Retained earnings	705,782	468,018	407,495	321,872	242,667
Revaluation reserve	528	-	-	-	-
	<u>730,810</u>	<u>492,518</u>	<u>429,737</u>	<u>344,112</u>	<u>264,907</u>
Borrowings	164,628	301,521	-	-	-
Less cash and cash equivalents	(170,048)	(79,572)	(73,477)	(80,813)	(145,620)
	<u>(5,420)</u>	<u>221,949</u>	<u>(73,477)</u>	<u>(80,813)</u>	<u>(145,620)</u>
Gearing ratio	<u>-</u>	<u>45%</u>	<u>-</u>	<u>-</u>	<u>-</u>

31 EVENTS SUBSEQUENT TO 31 DECEMBER 2013

The Nairobi Securities Exchange registered a wholly owned subsidiary called NSE Clear Limited with a share capital of Sh 100,000 on 4th February 2014. The principal activity of the company is to act as a clearing house for the proposed Futures Exchange.

32 COUNTRY OF INCORPORATION

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

33 CURRENCY

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

M CONSENT

We consent to the inclusion of our report in this Information Memorandum in the form and context in which it appears.

NAIROBI SECURITIES EXCHANGE LIMITED

ACCOUNTANTS' REPORT

N CONCLUSION

The financial information set out in this Accountants' Report has been extracted from the audited financial statements of the company for the 5 year period ended 31 December 2013. For each of the relevant periods, unqualified audit reports were issued. Based on our review, nothing has come to our attention that causes us to believe that the financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Del. H. r. Touche', is written over a horizontal line.

Certified Public Accountants (Kenya)

Nairobi, Kenya

Serial No.

NAIROBI SECURITIES EXCHANGE LIMITED

Company Registration No. CPU/2014/144920

APPLICATION FORM

CDS ACCOUNT IS MANDATORY

This Application Form is Not For Sale



Offer Opens: 9.00am, 24 July 2014
Closure Date: 4.00pm, 12 August 2014

For use with the Prospectus dated 9 July 2014 in respect of the ADMISSION TO LISTING of the NSE's up to 194,625,000 issued and fully paid up ordinary shares to the Main Investment Market Segment of The Exchange and OFFER FOR SUBSCRIPTION by the NSE of up to 66,000,000 new ordinary shares of par value Kshs 4.00 each in the capital of the NSE at an offer price of Kshs 9.50 per ordinary share for Kshs 627,000,000. Before completing this Application Form refer to the statement and instructions on the reverse of this Application Form and the terms and conditions of the Offer in the Prospectus.

COMPLETE USING CAPITAL LETTERS

Authorised Agent Stamp

A. CDS ACCOUNT NO (MANDATORY)

CDA Code

No. (no leading zeroes)

(LI/LC/FI/FC)

B. BANK ACCOUNT (MANDATORY FOR KENYANS) To be completed by applicant/ Lender for refunds (if applicable)

Bank Name _____
(in Kenya)

Account No. _____ Branch _____

C. APPLICANT

(i) Primary Applicant: (names as per ID/Passport)

Surname (Last Name) _____ First Name and Other Names (leave space between names) _____

ID/Passport No. _____ Country of Issue _____

(ii) Joint Applicant: (names as per ID/Passport)

Surname (Last Name) _____ First Name and Other Names (leave space between names) _____

ID/Passport No. _____ Country of Issue _____

(iii) Company Name / Institution/ Custodian _____

Registration / Incorporation No. _____ Country of Registration / Incorporation _____

(iv) P.O. Box _____ Post Code _____ Town _____ Country _____

Mobile No./ Telephone No. _____
Area Code Town Code Number

Email (important to provide) _____

D. APPLICATION

No. of Offer Shares applied _____
(minimum 500, multiples 100)

Amount Payable (Kshs) _____
(multiply by Kshs 9.50) (minimum Kshs 4,750) (add Kshs 30 for CDSC)

E. PAYMENT

(i) EFT Banker's Cheque Ref No: _____
(tick one option if applicable)

(ii) Via Authorised Agent
(tick if applicable)

(iii) Financed by Lender CDS Form 5 - Serial No. _____
(tick if applicable and complete E (i) above) (attach to this form)

F. SIGNATURE/S

Signature 1 _____ Signature 2 _____ Company Seal/Stamp _____

Date _____ 2 0 1 4

Tear-off

G. ACKNOWLEDGEMENT SLIP

Applicant _____

No. of Offer Shares applied _____

CDS A/C _____
CDA Code No. (no leading zeroes) (LI/LC/FI/FC)

Date _____ 2 0 1 4

Authorised Agent Stamp.

APPLICANT'S STATEMENT

By signing this Application Form, I/We the applicant(s) state that:

- A. I/We have read and understood the terms and conditions of the Offer as contained in the Prospectus and agree to be bound by its contents.
- B. I/We have full legal capacity to contract and hereby irrevocably apply for and request you to accept my/our application for the overleaf Offer Shares, or any lesser number that may, in your sole and absolute discretion, be allotted to me/us subject to the Memorandum and Articles of Association of the NSE.
- C. I/We authorize the NSE to credit my/our CDS Account thus entering my/our name in the register of members of the NSE as the holder(s) of shares allotted to me/us and refund any money in respect of shares applied for by me/us but not allocated to me/us in accordance with the terms and conditions contained in the Prospectus.
- D. I/We declare that the application made hereby is made solely on behalf of the applicant(s) and that the information contained in this form is true and complete.

GENERAL INSTRUCTIONS

1. A copy of the Prospectus to which this Application Form is attached has been lodged with the Registrar of Companies in Nairobi, Kenya. A copy of the Prospectus may be obtained from the Authorised Agents named below or www.nse.co.ke.
2. Persons into whose possession this Application Form may come are required to observe the restrictions contained in the Prospectus.
3. Terms defined in the Prospectus shall bear the same meaning herein unless otherwise indicated.
4. For advice on the Offer and completion of this form an applicant should consult an accountant, banker, lawyer, stockbroker or other professional advisor.
5. The Board of Directors of the NSE reserves the right to accept or reject any application, in whole or in part, particularly if the instructions set out in the Prospectus and in this Application Form are not complied with.
6. An applicant must be the holder of a CDS Account. To open a CDS Account contact an authorised CDS agent. For Kenyan applicants a bank account in Kenya is mandatory.
7. Joint applications may only be made by individuals and must not be used to defeat the allocation policy. For purposes of the minimum initial allocation under the allocation policy, the NSE reserves the right to consider each joint application as an application by each joint applicant alone, namely two separate applications, jointly for the number of Offer Shares applied for.
8. A deceased estate, a trust that has not been incorporated or a partnership cannot apply. Executors, trustees of trusts that have not been incorporated and individual partners may apply in their own names.
9. No alterations on the Application Form will be allowed.
10. Presentation of cheques for payment or receipt of funds transferred shall not amount to the acceptance of any application.
11. Investors may approach a Lender for loan facilities to facilitate participation and payment of the full amount due in respect of the Offer.
12. An Application Form will be rejected if : (a) it is incomplete, inconsistent or inaccurate with respect to the instructions as provided in the Prospectus and Application Form; (b) it is not signed by the applicant ; (c) the Application Money received by the Authorised Agent or Receiving Bank is insufficient; (d) it contains multiple Authorised Agent stamps; (e) Application Money was correctly received but the Application Form is incorrect or missing; (f) there are any alterations; (g) differences in the name and ID/Passport vis-a-vis data in the CDS Account.
13. A completed Application Form must be physically returned to an Authorised Agent. Once made, an application is irrevocable and may not be withdrawn.
14. The Application Form and Application Money should be received by the Authorised Agent or the Receiving Agent by 4.00 p.m. on 12 August 2014 (Closure Date) and neither the NSE, nor any of the advisors nor any of the Authorised Agents shall be under any liability whatsoever should an Application Form not be received by this date.
15. In case of any inconsistency between the contents of this Application Form and the Prospectus, the contents of the Prospectus shall prevail.
16. This Application Form and the accompanying Prospectus shall be governed by and construed in accordance with the Laws of Kenya.

SPECIFIC INSTRUCTIONS

17. Section A is mandatory for all applicants. Section B is mandatory for all Kenyan applicants. Both must be completed correctly. Data in Section B will be used for refunds (if applicable). Non Kenyan applicants will receive their refunds (if applicable) via Banker's Cheque (subject to a maximum of Kshs 1,000,000) or EFT (where bank account data in Kenya has been provided).
18. Section C, sub-section (i), (ii), (iii) and (iv) should be the same as in the CDS Account and if it is not its advisable that the applicant updates the CDS Account data immediately through an authorised CDS agent. The email address is particularly important and should be provided.
19. Section D, applications should be made for a minimum of 500 Offer Shares and in multiples of 100 thereafter. Multiply by Kshs 9.50 to obtain the Application Money payable and add Kshs 30 for CDSC charges , for e.g. 500 Offer Shares is Kshs 4,780; 9,500 Offer Shares is Kshs 90,280.
20. Section E allows different ways of making payment:
 - i) EFT is to: Account Name: NSE IPO A/C; Bank: The Co-operative Bank of Kenya Limited; Account No: 01141154262700 (or as provided by the Authorised Agent); SWIFT: KCOOKENA and then put the Reference No in the space provided;
 - ii) on the Banker's Cheque include the Application Form No in the "payee" i.e. (NSE IPO A/C Form No XXXXXX);
 - iii) to Authorised Agent: this allows for different types of direct payments to be made e.g. cash, personal cheque (subject to cleared funds), credit card, EFT, RTGS, debit to brokerage account;
 - iv) for applications being financed by a bank or other financial institution, provide a CDS Form 5 Serial No. and attach it.
21. Section F is for signatures and date (on or before the Closure Date), and for institutions can be signed as per the mandate.
22. Section G is important and should be completed fully. The slip must be kept safe by the applicant.

AUTHORISED AGENTS

Standard Investment Bank Limited, Dyer & Blair Investment Bank Limited, Renaissance Capital (Kenya) Limited, ABC Capital Limited, African Alliance Kenya Investment Bank Limited, AIB Capital Limited, Apex Africa Capital Limited, CBA Capital Limited, Equity Investment Bank Limited, Faida Investment Bank Limited, Genghis Capital Limited, Francis Drummond & Company Limited, Kestrel Capital (East Africa) Limited, Kingdom Securities Limited, NIC Securities Limited, Old Mutual Securities Limited, SBG Securities Limited, Sterling Capital Limited & Suntra Investments Limited.







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